Globalisation: The Past in our Present

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1 Introduction

Globalisation means different things to different people. It can be defined, simply, as the expansion of economic activities across political boundaries of nation states. More important, perhaps, it refers to a process of increasing economic openness, growing economic interdependence and deepening economic integration between countries in the world economy. It is associated not only with a phenomenal spread and volume of cross-border economic transactions, but also with an organisation of economic activities which straddles national boundaries. This process is driven by the lure of profit and the threat of competition in the market.

The word globalisation is used in two ways, which is the source of confusion and the cause of controversy. It is used in a *positive* sense to *describe* a process of increasing integration into the world economy: the characterisation of this process is by no means uniform. It is used in a *normative* sense to *prescribe* a strategy of development based on a rapid integration with the world economy: some see this as salvation, while others see it as damnation.

There is a common presumption that the present conjuncture, when globalisation is changing the character of the world economy, is altogether new and represents a fundamental departure from the past. But this presumption is not correct. Globalisation is not new. In many ways,

This is a slightly revised version of the author's Presidential Address to the Indian Economic Association at its 78th Annual Conference in Chandigarh on 28 December 1995.

the world economy in the late 20th century resembles the world economy in the late 19th century. And there is much that we can learn from history, for there is the past in our present.

The object of this essay is to sketch a picture of globalisation, then and now, with a focus on the game, the players and the rules, to analyse the implications for the developing world. The structure of the essay is as follows. Chapter 2 outlines the contours of the process of globalisation in our times and situates it in historical perspective through a comparison with the late 19th century. Chapter 3 explores the similarities and the differences between these two phases of globalisation by analysing the underlying factors. Chapter 4 examines the inequalities and the asymmetries in a world of unequal partners, common to both phases, to suggest that the game is similar but the players of the game are new and the rules of the game are different. Chapter 5 discusses the actual consequences in the past and the possible consequences in the future, to argue that globalisation led to uneven development then and, without correctives, would lead to uneven development now.

2 The Late 20th Century: A Comparison with the Late 19th Century

The world economy has experienced a progressive international economic integration since 1950. However, there has been a marked acceleration in this process of globalisation during the last quarter of the 20th century. It is seldom recognised that there was a similar phase of globalisation which began a century earlier, *circa* 1870, and gathered momentum until 1914 when it came to an abrupt end with the outbreak of the First World War. But this recognition is essential for an understanding.

The fundamental attribute of globalisation, then and now, is the increasing degree of openness in most countries. There are three dimensions of this phenomenon: international trade, international investment and international finance. It needs to be said that openness is not simply confined to trade flows, investment flows and financial flows. It also extends to flows of services, technology, information and ideas across national boundaries. But the cross-border movement of people is closely regulated and highly restricted. There can be no doubt, however, that trade, investment and finance constitute the cutting edge of globalisation. This emerges clearly from a comparison of the late 20th century with the late 19th century.

The second half of the 20th century has witnessed a phenomenal expansion in international trade flows. World exports increased from $61 billion in 1950 to $315 billion in 1970 and $3,447 billion in 1990. Throughout this period, the growth in world trade was significantly higher than the growth in world output, although the gap narrowed after the early 1970s. Consequently, an increasing proportion of world output entered into world trade. The share of world exports in world gross domestic product (GDP) rose from about 6% in 1950 to 12% in 1973 and 16% in 1992. For the industrialised countries, this proportion increased from 12% in 1973 to 17% in 1992. This experience is not anything new for the world economy. The period from 1870 to 1913 witnessed a similar expansion in international trade flows (Maizels, 1963 and Bairoch, 1982). For 16 major industrialised countries, now in the Organisation for Economic Cooperation and Development (OECD), the share of exports in GDP rose from 18.2% in 1900 to 21.2% in 1913 (Maddison, 1989).

The parallels between the two periods emerge more clearly if we consider available evidence for selected industrialised countries.

- In the United Kingdom, the share of exports in GDP rose from 14.4% in 1950 to 16.4% in 1973 and 18.2% in 1992, compared with 14.9% in 1900 and 20.9% in 1913.

- In France, the share of exports in GDP rose from 10.6% in 1950 to 14.4% in 1973 and 17.5% in 1992, compared with 12.5% in 1900 and 13.9% in 1913.

- In Germany, the share of exports in GDP rose from 8.5% in 1950 to 19.7% in 1973 and 24% in 1992, compared with 13.5% in 1900 and 17.5% in 1913.

- In Japan, the share of exports in GDP rose from 4.7% in 1950 to 8.9% in 1973 and 9% in 1992, compared with 8.3% in 1900 and 12.3% in 1913.

- In the United States, the share of exports in GDP rose from 3.6% in 1950 to 5% in 1973 and 7.1% in 1992 compared with 7.5% in 1900 and 6.1% i 1913.

