Chapter 2

Globalization and Development

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1. Introduction: Do we view Globalization as old or new?

Globalization can be traced back to its old incarnation in terms of an imperial order, when colonies were linked to the ruling nations both politically and along economic channels. However, the new pattern of globalization which has evolved over the post Second World War period has been integrating countries with globalised markets and fast communication channels which operate beyond the authority of sovereign nations. Markets in different parts of the world have opened up steadily in response to the mainstream doctrines which has been influencing policies in most countries. Simultaneously, technology has minimized the barriers across nations with speedy communications as well as blending of cultures. Globalization today is a far more sweeping force to connect nations as compared to the earlier pattern of linking countries via trade, financial flows and political subjugation. While political domination was a major aspect in the earlier pattern, globalization today has brought in greater socio-economic disparity which, in the countries with a representative governments, has led to open discontent in society.[1]

In today's globalization the geo-political significance of select advanced countries has been crucial in determining the pattern of international interactions, which include trade, finance and even strate-

[1] Sen, 2007; McGrew and Held (2007).

gic concerns. Influence of the powerful advanced economies on multilateral institutions has played a part in determining policies which favor the more powerful nations in the advanced region.

We can identify the following four aspects as the prominent features of today's globalization.

- ✓ Market driven policies with faster pace of capital and skill intensive innovations.
- ✓ Global integration of markets for goods, services, technology and finance.
- ✓ Dominance of finance in global and national policies.
- ✓ Staggering inequality within and across nations.

2. Unfulfilled promises of Mainstream Economics with the overpowering market

Let us here deal with the market-driven policies which drives globalization today. In terms of the logic postulated in free market theories, voluntary exchange by rational actors in the market achieves 'efficiency', providing mutual gains in trade and exchange. With market access production achieves economies of scale and competitive edge *vis a vis* other producers.

One can, however, detect the limiting assumptions behind these theories. Those include, among others, perfect competition; the full utilization of resources including labor; complete information to all in the market; the distribution of product according to the contribution to output in terms of marginal product of factors deployed in production. None of these assumptions remain valid in the context of the actual functioning of markets.

It is thus not a surprise to witness the failure of free markets to end unemployment, poverty and excess capacity. With inequity and instability one also notices large-scale displacement of labor, especially with technological advances. Investment today is often guided by financial gain (most often on financial assets) rather than by physical productivity in the real sector.

3. Markets in economic theory: Three Variants

To deal with markets in theory, it is useful to distinguish the following three variants:

The neo-classical theory bases itself on methodological individualism, which assumes the capacity of rational individuals to fulfill the maximum benefits by operating in self-interest, which in turn ensures common good for all who are operating similarly. Mainstream theory provides an uncritical acceptance of the ability of markets to attain growth with efficiency which achieves optimum production, consumption and distribution, in terms of what is defined as the Pareto optimum. Accordingly expansion of markets can also be a cure-all for slow growth or lack of development.[2]

Alternately, markets can be viewed as an institution under capitalist systems, which is both dispensable and at best subject to regulation by authorities. In terms of orthodox Marxist positions, the market is necessary but not sufficient to ensure capitalist production. This is because a capitalist system is considered to based on wage labor, exchange economy and a process of accumulation.

In other versions of Marxist analysis, markets, providing channels of exchange, have viewed as sufficient for capitalism. A view as above dominates the World System theories offered by Gunder Frank and Immanuel Wallerstein,[3] both of whom trace the beginning of capitalism to the earlier centuries of mercantile trade.

The Marxist theory of markets under capitalism also include the Dobb-Sweezy mode of production debates on transition from feudalism to capitalism. In this context some have drawn attention semi-feudal or semi-capitalist modes of production in the context of the developing countries, thus extending the analysis to cover the region which has encountered the rapid advances of markets under globalization. The above extends to other versions of Marxist readings, notably that of Samir Amin[4], on markets under globalization.

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[2] See for a critique, Sen, 2005.
[3] Frank, 1976; Wallerstein 1980.
[4] Amin, 1977.

This includes the notions of "Peripheral capitalism" in developing countries, one where the co-exists with non-market activities.

We now have a look at notion of markets when viewed beyond standard tools of economic theory, as in Karl Polanyi. Polanyi's *Great Transformation* spells out the "double movement" under capitalism. It relates to the expansion of market relations and the ensuing reactions of society to protect itself from the consequences of the very operation of the market; as an allegedly self-regulating mechanism. This ensures the dominance of global markets' culture on social relations or the fabric at large. The latter pervades family, community and all social relations. In effect expansion of markets proceeds with dispossession, displacements and degradation of people. As a consequence the market and even the state are both disembedded from society. As put by Polanyi[5], "Yet simultaneously a countermovement was on foot. This was more than the usual defensive behaviour of society faced with change; it was a reaction against a dislocation which attacked the fabric of society, and which would have destroyed the very organization of production that the market had called into being" .

