

Managing Globalisation

Governing Globalisation: Issues and Institutions edited by Deepak Nayyar;
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Deepak Nayyar has brought out a highly readable and useful book on globalisation. It is a collection of papers written by eminent scholars in this field, with Deepak Nayyar as the editor, contributing an overview of the whole book and a concluding piece on the existing system of institutions. He also has an original paper on cross-border movements of people. Other authors include Joseph Stiglitz, Jose Antonio Ocampo, G K Helleiner, Lance Taylor and Amit Bhaduri among several other well known economists. The papers are very well written and well researched, although some of the papers are restate well known positions of the authors, most of whom have also written in similar other publications. But some papers do bring in additional information and throw new light on the problems, Sanjaya Lall's paper on technology flows is a good example of that. Even when a paper restates well known positions, the arguments have been presented in a manner that extends beyond narrow economic justification, or lack of it, for globalisation to discussions about how to manage that process.

There have been a large number of publications on the issues of globalisation that go beyond simple economic considerations to the areas of cultural assimilation, social exclusion, power relation between different nation states and the political implications of globalisation. This book is primarily concerned with the economic dimensions of globalisation dealing with its economic characteristics and addressing the question, how to manage this process of globalisation from the economic point of view. It has done this job competently and the only other book that the reviewer has found comparable with this is the one called *Globalisation and Economic Development: Essays in honour of J George Waardenburg* (published by Edward Elgar in 2001).

Globalisation is not of course just an economic phenomenon and concentrating only on the economic dimensions of the problems may not enable one to appreciate the diverse criticisms and assessments of this process over the last many years. The paper by Richard Falk in the present volume approaches the subject as a political scientist dealing with the adequacy of the United Nations systems to tackle the problems of globalisation, with substantive recommendations about restructuring the UN away from the cold war framework, trying to make it more legitimate and effective in the current phase of globalisation. There are several other papers on institutional reforms but mainly from the economist's point of view, equating effectiveness of the institutions with efficiency of the functioning of the international system, and maintaining an orderly economic relations between different states.

Amit Bhaduri is another author who raised issues of sovereignty of a nation in an era of globalisation, sharply bringing out the difference between accountability of the nation states for their legitimacy to the people living in their jurisdiction for protecting and fulfilling their rights and the accountability of the markets related to their self-corrective mechanisms for restoring efficiency of operations rather than establishing such legitimacy. The economists who study globalisation, usually assess the outcomes of the process and decide on the criteria of the management of that process, focusing on the management of the markets in terms of what the markets are supposed to do, which is to increase efficiency, producing the maximum output from the given resources at a point of time and inter-temporal efficiency over a period of time. Very rarely they raise the issues of legitimacy in terms of a fulfilment of rights and aspirations of the people within a nation states in whose jurisdiction the national markets operate.

No questions about managing globalisation can be properly addressed without bringing out clearly the notions of accountability in terms of the rights and aspirations of the people. Globalisation is not an end in itself. It is supposed to achieve certain outcomes, which for a state, particularly if it is a democracy,

must be those, which give the state its legitimacy. So, management of globalisation must be assessed in terms of its ability to produce these outcomes. Most economists do not usually touch upon these questions. They look upon globalisation in terms of expansion of the market forces beyond the boundaries of nation states and integrating the economies of different countries into the international economy through the markets of goods and services, investments and financial assets, technology and labour services. As Nayyar puts it "globalisation refers to the expansion of economic transactions and the organisation of economic activities across to the political boundaries of nation states". It is "a process associated with increasing economic openness, growing economic interdependence and deepening economic integration between countries in the world economy", and he identifies three manifestations of this phenomenon – international trade, international investment and international finance [Nayyar 2002:6]. Even then, this process of integration has profound implications for changing power relations in international politics and social transformation in the globalising countries. Indeed, as the history of the different periods of globalisation demonstrates, these interactions were not unidirectional. The economic process of globalisation was often determined by the political relations between power-lobbies within a country and between different countries. Similar is often the relations between the social structure and economic activities. Globalisation is essentially a composite process, and the notions of accountability, which are integral to the notion of management, must extend beyond the accountability of market efficiency to areas of political and social legitimacy.