It would seem that the integration of the world economy through international trade at the turn of the last century is about the same as it is towards the end of this century. The striking thing is that the average tariff rates on imports of manufactured goods in these industrialised countries, with the exception of the United Kingdom, were in the range of 20 to 40% compared with an average tariff rate of about 5% in 1990 (Bairoch, 1993). Tariffs were much higher then but non-tariff barriers are stronger now.

The story is almost the same for international investment flows. The stock of direct foreign investment in the world economy increased from $68 billion in 1960 to $502 billion in 1980 and $1,948 billion in 1992. The flows of direct foreign investment in the world economy increased from less than $5 billion in 1960 to $52 billion in 1980 and $171 billion in 1992. Consequently, the stock of direct foreign investment in the world as a proportion of world output increased from 4.4% in 1960 to 4.8% in 1980 and 8.4% in 1992. Over the same period, world direct foreign investment inflows as a proportion of world gross fixed capital formation rose from 1.1% in 1960 to 2% in 1980 and 3.7% in 1992. In the industrialised countries, this proportion increased from 2.3% during 1981-1985 to 4.4% during 1986-1990 but dropped to 2.9% in 1992. In the developing countries, however, this proportion increased slightly from 2.4% during 1981-1985 to 2.7% during 1986-1990 but jumped to 7.8% in 1992.

Any comparison with the period 1870-1913 cannot be complete because we do not have similar data. An estimate made by the United Nations suggests that the stock of direct foreign investment in the world economy as a proportion of world output was 9% in 1913. The total stock of long-term foreign investment in the world reached $44 billion by 1914, of which $14 billion, about one-third, was direct foreign investment. At 1980 prices, total foreign investment in the world economy in 1914 was $347 billion compared with the actual stock of direct foreign investment in 1980 at $448 billion. About one-half of foreign investment then was in a small group of newly industrialising countries in North America and

Europe, as also in Australia. In some of these countries, it constituted as much as 50% of gross domestic investment. The stock of foreign investment in developing countries, direct and portfolio, rose from $5.3 billion in 1870 to $11.4 billion in 1900 and $22.7 billion in 1914 (Maddison, 1989). Such foreign investment in the developing world was large in both relative and absolute terms. For one, it was probably equal to about one-fourth of the GDP of developing countries at the turn of the century. For another, it was substantial even by contemporary standards. The stock of foreign investment in developing countries in 1914, at 1980 prices, was $179 billion which was almost double the stock of direct foreign investment in developing countries in 1980 at $96 billion.

The past two decades have witnessed an explosive growth in international finance. The movement of finance across national boundaries is enormous. So much so that, in terms of magnitudes, trade and investment are now dwarfed by finance. This internationalisation of financial markets has four dimensions: foreign exchange, bank lending, financial assets and government bonds. Consider each in turn.

In foreign exchange markets, trading was a modest $15 billion per day in 1973. It rose to $60 billion per day in 1983, and soared to $900 billion per day in 1992. Consequently, the ratio of world-wide transactions in foreign exchange to world trade rose from 9:1 in 1973 to 12:1 in 1983 and 90:1 in 1992. Some absolute numbers would help situate these magnitudes in perspective. In 1992, for example, world GDP was $64 billion per day while world exports were $10 billion per day, compared with global foreign exchange transactions of $900 billion per day. It is also worth noting that daily foreign exchange transactions in the world economy were larger than the foreign exchange reserves of all central banks put together, which were $693 billion in 1992.

The expansion of international banking is also phenomenal. As a proportion of world output, net international bank loans rose from 0.7% in 1964 to 8.0% in 1980 and 16.3% in 1991. As a proportion of world trade, net international bank loans rose from 7.5% in 1964 to 42.6% in 1980 and 104.6% in 1991. As a proportion of world gross fixed domestic investment net international bank loans rose from 6.2% in 1964 to 51.1% in 1980 and 131.4% in 1991. It is worth noting that the gross size of the international banking market was roughly twice that of net international bank lending. Cross-border inter-bank liabilities rose from a modest $455 billion in 1970 to $5,560 billion in 1990.

The international market for financial assets experienced a similar growth starting somewhat later. Between 1980 and 1993 gross sales and purchases of bonds and equities transacted between domestic and foreign residents rose from less than 10% of GDP in the United States, Germany and Japan to 135% of GDP in the United States, 170% of GDP in Germany and 80% of GDP in Japan. In the UK, the value of such transactions was more than ten times that of the GDP in 1993. Similarly, between 1980 and 1993, the share of foreign bonds and equities in pension-fund assets rose from 10% to 20% in the UK, from 0.7% to 6% in the United States, and from 0.5% to 9% in Japan. International Monetary Fund (IMF) estimates suggest that total cross-border ownership of tradable securities was $2,500 billion in 1992.

