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DISCUSSION PAPERS

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GLOBALIZATION RELOADED: AN UNCTAD PERSPECTIVE

Richard Kozul-Wright and Paul Rayment

Abstract

This paper rejects the characterization of globalization as an autonomous and irresistible process driven by the impersonal forces of the market and technical progress. Whether domestic or global, market forces are shaped and controlled by policy choices and the institutional frameworks in which they are made. In the absence of adequate institutional frameworks and productive capacities, rapid liberalization is as likely to lead to stagnation and unemployment as to growth and rising incomes per head. We show that the major economic forces presumed to be crucial for spreading the benefits of globalization have been less global than often presented, have proved to be much weaker than widely predicted and carry potentially damaging effects as well as benefits. Accordingly, and without denying that by the late 1970s many developing countries needed to find new ways of inserting themselves into the international economy, we argue that the new policy orientation of macroeconomic stringency, downsizing the public sector and the rapid opening of developing country markets to foreign trade and capital after the debt crisis, has failed to produce an economic environment that supports faster economic growth and strengthens productivity performance. In suggesting the outlines of a more strategic approach to economic development the emphasis is on the need for domestic investment to be mobilized as the basis for industrialization and for a gradual approach to integration with the global economy.

I. Introduction: Globalization in Context

The idea of globalization as a process rather than just an alternative term for the aggregation of cross-border interactions of one kind or another seems to have emerged in the early 1960s. But as a catch-all term to describe what was felt to be a new and encompassing economic reality, it has only really come into fashion in the wake of the neo-liberal policy agenda first introduced in the United States and the United Kingdom in the early 1980s which then spread, somewhat fitfully, to other OECD members over the remainder of the decade. In many parts of the developing world the debt crisis of the 1980s was a major catalyst of similar policy changes, while the collapse of the Berlin Wall gave this agenda a truly global reach.[1]

In the wake of these developments, and in combination with a revolution in information technology, which greatly reduced the costs of information processing and international communications, and the growing influence of transnational corporations (TNCs), the progressive liberalization of trade, under way since World War II, was accelerated and amplified. Multilateral trade negotiations launched under the Uruguay Round in the mid-1980s added further momentum and more importantly extended the liberalization agenda to new areas. However, trade has not been the only force, or even the most significant, recasting international economic relations over the past two decades. The deregulation of financial markets in the 1970s and the subsequent and considerable increase in capital mobility has been a more striking feature of economic globalization and the one that marks the sharpest break with the international policy framework that was in place from the end of World War II until the collapse of the Bretton Woods regime some thirty years later. That collapse, and the shift by the advanced industrial economies to floating exchange rate regimes, created significant arbitrage opportunities for international capital and encouraged a proliferation of new financial instruments to hedge against exchange rate risks. Simultaneously, concerted and rapid moves to deregulate financial markets and open the capital account led to the dismantling of legal and other obstacles to cross-border flows of capital.

There is little doubt that the combination of freer trade, technological progress and increased capital mobility has intensified international competition and increased the interdependence of national economies to the point where none can ignore the influence of events and policies in other parts of the globe. But running across much of the debate on globalization is a presumption that the direction set for the world economy points to a radically new future, where firms and financial institutions operate transnationally, i.e. outside the confines of national boundaries, where factors of production and financial assets are almost perfect substitutes everywhere and where it would be no longer possible to consider states as distinct economic entities with autonomous decision-making power in the pursuit of national objectives. In such a truly global market economy the prices of goods, factors of production, equities and interest rates in different national markets would converge, and policies in individual countries would be designed as if they were part of the same political unit. Core economic institutional forms would also converge on a standardized pattern compatible with the pressures of unhindered market competition and "public" goods needed to maintain this open market system, such as a stable

[1] McLuhan (1960, 1962) coined the term "global village" to describe the power of television and electronic media to make knowledge of events and ideas simultaneously available across the globe. According to Temin (1999: 76) the Oxford English Dictionary also dates the first usage of the term in the early 1960s. However, using citations from the New York Times as his measure, Fischer (2003) found that the term globalization was absent in the 1970s, became more frequent in the 1980s but only really captured the debate on the direction of international economic relations in the 1990s.

monetary system, would also become a global responsibility. A second presumption is that all this is as desirable as it is unstoppable; in particular, the combination of openness and technological progress promises to truly level the global economy, as incomes converge rapidly thanks to faster growth in the world's poorer countries.

