Making Globalization Work: Towards Global Economic Justice

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Abstract:

Globalization as a corporate-led process has come under much justifiable criticism. This paper attempts to give the term analytic content distinct from its more ideological formulations.. It then focuses on a normative analysis of globalization from the capabilities perspective. A freedom-centered perspective such as the capabilities approach emphasizes policies and institutions that can enhance freedom globally and locally. A global governance structure based on transparent principles of both economic efficiency and social justice is shown to be a desirable state of affairs; however, the present fractured process of globalization is more likely to end up in a fragmenting regionalism or even national protectionism and rivalry. Multilateral cooperation on the basis of the framework advanced here is an urgent necessity.To this end the creation of international regimes of cooperation in areas ranging from trade and finance to ecological and women's and minorities rights issues must be put on the international and national social and political agendas.

Introduction

Globalization as a corporate-led process has come under much justifiable criticism. This paper attempts to give the term analytic content distinct from its more ideological formulations.. It then focuses on a normative analysis of globalization from the capabilities perspective. A freedom-centered perspective such as the capabilities approach emphasizes policies and institutions that can enhance freedom globally and locally. A global governance structure based on transparent principles of both economic efficiency and social justice is shown to be a desirable state of affairs; however, the present fractured process of globalization is more likely to end up in a fragmenting regionalism or even national protectionism and rivalry

The main purpose of this paper is thus to address a puzzle and suggest strategies towards solutions that are freedom-enhancing. The puzzleis: why is there such a tendency towards regionalization and even nationalist protectionism despite the rhetoric of globalization, the structural adjustment policies of the IFIs(International Financial Institutions), and the recognized merits of a rules-based global system? The main argument offered is that there is a contradiction in the heart of the current US and the IFIs-led globalization that stems from their seeming refusal to understand the implications of unevenness in the real world. This also has led to their neglect of some vital principles of global justice. By ignoring issues of equity, the current leaders of globalization now risk losing economic efficiency if the world becomes further fragmented. Thus, my purpose is to try to understand 'globalization and its discontents'(Stiglitz 2002,2006, Khan1994, 1995a,b, 1996,1997a,b,c,,1998,1999a,b,2004a and b,2005,2007, Khan and Liu 2008), and offer some guiding principles to move forward.

With frequent use the word globalization has by now acquired the status of an academic cliché. For many, the twin tendencies of the globalization of production and the emergence of a new international division of labor represent deep structural transformation of the world economy. In some sense, this is clearly true. But as some observers have recently pointed out (Harris, 1998, Khan, 1998) the word globalization, as commonly used, is largely a descriptive and not an analytical category. Furthermore, as a descriptive term its proper use requires a historical perspective that is often missing in the vast and growing literature. When viewed historically, it appears that globalization is a contradictory process of international economic integration that was severely interrupted by the first world war, the great depression, and the second world war. The emergence of the Bretton Woods framework can be seen as a way to integrate the world with respect to trade while controlling the flow of private capital. The demise of Bretton Woods has set in motion forces of capital account liberalization that are often the most visible aspects of 'globalization'. However, even this process is fraught with new instabilities as evidenced by the Mexican and — more recently and even more dramatically — by the Asian financial crisis. At the same time integration of trade even within the standard neoclassical Heckscher-Ohlin-Samuelson model would imply a fall in the wages of unskilled workers of the north thus increasing inequality there (Krugman, 1996; Wood, 1994). The south is supposed to experience a more equalizing effect through trade; but empirically, there is very little evidence of this happening. Therefore, it is necessary to treat the rhetoric of globalization with caution. At best, we are experiencing a `fractured' globalization (Harris, 1998).

Nevertheless, during the past few decades, the structural changes that took place in the world economy have brought about increased cross-border economic relations and, relatively speaking, a global economy. The internationalization of trade and foreign investment, aided by the worldwide deregulation of financial markets, has promoted economic integration and regional unions (Cook and Kirkpatrick, 1997). A new division of labor and a qualitatively different type of resource utilization, production and capital accumulation have emerged. The most significant effect of the recent structural change in world economy has been the creation of global interdependence and an economic global village.

Although integration of the world economy is not exactly new, these structural changes have added up to a qualitative alteration in the organization of global markets, namely, one involving a shift away from international trade towards international production and the domination of international finance and the man-made brainpower industries (Thurow,1996). As Cook and Kirkpatrick (1997) put it,

> The internationalization of economic activity is not a new phenomenon...The recent growth in international integration is qualitatively different, however, from the earlier expansion of international trade, in that it has been characterized by the intensification of economic linkages

> that transcend national boundaries, often at the functional level (p. 55).

In the previous years of economic integration, international trade and the reduction of trade barriers played the leading role in integrating the world economy while in today's global economy the main key players are multinational corporations and the growing finance and capital markets as well as information and computer technologies.