Government debt has also become tradable in the global market for financial assets. There is a growing international market for government bonds. Between 1980 and 1992, the proportion of government bonds held by foreigners rose from less than 1% to 43% in France, from 9% to 17% in the UK, from 10% to 27% in Germany, while it remained steady at about 20% in the United States. These numbers are staggering but even the globalisation of finance is not new. There was a significant integration of international financial markets in the late 19th century and early 20th century. The only dimension missing was international transactions in foreign exchange which were determined entirely by trade flows and capital flows, given the regime of fixed exchange rates under the gold standard. The cross-national ownership of securities, including government bonds, reached very high levels during this period

(Morgenstern, 1959). In 1913, for example, foreign securities constituted 59% of all securities traded in London. Similarly, in 1908, the corresponding proportion was 53% in Paris. It is worth noting that there was a correlation between interest rates, exchange rates and stock prices in the leading markets during this phase. There was also an established market for government bonds. In 1920, for instance, Moody's rated bonds issued by 50 governments. As late as 1985, only 15 governments were borrowing in the capital market of the United States. The number reached 50, once again, in the 1990s. International bank lending was substantial. Both governments and private investors floated long-term bonds directly in the financial markets of London, Paris and New York. Merchant banks or investment banks were the intermediaries in facilitating these capital flows from private individuals and financial institutions, in these industrialised countries, in search of long-term investments on the one hand, to firms or governments, mostly in the newly industrialising countries or the under-developed countries, which issued long-term liabilities, on the other (Kregel, 1994). In relative terms, net international capital flows then were much bigger than now. During the period from 1880 to 1913, Britain ran an average current account surplus in its balance of payments which was the equivalent of 5% of GDP (Panic, 1992). And, in some years, this was as much as 8% of GDP. In contrast, since 1950, the current account surplus of the United States to begin with, or Germany and Japan in subsequent years, did not exceed 3% of GDP.

3 The Similarities and the Differences

It is clear that the internationalisation of trade, investment and finance during the last quarter of the 20th century is not new. There was such an internationalisation of trade, investment and finance in the last quarter of the 19th century which continued until the onset of the First World War. There are both similarities and differences between these two phases of globalisation in the world economy. The similarities are in underlying factors which made globalisation possible then and now. The differences are in the form, the nature and the depth of globalisation during these two phases.

There are four similarities that I would like to highlight: the absence or the dismantling of barriers to international economic transactions; the development of enabling technologies; emerging forms of industrial organisation; political hegemony or dominance.

The four decades from 1870 to 1913 were the age of *laissez faire*. There were almost no restrictions on the movement of goods, capital and labour across national boundaries. Government intervention in economic activity was minimal. The gold standard, strictly adhered to by most countries, imparted stability to the system. Keynes (1921) believed that a virtuous circle of rapid economic growth and international economic integration in this era created the core of a global economy. This was followed by three decades of conflict and autarchy. The two World Wars and the Great Depression interspersed these troubled times. Economic growth was a casualty. International economic transactions were progressively constrained by barriers and regulations that were erected during this period of economic and political conflict. These barriers and regulations were dismantled step by step during the second half of the 20th century. Globalisation has followed the sequence of de-regulation. Trade liberalisation came first, which led to an unprecedented expansion of international trade between 1950 and 1970. The liberalisation of regimes for foreign investment came next. And there was a surge in international investment which began in the late 1960s. Financial liberalisation came last, starting around the early 1980s. This had two dimensions: the de-regulation of the domestic financial sector in the industrialised countries and the introduction of convertibility on capital account in the balance of payments. The latter was not simultaneous. The United States, Canada, Germany and Switzerland removed restrictions on capital movements in 1973, Britain in 1979, Japan in 1980 while France and Italy made the transition as late as 1990. The globalisation of finance, at a scorching pace since the mid-1980s, is not unrelated to the dismantling of regulations and controls.

Both phases of globalisation coincided with a technological revolution in transport and communications, which brought about an enormous reduction in the time needed, and also the cost incurred, in traversing geographical distances. The second half of the 19th century saw the advent of the steamship, the railway and the telegraph. The substitution of steam for sails, and of iron for wooden hulls in ships, reduced ocean freight by two-thirds between 1870 and 1900 (Lewis, 1977). The spread of the railways brought the hinterland of countries into the world economy. The arrival of the telegraph revolutionised communication and shrank the world. The second half of the 20th century has witnessed the advent of jet aircraft, computers and satellites. The synthesis of communications technology, which is concerned with the transmission of information, and computer technology, which is concerned with the processing of information, has created information technology, which is remarkable in both reach and speed. These technological developments have had an even more dramatic impact on reducing geographical barriers. The time needed is a tiny fraction of what it was earlier. The cost incurred has come down sharply. Obviously, enabling technologies made the globalisation of economic activities that much easier in both phases.