The current phase of globalisation must however be regarded as distinct from the long process of economic integration through expanding international markets. That process is going on almost from the beginning of the establishment of nation states and interactions between them. For that distinction, it will be necessary to emphasise the acceleration of the process of integration in a particular historical context as the defining characteristic of globalisation. Baker, Epstein, Pollin [in *Globalisation and Progressive Economic Policy*, Cambridge, 1998], described globalisation as "a significance step up in the level of economic interaction between different countries, leading to a qualitative

shift in the relationship between nation states and international markets". It is the nature of this step up or acceleration of the process of economic interaction and factors that lead to such acceleration that differentiate one process of globalisation from another.

A number of papers in the Deepak Nayyar volume discuss the differences between the current phase of globalisation, beginning from the 1980s and the other phases of globalisation, such as, of the late 19th century, the inter-war period of mid-20th century and post-war period of the 1950s-60s. (For example the essays of Deepak Nayyar, Lance Taylor, Sanjaya Lall, Akyuz, Cornford and Ocampo). During the globalisation of 1870s, liberalisation of markets led not only to a rapid expansion of trade and capital flows but also to large-scale labour migration which had been practically absent from the current phase of globalisation. While the Bank of England functioned almost like a lender of last resort in the late 19th century, there is no such institution today. The gold standards of 1870s and the dollar standard of the post-war period provided the anchor to the expanding volume of trade and capital flows. The mid-20th century inter-war period was marked by attempts to restore gold standard but had misaligned exchange rates pushing the world system to the crisis of depression years. Similarly, while the immediate post-war period of the 1950s-60s was marked by the fixed exchange rates governed by the Bretton Woods Institution, and regulated and controlled international market, the current phase of globalisation is marked by universally floating exchange rates and an almost unregulated expansion of international capital flows.

Akyuz and Cornford trace the change in the nature of capital flows systematically. Until the 1970s, the most important source of external financing for developing countries were official loans and aids, while in the 1970s it was complemented by a rapid expansion of private capital flows, primarily in the form of bank credits. After the debt crisis of early 1980s, private capital flows almost came to an end while the official development assistance grew very moderately. After that, there was a spurt in private capital flows with a significant change in the composition of the flows, with foreign portfolio investment emerging as a major form of these inflows. The nature and the composition of the inflows together with the lack of transparency,

regulation and early warning precipitated severe financial crisis in many developing countries.

Sanjaya Lall looked at technology flows during this period with foreign direct investment which emerged as a prominent channel for technology transmission through setting up a final assembly for technology intensive products and linkages with local industries. Only Korea and Taiwan managed reasonably well the strategy of development of autonomous technology by building up R and D capabilities and absorbing imported technologies in local enterprises. However, the developing countries appeared to have performed very well between 1980 and 1997 in exports of technology complex products. Although the overall share of developing countries is largest in lower technology products, their growth rate is the highest in high technology products where they have a lead over industrial countries. (For example while the export of high technology products of industrial countries grew at 9.8 per cent, the growth for the developing countries was 21.2 per cent). But the problem was that technology development was highly concentrated among some of the developing countries. East Asia alone accounted for 91 per cent of the high technology export from the developing countries, whereas sub-Sahara accounted for 0.6 per cent of low technology products and 0 per cent of the high technology products.

Institutional Issues

The major part of the Deepak Nayyar's volume is concerned with institutional issues asking what institutional changes have to be brought about for managing globalisation. Besides Richard Falk's paper on UN organisations, there are discussions on the Bretton Woods Institution, GATT and WTO, financial architecture, the negotiation process between developed and developing countries and the case for new institutions to be created, all of which were analytically summarised in the concluding paper by Deepak Nayyar. The discussions on the failures of the institutions and the proposals made to correct them are not new and it is a bit disappointing not to find more cogent and better argued cases for some of these proposals, than have been recently aired in different forums – for example why setting up an Economic Security Council should make much of a difference from the present situation if it functioned the way the present Security Council