Despite its relevance in understanding the social processes under globalization, Polanyi's theorization on markets has been ignored by Marxists as well by mainstream theorists.

4. Free Markets in operation: liberalized trade in goods and services[6]

Trade liberalization in developing countries, was initiated by the International Monetary Fund (IMF) in terms of the Structural Adjustment Programs (SAP). In 1980s these programs were considerably intensified with the tariff cutting rounds (meetings) of GATT (General Agreement on Tariffs and Trade) and later of the WTO (World Trade Organization), especially in terms of the provisions

[5] Polanyi, 1957.
[6] Sen, 2005

under the Trade Related Aspects of Intellectual Property Rights and Trade Related Investment Measures (TRIMs). In general the developing countries have been grossly disillusioned with the functioning of these multilateral tariff-cutting institutions, especially on issues of trade restrictions on textiles and agricultural subsidies in advanced economies. Moreover, the end of national patent regime which started with product patenting has considerably dampened the national R&D (Research and Development) activities in the developing nations. The new trade regime under WTO has also pushed up prices of pharmaceuticals while encouraging Genetically Modified food in these areas.

In a similar tone, smaller countries in advanced areas also were faced with lesser advantages during the new regime, a culmination of which, along with other factors, has been the current EU crisis.

5. Free trade in technology and services[7]

The General Agreement on Trade in Services (GATS) under the WTO is considered to provide level playing field to service providers from abroad, a move which, as claimed by WTO, is in the name of competition policy and efficiency.

While the measures under the GATS were responsible for wide-ranging innovations in Information and Communication Technologies (ICT), micro-biology, communications, power and construction, there has been an asymmetric impact vis a vis the developing and advanced nations. Thus as it has been pointed out, technology is not a "free public good' and "world is not flat". One does not observe a process of 'learning by doing', especially for late-comers in the industrialization process, unlike what is claimed in endogenous growth theory.

Services which are under the scanner of liberalization include wide-ranging spheres which include banking, insurance, transports,

[7] See Sen, 2007

railways, electricity, gas, telecommunications, health and education. Many of these are in the nature of public goods, which demand state intervention, especially in the developing economies. Liberalization and privatization, as in the new trade regime, hamper the process.

Issues of further liberalization of services are in the agenda, in terms of Non Agricultural Market Access(NAMA), Singapore Issues[8] and the Doha declaration[9] of the WTO regime .

6. Financial Liberalization

Finally, we look at the new regime of financialisation in deregulated financial markets. Initiated by IMF and World Bank through loan conditionalities, liberalization of financial markets today has a wider appeal to policy makers in different parts of the world economy in terms of the Washington Consensus.[10]

Implementation of these policies first of all has churned the realm of speculation-led activities in financial markets with shadow banking, generating myriads of derivative instruments. Besides, these policies also have led to concentration of wealth within as well as across countries. It may be recalled here that Foreign Direct Investment (FDI) flows from advanced countries today are more than five times those originating from the developing countries. Half of those

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[8] Four issues introduced to the WTO agenda at the December 1996, Ministerial Conference in Singapore: trade and investment, trade and competition policy, transparency in government procurement, and trade facilitation.

[9] http://www.wto.org/english/thewto_e/glossary_e/singapore_issues_e.htm

[10] The term Washington Consensus was coined in 1989 by the economist John Williamson to describe a set of ten relatively specific economic policy prescriptions that he considered constituted the "standard" reform package promoted for crisis-wracked developing countries by Washington, D.C.-based institutions such as the International Monetary Fund (IMF), World Bank, and the US Treasury Department. See http://en.wikipedia.org/wiki/Washington_Consensus

FDI flows from advanced economies comprises Mergers and Acquisitions (M&A) which further adds to concentration.

Opening up of financial sectors by developing countries also tends to affect their national autonomy in the management of fiscal, monetary and exchange rate policies. Often such policies are guided by the immediate concerns relating to the external sector rather than to the need of the domestic economy in terms of growth and employment.

In conclusion, opening of markets and the integration of countries in terms of globalization has more to do with problems created to countries, especially in the developing region, rather than providing a panacea for rapid and efficient growth.

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