Emerging forms of industrial organisation, in both phases, played a role in making globalisation possible. In the late 19th century, it was the advent of mass production which was characterised by a rigid compartmentalisation of functions and a high degree of mechanisation (Lewis, 1978). The production of perfectly interchangeable parts, the introduction of the moving assembly line developed by Ford and methods of management evolved by Taylor provided the foundations for this new form of industrial organisation. Mass production realised economies of scale and led to huge cost reductions compared with craft manufacturing. The accumulation and concentration of capital reinforced the process of globalisation. In the late 20th century, the emerging flexible production system, shaped by the nature of the technical progress, the changing output mix and the organisational characteristics (based on Japanese management systems), is forcing firms to constantly choose between trade and investment in their drive to expand activities across borders. The declining share of wages in production costs, the increasing importance of proximity between producers and consumers, and the growing externalisation of services, are bound to influence the strategies and the behaviour of firms in the process of globalisation (Oman, 1994).

The politics of hegemony or dominance is conducive to the economics of globalisation. The first phase of globalisation from 1870 to 1913 coincided with what Hobsbawm (1987) has described as 'the age of empire', when Britain more or less ruled the world. The second phase of globalisation beginning in the early 1970s coincided with the political dominance of the United States as the superpower. This political dominance has grown stronger with the collapse of communism and the triumph of capitalism, which has been described by another contemporary historian Fukuyama (1989) as 'the end of history'. Apart from dominance in the realm of politics, there is another similarity in the sphere of economics between Pax Britannica and Pax Americana. That is the existence of a reserve currency which is the equivalent of international money: as a unit of account, a medium of exchange and a store of value. In the late 19th century and the early 20th century, this role was performed by the pound sterling. In the late 20th century, this role is being performed by the US dollar, ironically enough after the collapse of the Bretton Woods system when its statutory role as a reserve currency came to an end. It would seem that, in both phases, globalisation required a dominant economic power with a national currency that was, and is, acceptable as international money.

There are, also, important differences between the two phases of globalisation. I would like to highlight four such differences: in trade flows, in investment flows, in financial flows and, most important perhaps, in labour flows, across national boundaries.

Let me begin with trade flows, where there are differences in the composition of trade and in the channels of trade. During the period from 1870 to 1913, an overwhelming proportion of international trade was constituted by inter-sectoral trade, where primary commodities were exchanged for manufactured goods. This trade was, to a significant extent, based on absolute advantage derived from natural resources or climatic conditions. It is possible to discern two phases since 1950. During the period 1950-1970, inter-industry trade in manufactures, based on differences in factor endowments, labour productivity or technological leads and lags, constituted an increasing proportion of international trade (Glyn, 1990). During the period 1970-1990, intra-industry trade in manufactures, based on scale economies and product differentiation, constituted an increasing proportion of international trade. At first sight, it may seem that trade flows were in the domain of large international firms then as much as now. There are, however, two important differences. First, the large trading firms of the 19th century, such as the East India Company or the Royal African Company, 'were like dinosaurs, large in bulk but small in brain, feeding on the lush vegetations of the new worlds' (Hymer, 1972). The forerunners of what we now describe as transnational corporations were not these giant trading firms but the small workshops and the entrepreneurial firms of the late 19th century. Second, during the present phase of globalisation, an increasing proportion of international trade is intra-firm trade, across national boundaries but between affiliates of the same firm. In the early 1970s, such intra-firm trade accounted for about one-fifth of world trade, but by the early 1990s, this proportion was one-third of world trade. Even more important perhaps is the changed composition of intra-firm trade. The second half of the 20th century has witnessed a steady decline in the importance of primary commodities, and a sharp increase in the importance of manufactured goods and intermediate products, in intra-firm trade.

Consider, next, investment flows, where there are differences in the geographical-destination, the sectoral-distribution and the risk-form of the investment. In 1914, the stock of long-term foreign investment in the world economy was distributed as follows: 55% in the industrialised world (30% in Europe, 25% in the United States) and 45% in the underdeveloped world (20% in Latin America and 25% in Asia and Africa). In 1992, the stock of direct foreign investment in the world economy was distributed in a far more uneven manner: 78% in the industrialised countries and 22% in the developing countries. We do not have comparable data for flows of foreign investment during the two periods. However, during the 1980s, industrialised countries absorbed 80% of the inflows of direct foreign investment in the world economy whereas developing countries received only 20%. It is clear that developing countries are now far less central to the process. But the spatial web of direct foreign investment is almost certainly more extensive than it was at the beginning of this century. The principal recipients then were China, India and Indonesia in Asia, with Argentina, Brazil and Mexico in Latin America. The number of recipients now is much larger and the sectoral distribution is also considerably different. In 1913, the primary sector accounted for 55% of long-term foreign investment in the world, while transport, trade and distribution accounted for another 30%; the manufacturing sector accounted for only 10% and much of this was concentrated in North America or Europe (Dunning, 1983). In 1992, the primary sector accounted for less than 10% of the stock of direct foreign investment in the world, while the manufacturing sector accounted for about 40% and the services sector for the remaining 50%. The nature of the risk borne by foreign investors was discernibly different in two phases. In the early 20th century, such investment was only long-term: two-thirds of it was portfolio while one-third of it was direct. In the late 20th century, much of such long-term investment is direct, although portfolio investment has risen sharply in the 1990s.