functioned. Or is it possible for such an Economic Council to function without the veto system or the votes of the Bretton Woods institution? Similarly setting up of a global people's assembly, modelled on European parliament, is entirely an off-the-cuff proposal with very little analysis of its functions. The points made about the IMF that it should reconsider its thinking in macroeconomics or that many stabilisation programmes have led to adjustment in changing outputs rather than changes in prices or that capital account liberalisation should be hastened slowly, are bit of a cliché, as also the discussions on conditionality. The point is not whether conditionality compromises the sovereignty of the country – which it always does – but what kind of conditionality would work without compromising very much the other goals of a sovereign states. The suggestions about a radical restructuring of the voting system of the World Bank and the IMF are made without analysing all the implications. Similarly the proposal that the World Bank should not seem to be a moneylender and should be the institution of development finance, is not feasible so long as the Bank raises its money on the capital market. The proposals regarding the reforms of WTO are somewhat better thought out, although they become infructuous without a proper international mechanism for bringing about these changes, other than the consensual procedure of WTO itself. For sometime, Lance Taylor and his associates have been talking about creating a World Financial Authority. Deepak Nayyar's concluding essay does not talk about it, although that proposal, too may have a lot of possibilities if they are fully worked out.

Improving the Market Operations

The problem with all these discussions, however, is that all the proposals about changing the rules of the game and reforming the existing institutions are aimed at improving the operations of the market. The implicit assumption is that the market based process of globalisation could achieve the goals of development, if the markets functioned properly and if there are appropriate institutions, which could make the markets function properly by removing the obstructions. Only Joseph Stiglitz's paper on "Globalisation and the logic of international collective action in the context of re-examining the Bretton

Woods Institutions" faces the problems of market failures frontally. Stiglitz, of course, is the authority in this subject of how markets fail, not just because there are incomplete markets or imperfect markets but because of fundamental problems, of information failures and the existence of public goods, both local and global, which require collective action. If one added to this the concerns of the developing countries with equity and justice – all related to their protecting and fulfilling the rights of their citizens to establish their legitimacy, it will be necessary to think of managing globalisation from an altogether different perspective, which would make international cooperation the fulcrum of collective action, globally as well as locally. Even Lance Taylor's essay in this book does not quite address this problem and is concerned mostly with changing the institutions and the rules of the game to prevent financial crises. He does not go here to answer a more basic question, namely, suppose there were no financial crisis, would globalisation without such collective action realise the goals and aspirations of the people of developing countries?

In the George Waardenburg's festschrift volume referred to above, Lance Taylor has a paper on 'Liberalisation and performance of the developing countries', where he investigates the social implications of such liberalisation on the basis of 21 developing and transition countries. Using a model, that allows for factor immobility, imperfect product markets and unemployment, he shows that inequality of primary income in 2/3rd of the countries increased with liberalisation with the loss in wage income and employment in the non-trader sectors, not offset by rise in wages and employment in traded goods, whether in the short run or in the long run. While on the contrary, social spending could neutralise some of the consequences for most countries, in practice, fiscal constraints had actually forced a cutback in social spending. Taylor concluded that the social cost of liberalisation in general tended to outweigh the benefits. In another article (in *Economic liberalisation, distribution and poverty: Latin America in the 1990s*, edited by Rob Vos, Lance Taylor, Ricardo Paes de Barros, published by Edward Elgar 2002), he demonstrates for 17 countries in Latin America and the Caribbean that liberalisation had led to volatile growth and greater vulnerability to fluctuations in the world markets, greater inequality of

primary income and widening in the income gap between skilled and unskilled labour. It cannot of course be said that Lance Taylor's findings and for that matter the findings of several other authors along similar lines, such as of Ocampo and Taylor ('Trade liberalisation in developing economies: Modest benefits but problems with productivity growth, macro prices and income distribution', *Economic Journal*, 1998) are conclusive. There are other studies such as by Sachs and Warner ('Economic reforms and the process of global integration', Brookings Papers, 1996) or World Bank's, *World Development Reports*, especially of 1999 that tend to demonstrate that globalisation not only ensures efficiency and growth but also equity and development. Indeed once we abandon 'before and after' kind of crude causal relation, the effects of globalisation have to be captured by models specifying relationship between the variables which can always be contested. But the point is that these are the issues that are required to be discussed and highlighted. Growth and efficiency, which are the expected outcomes of liberalisation of markets, are not sufficient to make the process acceptable to most of the countries.