Since the early 1980s, multinational corporations have increased not only in number but have also seen their share of foreign investment grow tremendously. In the early 1990s, there were about 37,000 multinational corporations that controlled some 170,000 affiliates and the global stock of FDI constituted about $2 trillion (Cook and Kirkpatrick, 1997). Today, some multinational corporations' turnover is greater than the GNP of some developing countries.

Globalization has also been enhanced by the rising importance of the financial market and financial institutions that are dominating global economic relations. Deregulation of the financial market and liberalization of foreign exchange policies have increased the flow of finance between countries and brought about the integration of the world economy.

As the effects of globalization and regionalisation are felt in every part of the world, social scientists have begun examining and debating these two concepts, their relationships, and the implication they are likely to have on the growth and welfare of developing countries. Among scholars there are clearly areas of dispute. Some scholars such as Hirst (1995) question whether there is such a thing as a globalized economy while others (Thurow, 1996; Ohmae, 1996) suggest that a qualitatively new form of economic integration has set the stage for the emergence of globalization and regionalization. Also, social scientists debate whether globalization and regionalization are enhancing the welfare of developing countries or marginalizing them, and thereby perpetuating regional and socioeconomic inequality.

In this paper I will examine the essence of globalization and regionalization, their relationship, and the implications they may have for developing countries in particular. I will also point out the contradictions between the global flows of capital and the local needs and sensibilities. At the end, we will see that this contradiction points to a need for understanding both the structural and normative aspects of globalization especially as it relates to development.

Fractured Globalization Within a Normative Framework of Analysis

As mentioned at the beginning, globalization has been the buzz-word of the 1990s. As a process of change, globalization extends beyond the realm of politics and economics to embrace science, culture and lifestyles (Griffin and Khan, 1992). As such, globalization is a "multi-dimensional phenomenon applicable to a variety of forms of social action--economic, political, legal, cultural, military and technological--and sites of social action, such as the environment" (Perraton et al, 1997: 258).

There is no consensus among scholars as to the definition of globalization, or its effect on our lives and behavior. Some scholars have attempted to explain globalization as a political concept (Gills, 1997) while others elucidate the concept within the framework of recent economic, political and environmental developments (McGrew, 1992). Some focus on the positive impact of globalization; still others emphasize its adverse effects on income and social inequality, women and the poor (Sen, 1997, Gills, 1997). Others underscore the impact of globalization on the nation states and argue that "nation states have already lost their role as meaningful units of participation in the global economy of today's borderless world" (Ohmae, 1996:11). Yet others focus on the contradictory forces of integration and fragmentation in a postmodern world (Khan, 1998; chapters 6 and 7, 2002a,b, 2003, 2004a,b, 2007).

Since globalization has significant implications for numerous nations, individuals and communities, it is imperative to clearly define and examine its implications. A sine qua non for this is to conceptualize the term clearly. In this paper globalization is conceptualized as asset of cross-cutting economic, technological, cultural and communicative processes that have grown enormously since the end of WWII.. In simple terms globalization refers to the integration of the world economy in such a way that what is unfolding in one part of the world has clear, sustained and observable repercussions on the socioeconomic environment and lifestyles of individuals and communities elsewhere. As McGrew puts it, globalization is "the forging of a multiplicity of linkages and interconnections between the states and societies which make up the modern world system, as well as the process by which events, decisions and activities in one part of the world can come to have significant consequences for individuals and communities in quite distant parts of the globe" (1992, p.262). However, in order for the term to have genuine analytical significance it must be a part of a theory of globalization. Furthermore, in order for significant policy implications to emerge the theory must have a <u>normative</u> focus as well. Khan (1998) has proposed such a theory in the context of a postmodern world. In brief outline the structural forces in the global economy push towards integrating markets and regions. However, many markets are embedded in national economies; there are also non-market aspects of social and cultural lives of people that are threatened. As a result we find the contradictory phenomena of McWorld and Jihad (Barber, 1995). The creation of a genuine global society, which many see as the ultimate outcome of globalization then necessitates meeting the requirements of global justice. Khan (1998) mentions at least 5 areas, where the norms of global justice must evolve (among others):

1. *International trade and monetary regimes:* The current asymmetric system of payments which penalizes the deficit countries by forcing only them to bear the costs of adjustment needs to be made a global burden sharing institution. The World Trade Organization, similarly, needs to acknowledge the historical imbalances in the world trading system. For example,

specialization according to static comparative advantage may lock the developing countries in a relatively backward situation in the emerging global division of labor.