Let me now turn to financial flows. The most striking difference is the size of international financial markets in absolute if not relative terms. There are, however, important differences in the destination, the object, the intermediaries and the instruments. In the last quarter of the 19th century, capital flows were a means of transferring investible resources to underdeveloped countries or newly industrialising countries with the most attractive growth opportunities. In the last quarter of the 20th century, these capital flows are destined mostly for the industrialised countries which have high deficits and high interest rates to finance public consumption and transfer payments rather than productive investment (Kregel, 1994). During the first phase of globalisation from 1870 to 1913, the object of financial flows was to find avenues for long-term investment in search of profit. During the second phase of globalisation since the early 1970s, financial flows are constituted mostly by short-term capital movements, sensitive to exchange rates and interest rates, in search of capital gains. The intermediaries, too, are different. In the late 19th century, banks were the only intermediaries between lenders and borrowers in the form of bonds with very long maturities. In the late 20th century, institutional investors such as pension-funds and mutual-funds are more important than banks; the latter continue to act as intermediaries but now borrow short to lend long, thus resulting in a maturity mismatch. Consequently, the financial instruments need to be far more sophisticated and diversified than earlier. In the late 19th century, there were mostly long-term bonds with sovereign guarantees provided by the imperial powers or the governments in borrowing countries. In the late 20th century, there has been an enormous amount of financial innovation through the introduction of derivatives (futures, swaps and options). These derivatives (which are also not entirely new to the world and are reported to have existed in the 17th and 18th centuries: options in the Amsterdam stock exchange and futures in the Osaka rice market) are a means of managing the financial risks associated with international investment. This is essential now because, unlike the earlier phase of globalisation, there is a maturity mismatch and there is no effective securitisation provided by nation states. International financial markets have simply developed the instruments to meet the needs of the times. It is paradoxical that such derivatives, which have been introduced to counter risk may, in fact, increase the risk associated with international financial flows by increasing the volatility of short-term capital movements.

The fundamental difference between the two phases of globalisation is in the sphere of labour flows. In the late 19th century, there were no restrictions on the mobility of people across national boundaries. Passports were seldom needed. Immigrants were granted citizenship with ease. Between 1870 and 1914, international labour migration was enormous. During this period, about 50 million people left Europe, of whom two-thirds went to the United States while the remaining one-third went to Canada, Australia, New Zealand, South Africa, Argentina and Brazil (Lewis, 1977). This mass emigration from Europe amounted to one-eighth its population in 1900. For some countries such as the UK, Italy, Spain and Portugal, such migration constituted 20 to 40% of their population (Stalker, 1994). But that was not all. Beginning somewhat earlier, following the abolition of slavery in the British Empire, about 50 million people left India and China to work as indentured labour on mines, plantations and construction in Latin America, the Caribbean, Southern Africa, South East Asia and other distant lands (Tinker, 1974 and Lewis, 1978). The destinations were mostly British, Dutch, French and German colonies. In the second half of the 20th century, there was a limited amount of international labour migration from the developing countries to the industrialised world during the period 1950-1970. This was largely attributable to the post-war labour shortages in Europe and the post-colonial ties embedded in a common language (Nayyar, 1994). Since then, however, international migration has been reduced to a trickle because of draconian immigration laws and restrictive consular practices. The only significant evidence of labour mobility during the last quarter of the 20th century is the temporary migration of workers to Europe, the Middle East and East Asia. The present phase of globalisation has found substitutes for labour mobility in the form of trade flows and investment flows. For one, industrialised countries now import manufactured goods that embody scarce labour: the share of developing countries in world manufactured exports rose from 5.5% in 1970 to 15.9% in 1990, while the share of manufactured exports in total exports of developing countries rose from 18.7 in 1970 to 54.7% in 1990. For another, industrialised countries export capital which employs scarce labour abroad to provide such goods. In 1992, for example, total employment in transnational corporations was 73 million, of which 44 million were employed in the home countries while 17 million were employed in affiliates in industrialised countries and 12 million were employed in affiliates in developing countries; the share of developing countries in such employment rose from one-tenth in 1985 to one-sixth in 1992.

The first phase of globalisation in the late 19th century was characterised by an integration of markets through an exchange of goods which was facilitated by the movement of capital and labour across national boundaries. This was associated with a simple vertical division of labour between countries in the world economy. The second phase of globalisation during the late 20th century is characterised by an integration of production with linkages that are wider and deeper, except for the near absence of labour mobility. It is reflected not only in the movement of goods, services, capital, technology, information and ideas, but also in the organisation of economic activities across national boundaries. This is associated with a more complex—part horizontal and part vertical—

division of labour between the industrialised countries and a few developing countries in the world economy.