Managing Globalisation

This brings me to the fundamental issues about managing globalisation. Even the ardent supporters of globalisation would not regard it as an end in itself. And if globalisation has to be assessed in terms of its instrumentality, it is important to set out at very beginning, what are the goals or objectives which globalisation is supposed to achieve in any country. It is only then we can talk about managing globalisation in the sense of promoting, influencing or correcting the process of globalisation towards the fulfilment of those objectives. Further what kind of objectives of globalisation should be seen as worth realising, would depend upon the obligations of the states in relation to the society as a whole of the country. A nation state gains its legitimacy as mentioned earlier by protecting and fulfilling the rights of the people and these rights extend beyond the civil and political rights such as the right to life, the right to liberty, the right to freedom of speech, and the right to elect a representative government, to the economic, social and cultural rights such as the right to food, the right to health, the right to education, the right to work, the

right to social security, the right to an adequate standard of living, as well as to the right to development, which is a process of economic transformation, that enables the realisation of all the rights. These rights have been recognised internationally, as a result of long history of the peoples all over the world to fight and win these rights in different countries and through International Treaties and the United Nations Charter which have made them parts of international law. It is, of course, possible to formulate the objectives of nation state in terms of social and economic goals without identifying them with rights, but there is a great advantage of using the rights language and the rights specifications because of the fact that these rights have now the backing of international law and that seeing them as right would specify the obligations of the states for adopting the policies required to realise them. Further, it means, the collective action that is necessary to promote, protect and fulfill these rights is not confined only to the nation states but also to international community, of all states and organisations, which are bound by international law. Nation states have the obligations to adopt measures to protect and fulfill the rights of the citizens. All other states including the international agencies have the obligations to cooperate with the nation states and to adopt measures that are necessary to enable these rights to be realised by all citizens of a state.

However, there are two additional reasons why goals of globalisation should be appropriately viewed as the fulfilment of the rights of the people. The first point is associated with the notion of globalisation itself which relates to an acceleration of process of interactions between nation states – a point which has been discussed above. A major characteristic of the current phase of the globalisation is the extremely accelerated process of interactions due to technological, informational and transportation revolution. All the barriers of distance and time in communication between countries in all different fields seem to have been brought down with extreme rapidity. As a result of this the countries have very little time to adjust to changes that opening up to the world brings about. The earlier phases of globalisation moved at a much easier pace, so the countries and the markets could adjust by making changes in their institutions and the deployment of the resources and people between different users. The immobilities

and inflexibilities that existed in the economic and social structure gave way under the pressure of globalisation, so that losers in the first round were soon rendered eventual gainers over a period. In the current phase, societies are not given the luxury of slow adjustments to external economic, social and cultural impulses. The losers to more powerful, more prosperous and more dominant external forces from the first impact of globalisation, continue to remain losers for quite a long period. That has been the cause of enormous social dislocation in the developing countries, opening up to globalisation. Nation states willingly or unwillingly have to deal with this dislocation and the consequent social discontent. Managing globalisation would imply in that context how the states can effectively fulfill their obligations. In a rights framework, the obligations of the nation states are complimented by the international community and managing globalisation would require designing policies that not only bind the nation states but also the international community of states and institutions.

The second point relates to another major characteristic of the current phase of globalisation that is described as loss of policy autonomy of the nation states. Amit Bhaduri described that in this book is as 'Loss of sovereignty'. But as we are emphasising the instrumental role of globalisation, it is probably more useful to record this phenomenon as loss of policy-autonomy, because sovereignty often is seen as a substantive goal of a society. The meaning of this loss of policy autonomy is simply that because of the current accelerated phase of globalisation, several policies in the economics sphere (interest rate policies, exchange rate policies, tariffs, subsidies, or even other fiscal measures), which were available to the nation states in other phases of globalisation, are not available now at least with the same flexibility. An isolated act by any individual country in the use of any of these measures may generate counter-active reactions from the international capital markets or of goods and services to more than neutralise their first impact. Similar is the case in the spheres

of cultural, political and security relations. The direct and indirect impact in the reaction of other agents to any policy correction by a nation state can be too overwhelming to frustrate their all initial efforts. The only way to ensure that the nation states can still meet their obligations to their citizens and manage globalisation for their welfare, is designing a system of international cooperation, based on global justice, a term that is now used in international legal discourse of human rights in all countries, irrespective of the boundaries of the nation states.

Deepak Nayyar's book contains articles by several authors, which talk about changing the international institutions and formulating international actions to make globalisation work by making the markets deliver their products with efficiency and growth. One hopes that he will bring out another book which goes beyond this market-efficiency goals of globalisation and discusses the problems of the nation states proving their legitimacy by carrying out their obligations to protect and fulfill the rights of the citizens. **EPW**