While some have boldly pronounced an end to history and geography, more sober contributors recognize that a terminal point in international economic relations has not yet been reached. Indeed, a good deal of the conventional economic discussion is taken up with identifying possible sources of resistance to globalization, whether through ill-conceived policy choices or from potential losers in that process, and devising effective policy responses and the best sequence of reforms (Williamson, 2002).[2] In this respect, the pursuit of policy conformity has been a prominent, and on many accounts the key feature of globalization in the last two decades or so.[3] Global policy making is conducted for the most part in the Bretton Woods institutions – the World Bank and the International Monetary Fund (IMF) – and the World Trade Organization (WTO), which have seen a considerable extension of their surveillance over domestic policy makers and a strengthening of their disciplinary measures. Consequently, the authority of these institutions has been greatly extended in recent years to areas previously considered the preserve of national governments (Kapur and Webb, 2000). Thus, countries seeking financial aid or debt re-scheduling from the Bank or the IMF must now not only adopt approved macroeconomic stability programmes but also agree to "structural" and political reforms which extend the influence of markets – via liberalization, privatization, deregulation etc. – and reduce the economic role of the state. Similarly, the Uruguay Round of trade negotiations extended the authority of the WTO far beyond the domain of its predecessor, the GATT, to embrace services, agriculture, intellectual property and trade-related investment measures. WTO members which fail to align their domestic laws and arrangements with WTO agreements may be subject to sanctions on their exports (Shukla, 2002). These institutions, and to a lesser extent the OECD, have become the principal vector for diffusing neo-liberal economic policies.[4]

Emphasizing the role of policies, and of the international economic institutions in promoting one set rather than another, is an important counterweight to the view of globalization as an autonomous, irresistible and irreversible process driven by the impersonal forces of the market and technical progress. The latter are undoubtedly important, but essentially they are released and shaped by selective policy choices and the institutional framework in which they operate; the latter providing both incentives for preferred outcomes and sanctions for the undesirable. It is a dangerous delusion to think of the global economy as some sort of "natural" system with a logic of its own: It is, and always

[2] For a taste of bolder pronouncements on globalization see Fukuyama, 1989; O`Brien, 1992 and Giddens, 2002.
[3] See the various papers in Toye, 2003, especially the introduction.
[4] The new policy course had its antecedents in the work of a generation of more liberally-minded development economists who resisted the dirigiste turn after World War II. This was particularly true for trade economists working in the World Bank (Toye, 1989 and Edwards, 1992). More recently, these policies have been developed and diffused under the rubric of a so-called "Washington Consensus" on economic policy, initially designed to correct specific economic imbalances in Latin America after the debt crisis. While some contest the link, it is difficult to separate the debate triggered by the "rights" and "wrongs" of this approach to the wider globalization discussion (Stiglitz, 1998a and 1998b, 2002, and Williamson, 2000, 2002). The influence of the advanced countries, and particularly the most powerful, in recasting development policy, including through their grip over the Bretton Woods institutions, was frankly acknowledged by the former United States Secretary of State, Dr. Henry Kissinger when he observed that "what is called globalization is really another name for the dominant role of the United States" (Kissinger, 1999). Irma Adelman remarks that had the Washington Consensus been imposed on South-East Asian countries during the period from the 1950s to the early seventies "there would not have been an East Asian miracle" is a reminder of the centrality of this experience to much of the policy debate on development strategies in a globalizing world (quoted in Rayment, 2002).

has been, the outcome of a complex interplay of economic and political relations in which one or two major powers have usually been dominant.

Recently, the unanticipated consequences of such complexity have eroded some of the earlier confidence in a rapid and uniform pattern of liberalization. A more nuanced account of market-driven globalization has begun to emerge with a stress on institution building and more room for qualified policy outcomes; even accepting the “higher-order economic principles” behind market-oriented globalization this has turned the emphasis of debate away from inevitability and uniformity towards feasibility and diversity (Rodrik, 2002, 2003). And just as there are differences about the nature of market-driven globalization, there are also diverse critics and opponents of what is perceived to be the present structure of the world economy and the policies that are believed to have produced it. Since some of these critics reject economic integration altogether and would also like to dismantle the existing structures of international economic institutions, it will be useful at the outset to sketch the broad lines of our critique, leaving more detailed discussion until later. Four basic principles underpin the subsequent analysis in this paper:

First, the potential benefits of increased trade and foreign investment, and of greater integration with the world economy in general are recognized, but the actual experience of the last two to three decades suggests that they will not be realized by simply unleashing market forces on the developing economies. This is, in part, because many of these economies lack the institutional and productive capacities to respond quickly to the opportunities created by greater openness to world markets and to cope with the competition from more developed economies. But it is also because one-dimensional and technocratic approaches to the design of market-friendly development strategies fail to prepare policy makers for the difficult choices and trade-offs facing most developing-country governments in a more interdependent world.

Secondly, while there is no disputing that international trade and factor movements have increased considerably in the wake of liberalization over the last two decades, there can be no presumption that the trend is synonymous with a less distortionary economic environment facing developing countries. In fact, the process has been highly selective and has progressed on terms dictated by the developed countries: International trade in goods has been greatly liberalized but the exceptions (agriculture and food products, textiles, clothing and a range of labour-intensive products) favour vested interests in the developed countries; international financial markets are liberalized but the free movement of labour is greatly restricted; and the agenda for further liberalization, covering a wide range of “trade-related” matters in the WTO for example, is again largely driven by developed country interests.