4 The Inequalities and the Asymmetries

A comparison of globalisation in the late 20th century with globalisation in the late 19th century suggests that the game is similar though not quite the same. But the players of the game are new. And the rules of the game are very different.

The process of globalisation then was dominated by imperial nation states not only in the realm of politics but also in the sphere of economics. There can be no doubt that these imperial nation states were the key players in the game. The process of globalisation now has placed new players centre-stage. There are two main sets of players in this game: transnational corporations which dominate investment, production and trade in the world economy, and international banks or financial intermediaries which control the world of finance. It would seem that the present conjuncture represents the final frontier in the global reach of capitalism to organise production, trade, investment and finance on a world scale without any fetters except, of course, for tight controls on labour mobility (Nayyar, 1988).

It is not surprising that the advent of international capital has meant significant political adjustments in the contemporary world. It has induced a strategic withdrawal on the part of the nation state in some important spheres. Thus, nation states are not the key players that they were in the late 19th century during the first incarnation of globalisation. They remain the main political players but are no longer the main economic players. We live in an era where the old-fashioned autonomy of the nation state is being eroded by international industrial capital and international finance capital everywhere, both in the industrialised world and in the developing world. It needs to be stressed, however, that there is a qualitative difference in the relationship between international capital and the nation state, when we compare the industrialised world with the developing world. The nation state in the former has far more room for manoeuvre than the nation state in the latter. In the industrialised countries, the political interests of the nation state often coincide with the economic interests of international capital. This is not so for developing countries from which very few transnational corporations or international banks originate. In spite of the profound changes unleashed by the present phase of globalisation, however, it would be naive to write off the nation state, for it remains a crucial player in political and strategic terms. Even today, only nation states have the authority to set rules of the game. The nation states in the industrialised world provide international capital with the means to set new rules for the game of globalisation. The nation states in the developing world provide these countries and their people with the means of finding degrees of freedom *vis-à-vis* international capital in the pursuit of development.

The process of globalisation, then and now, has been characterised by inequalities and asymmetries—economic and political— between countries in the world. These inequalities and asymmetries were, and are, implicit in the rules of the game.

The late 19th century was the age of empire. There were a few imperial nation states at one end and many colonies *(de jure* or *de facto)* at the other. The unequal political power meant dominance by the few and subservience of the many. The rules of the game were set by the military strength of the imperial powers. The unequal relationship was, so to speak, sustained by gunboat diplomacy. And the risks associated with trade, investment and finance across national boundaries were, in effect, underwritten by the imperial nation states.

The late 20th century is a different world. It is not as if the use of military strength is ruled out. In exceptional situations, as in Iraq, it could still be used but only where strategic geo-political interests are involved. As a rule, this is neither feasible nor desirable in the present phase of globalisation, in part because the nation state does not have the same strength and in part because international capital would prefer rules that can be invoked without muscle. For this purpose, transnational corporations and international banks or financial intermediaries wish to set new rules of the game which would enable them to manage the risks associated with globalisation. In this task, the nation states of the industrialised world provide the much needed political clout and support. The multilateral framework of the World Trade Organisation (WTO), the IMF and the World Bank is, perhaps, the most important medium.

The Uruguay Round of multilateral trade negotiations was launched in an attempt to resolve the crisis in the international trading system, but was different from its predecessor rounds in a fundamental sense. It was not concerned with conventional tariff reductions for trade liberalisation. At one level, in the realm of traditional General Agreement onTariffs and Trade (GATT) issues, it was about the implementation of existing rules in the multilateral trading system which had been eroded, circumvented or flouted in the recent past. At another level, apropos new issues, it was about the formulation of new rules in vital spheres of international economic transactions, many of which have thus far been a matter for bilateral negotiations. It is necessary but not sufficient to recognise why and how the Uruguay Round was different from the earlier rounds of multilateral trade negotiations. The differences are much wider and deeper than its enlarged scope. GATT-type rules and principles, with provision for dispute settlement, compensation and retaliation, are sought to be extended beyond trade in goods to international flows of capital, technology, information, services and personnel. The multilateral regimes for trade-related investment measures, trade-related intellectual property rights and trade in services, now created in the WTO, coincide closely with the interests of transnational corporations which are capital-exporters, technology-leaders and service-providers in the world economy. The interests of transnational corporations provided the nation states of the industrialised countries with the political impetus to conclude the negotiations.