2. *International capital flows*: From the perspective of many people in the developed economies capital flight to LDC's (with or without free trade agreements) may constitute a barrier to well-being, at least in the short-run. At the same time foreign direct investment in LDCs may create only low-wage, marginal jobs (Wood, 1994). A just approach to FDI must consider the effects on both the north and south in terms of self-determination. A controlled capital flow accompanied by improvements of wages and working conditions in the south may be the most desirable solution.

3. *International ecological considerations*: Global interdependence has been increasingly recognized in this area. However, it is not clear what justice demands in terms of the relationship between the north and south. Other things being equal, the enforcement of strict environmental standards would seem to be just. However, such standards may destroy the livelihood of some people in the south, it is sometimes argued. A global tax and transfer scheme would seem to be the precondition for applying a global set of environmental standards. The transfer of ecologically sound technology systems from rich to the poor countries is a precondition for justice in this sphere.

4. *Asset redistribution and human development:* Much of the foregoing discussion pinpoints the need for giving people the economic wherewithal in order for them to develop their social capabilities. Most studies (e.g., Adelman and Robinson, 1978; Khan, 1985; James and Khan, 1993) have discovered that non-redistribution of assets to the poor hampers poverty alleviation strategies. Redistributing assets and developing their human capital so that the poor can have access to markets becomes a major necessity in our normative framework. In most parts of the world this will require structural reforms rather than marginal policy interventions.

5. *Gender justice:* The impact of globalization on women will have to be assessed carefully. The well-documented facts regarding gender inequalities that so far have affected women's capabilities negatively demand unequivocally that policymakers pay careful attention to enhancing (or at least not decreasing) women's capabilities. Will the globalization help women to overcome social limitations ranging from lack of nutrition to limits on participation in social, economic and political life? Unfortunately, the answer is unclear. In so far as many developing country women do not possess skills for the global market place, globalization is already hurting them.

These five examples are meant to be illustrative only. By no means do they exhaust all the pertinent issues in moving towards a just economy globally. (For example, we could add or highlight the growing rural/urban disparities with globalization and its implications for justice). But they do illustrate both the problems and prospects for justice in the age of globalization. One of the major political problems we have not discussed so far is the weakening of national sovereignty that the call for global economic justice entails. Agreeing to a global mode of production and distribution constrained by the principles of justice does mean surrendering considerable authority to international agreements, conventions, and ultimately, perhaps to new international organizations. It should be observed, however, that even without the constraining role of justice the globalization process weakens national sovereignty, even for advanced industrialized countries (e.g., NAFTA). Thus, the call for a just economy must confront this (as well as other issues such as weakening of traditional cultural modes of living) head on in the light of reasonable principles. The fundamental message is that among these principles that of freedom as rational autonomy of the individual must be the principal one. This is one rational (perhaps the only one) approach if we are to avoid both the Scylla of Jihad and the Charybdis of McWorld.

The McWorld aspect of globalization is a result of a fractured but real economic, financial and technological integration. Following the collapse of the Bretton Woods Agreement in the early 1970s, the financial market (including interest rates and exchange rates) was deregulated, thereby enhancing the flow of capital between nations. Until then the world financial system was governed by the Bretton Woods agreement of 1945 which provided for fixed exchange rate where currency values were expressed in terms of dollars and gold. When the system was abolished in 1971 by the Nixon administration and replaced by a floating exchange rate, the grounds for a global market were laid.

This was reinforced by the resurgence of a neoliberal free-market ideology of liberalisation, privatisation and deregulation that became the "only game in town" following the ascendance of political conservatives -- Reagan in the U.S., and Thatcher in Great Britain. It was further reinforced by the collapse of the former socialist countries and the emergence of the neoliberal thinking as a dominant and unchallenged school of thought (Falk, 1997). All these factors created a conducive environment for the free movement of goods including capital goods, and services as well as finance, thereby seemingly creating an integrated global economy. In Khan(2003) the causes of this fractured and contradictory but nonetheless integrating moment in the world economy are analyzed in detail. Here we take the process as given and ask why it is not working so well as its proponents have claimed by considering the implications for developing countries in particular. For a more extensive discussion covering the developed world as well Stiglitz(2006) is a good guide.

A Social Capabilities Ethics for Global Economic Justice

Siglitz and others have made a serious contribution towards understanding the problems of neoliberalism in our world. What we can attempt here is to integrate this positive analysis with the normative position towards globalization and global economic justice as sketched in this essay earlier. Some traditional economic approaches to normativity via ordinal or cardinal utilitarianism is too narrow as Sen and others have pointed out. The Rawlsian primary goods approach goes much further but also falls short of a comprehensive integration of positive and normative aspects in a world of diverse cultural and political traditions(Sen 1992, Khan 1998). The capabilities approach can be proposed as an alternative. Nussbaum(1995) proposes an "Aristotlean" approach with lists of capabilities. Sen has been somewhat reluctant to endorse a particular list once and for all. The "Hegelian" social capabilities approach suggested by Khan(1998, 2003) endorses a certain open-endedness with respect to a list but emphasizes the irreducible social, economic and political institutional context of capabilities in a dynamic, historical setting.[1] Keeping these important qualifications in mind, an illustrative list is nevertheless helpful in concretizing discussions regarding capabilities ethics.