The international regime of discipline that is being created is asymmetrical in almost every dimension. The liberalisation of international trade in goods is selective, for the discipline on non-tariff barriers is not binding just as there are important exclusions. In the sphere of textiles, the dismantling of the Multi-fibre Agreement remains a distant promise and in substantive terms trade liberalisation would begin only after the onset of the 21st century. The pressure from the industrialised countries to introduce a 'social clause' and an 'environment clause' on the agenda for the world trading system is simply a pretext for circumventing the rules of trade liberalisation wherever necessary. In the General Agreement on Trade in Services, there is almost nothing on labour mobility which would allow developing countries to exploit their comparative advantage in services. In sharp contrast, it caters to the interest of the industrialised countries, which have a revealed comparative advantage in capital-intensive or technology-intensive services, even if this implies changes in investment laws or technology policies of developing countries. The Uruguay Round did not yield significant results on trade-related investment measures but, since then, the industrialised countries have mounted increasing pressure to create a multilateral regime for international investment in the WTO. Apart from the most-favoured-nation (non-discrimination) rule, this initiative seeks free access and national treatment for foreign investors, combined with provisions to enforce commitments and obligations to foreign investors. While liberalisation and guarantees are sought for investment flows, the international regime of discipline for technology flows embodies protection with guarantees. The WTO regime for the protection of intellectual property rights is both restrictive and protective. The inequality is obvious. It seeks to protect the monopoly profits or the quasi-rents for transnational corporations but it ignores the implications for developing countries (Nayyar, 1993). Much needed technologies may no longer be available at affordable costs. The emergence of domestic technological capabilities may be pre-empted. Transfer of technology may slow down. The incidence of restrictive business practices by transnational corporations may increase.

It would seem that the institutional framework for globalisation is characterised by a striking asymmetry. National boundaries should not matter for trade flows and capital flows but should be clearly demarcated for technology flows and labour flows. It follows that the developing countries would provide access to their markets without a corresponding access to technology and would accept capital mobility without a corresponding provision for labour mobility. This asymmetry, particularly that between the free movement of capital and the unfree movement of labour across national boundaries, I must emphasise, lies at the heart of the inequality in the rules of the game for globalisation in the late 20th century. These new rules, which serve the interests of transnational corporations in the process of globalisation, are explicit as an integral part of a multilateral regime of discipline.

The rules of the game, which would serve the interests of international banks or financial intermediaries in the process of globalisation, are in part implicit and in part unwritten. Even here, there is an asymmetry as there are rules for some but not for others. There are no rules for surplus countries, or even deficit countries, in the industrialised world which do not borrow from the multilateral financial institutions. But the IMF and the World Bank set rules for borrowers in the developing world and the erstwhile socialist bloc. The conditionality is meant in principle to ensure repayment but in practice it imposes conditions or invokes rules to serve the interests of international banks which lend to the same countries. The Bretton Woods institutions, then, act as watchdogs for moneylenders in international capital markets. This has been so for some time. But there is more to it now. IMF programmes of stabilisation and World Bank programmes of structural adjustment, in developing countries and in the erstwhile communist countries, impose conditions that stipulate a structural reform of policy regimes. The object is to increase the degree of openness of these economies and to reduce the role of the state, so that market forces shape economic decisions. In this manner, the Bretton Woods institutions seek to harmonise policies and institutions across countries which also meet the needs of globalisation.

International financial markets are, perhaps, the exception insofar as they have enormous clout even *vis-à-vis* governments and central banks of industrialised countries. Globalisation of finance has almost certainly eroded the ability of governments everywhere to tax, to print money and to borrow. Monetary policy and fiscal policy are blunted. Macro-economic management in the pursuit of internal and external balance is that much more difficult. But financial markets are erratic in their exercise of discipline. There are as yet no clear or set rules of the game. However, there is an asymmetry even here as international finance cannot exercise any discipline on the dominant economic power without risking the stability of international financial system. So long as the US dollar is the only national currency that can serve as international money, it is as good as gold and financial markets would stop and think before they undermine the keystone in the arch.

5 Globalisation and Uneven Development

It should be obvious that the process of globalisation will not reproduce or replicate the United States everywhere, just as it did not reproduce or replicate Britain everywhere a century earlier. It was associated with an uneven development then. It is bound to produce uneven development now, not only between countries but also within countries.

This is a lesson that emerges from history. The economic consequences of globalisation in the late 19th century were, to say the least, asymmetrical. Most of the gains from the international economic integration of this era accrued to the imperial countries which exported capital and imported commodities. There were a few countries such as the United States, Canada and Australia—new lands with temperate climates and white settlers—which also derived some benefits. In these countries, the pre-conditions for industrialisation were already being created and international economic integration strengthened this process. Direct foreign investment in manufacturing activities stimulated by rising tariff barriers, combined with technological and managerial flows, reinforced the process (Lewis, 1978 and Panic, 1992). The outcome was industrialisation and development. But this did not happen everywhere. Development was uneven in the industrial world. Much of southern and eastern Europe lagged behind. This meant divergence rather than convergence in terms of industrialisation and growth. Countries in Asia, Africa and Latin America, which were also a part of this process of globalisation, were not so fortunate. Indeed, during the same period of rapid international economic integration, some of the most open economies in this phase of globalisation—India, China and Indonesia—experienced de- industrialisation and underdevelopment. We need to remind ourselves that, in the period from 1870 to 1914, these three countries practised free trade as much as the United Kingdom and the Netherlands, where average tariff levels were close to negligible (3-5%); in contrast, tariff levels in Germany, Japan and France were significantly higher (12-14%), whereas tariff levels in the United States were very much higher (33%). What is more, these three countries were also among the largest recipients of foreign investment (Maddison, 1989). But their globalisation did not lead to development. The outcome was similar elsewhere: in Asia, Africa and Latin America. So much so that, between 1860 and 1913, the share of developing countries in world manufacturing output declined from over one-third to under one-tenth (Bairoch, 1982). Export-oriented production in mines, plantations and cash-crop agriculture created enclaves in these economies which were integrated with the world economy in a vertical division of labour. But there were almost no backward linkages. Productivity levels outside the export enclaves stagnated at low levels. They simply created dualist economic structures where the benefits of globalisation accrued mostly to the outside world and in small part to local elites.

The process of globalisation was uneven then. It is so even now. There are less than a dozen developing countries which are an integral part of globalisation in the late 20th century: Argentina, Brazil and Mexico in Latin America and Korea, Hong Kong, Taiwan, Singapore, China, Indonesia, Malaysia and Thailand in Asia. These eleven countries accounted for about 30% of total exports from developing countries during the period 1970-1980. This share rose to 59% in 1990 and 66% in 1992. The same countries, excluding Korea, were also the main recipients of direct foreign investment in the developing world accounting for 66% of the average annual inflows during the period 1981-1991. There are no firm data on the distribution of portfolio investment but it is almost certain that the same countries, described as 'emerging markets', were the destination for an overwhelming proportion of portfolio investment flows to the developing world. This evidence suggests that globalisation is most uneven in its spread and there is an exclusion in the process. Sub-

Saharan Africa, West Asia, Central Asia and South Asia are simply not in the picture, apart from many countries in Latin America, Asia and the Pacific which are left out altogether.

The benefits of integration with the world economy, through globalisation, would accrue only to those countries which have laid the requisite foundations for industrialisation and development. This means investing in the development of human resources and the creation of a physical infrastructure. This means raising productivity in the agricultural sector. This means using strategic industrial policy for the development of technological and managerial capabilities at a micro-level. This means establishing institutions that would regulate, govern and facilitate the functioning of markets. In each of these pursuits, strategic forms of state intervention are essential. The countries which have not created these pre-conditions could end up globalising prices without globalising incomes. In the process, a narrow segment of their population may be integrated with the world economy, in terms of consumption patterns or life styles, but a large proportion of their population may be marginalised even further.

Globalisation has reduced the autonomy of the nation state in matters economic if not political, but there remain some degrees of freedom which must be exploited in the pursuit of industrialisation and development. The object of any sensible strategy of development in the context of globalisation should be to create economic space for the pursuit of national interests and development objectives. In this task, there is a strategic role for the nation state. Success at economic development is observed mostly in cases where the state has performed such a strategic role *vis-à-vis* international capital, and also created the pre-conditions for industrialisation. This is evident if we consider, for example, the development experience of industrial capitalism in Japan after the Meiji Restoration in 1868 or the emergence of market socialism in China after the modernisation and reform programme was launched in 1978. The economic role of the State has been just as crucial in South Korea, Taiwan and even Singapore (Amsden, 1989 and Wade, 1991).

The process of globalisation has been uneven over time and across space. The inequalities and the asymmetries implicit in the process which led to uneven development in the late 19th century, mostly for political reasons, are bound to create uneven development in the late 20th century, mostly for economic reasons. There is a real danger that some countries may experience an exclusion from this process of globalisation, just as many people within these countries would experience an exclusion from prosperity. Such exclusion from the process of development would increase the economic distance between nations and widen the income disparities between peoples of the world. This would be difficult to sustain in a world where demonstration effects are strong and are reinforced by globalisation which creates strong aspirations for consumption patterns or life styles. Economic deprivation could accentuate social divides and political alienation. If globalisation turns into a secession of the successful, it could have an analogue in terms of a secession of the deprived.

The nation states in the developing world cannot wish away these problems. The enthusiasts of globalisation must recognise that we have reached neither the end of history nor the end of geography. We have not reached the end of history, for the market has met its match in Eastern Europe where it did not improve the living conditions of the people, and the electoral process is returning reformed communist parties to power in country after country. We have not reached the end of geography, for nation states cannot exist in a political vacuum and must strive to improve the economic conditions of their people. There is, then, a strategic economic and political role for the state which must be recognised and performed. If it is not, history would repeat itself and globalisation would only reproduce uneven development.

NOTE

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