In the particular context of globalization of finance, for example, sound finance and economic growth may go together under an appropriately designed global economic regime. However, the results of growth must still be evaluated from the point of view of human well-being. In the standard utilitarian approach this can be done by choosing an appropriate social welfare function(SWF) where both levels of income and the distribution of income are arguments. Given a preference for equality at a given level of income, technically certain SWFs are the only admissible ones.[2]

A more elaborate evaluation of well-being has been proposed by various theorists drawing upon the insights of Adam Smith. Sen is the originator of this “capabilities approach” in recent times. As mentioned above, the theoretical criticisms of the utilitarian approach by Sen Nussbaum and others that this approach reduces all qualities into quanta of utilities is a serious one. Nussbaum gives a graphic example of this by quoting the exchange between Mr. Gradgrind, economist and grief-stricken father, and his pupil Bitzer. Bitzer outdoes his mentor by adhering to a strict code of utilitarian rationality that cannot comprehend a father's grief. I have pursued a similar line of criticism in a number of recent papers, and in my book “Technology, Development and Democracy[3]. This approach makes the capabilities explicitly social and asks: what concatenation of economic (real and financial) and other (e.g., political, social etc.) institutions will allow capabilities to be both increase steadily on the average and tend to equalize them among diverse individuals? In effect, as the following discussion makes clear, we are asking: how can we increase and equalize real, positive freedom for individuals?

In discussing the well-being implications of sound global finance in particular and globalization in general, therefore, I wish to take a version of the social capabilities approach. It is not my intention here to present detailed empirical indicators of well-being and how these are affected by the crisis and its aftermath. This is the subject of a future volume. Here I simply wish to pose clearly the conceptual problem of

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[1] See below for further references and elaborations.
[2] For example, Schur-concave SWFs are such “equality preferring” SWFs.
[3] See Khan (1998; 1997c).

evaluating the consequences of reforms. The institutional reforms and changes proposed here, and by scholars who suggest alternative structures , must be proven to be capability enhancing, or at least not to be capability-reducing..But first we still need to ask: What is meant by capabilities both abstractly and concretely?

Capabilities can be construed as general powers of human body and mind that can be acquired, maintained, nurtured and developed. They can also (under circumstances such as malnutrition or severe confinement) be diminished and even completely lost. I have emphasized elsewhere the irreducibly social (not merely biological) character of these human capabilities. Sen himself emphasizes "a certain sort of possibility or opportunity for functioning.

In order to assess financial reforms and structures from a capabilities perspective we need to go further and try to describe more concretely what some of the basic capabilities may be. David Crocker has given an admirable summary of both Nussbaum's and Sen's approach to capabilities in a recent essay. Mainly relying on Nussbaum but also on other sources (shown below), he has compiled a list that is worth reproducing here:

Basic Human Functional Capabilities (N and S stand for "Nussbaum" and "Sen", respectively; the quoted items come from Nussbaum unless otherwise noted).

1. Capabilities in Relation to Mortality
   1.1. N and S: "Being able to live to the end of a complete human life, so far as is possible
   1.2. 1.2. N: Being able to be courageous
2. Bodily Capabilities
   2.1. N and S: "Being able to have good health.
   2.2. 2.2. N and S: "Being able to be adequately nourished.
   2.3. N and S: "Being able to have adequate shelter
   2.4. 2.4. N: "Being able to have opportunities for sexual satisfaction"
   2.5. N and S: "Being able to move about from place to place
3. Pleasure
   3.1. N and S: "Being able to avoid unnecessary and non-useful pain and to have pleasurable experiences

4. Cognitive Virtues
   4.1. N: "Being able to use the five senses"
   4.2. N: "Being able to imagine"
   4.3. N: "Being able to think and reason"
   4.4. N and S: "Being acceptably well-informed'

5. Affiliation I (Compassion)
   5.1. N: "Being able to have attachments to things and persons outside ourselves"
   5.2. N: "Being able to love, grieve, to feel longing and gratitude"

6. Virtue of Practical Reason (Agency)
   6.1. N: "Being able to form a conception of the good

S: "Capability to choose; "ability to form goals, commitments, values

6.2. N and S: "Being able to engage in critical reflection about the planning of one's own life"

7. Affiliation II (Friendship and Justice)

7.1. N: "Being able to live for and to others, to recognize and show concern for other human beings, to engage in various forms of familial and social interaction"

7.1.1. N: Being capable of friendship

S: Being able to visit and entertain friends

7.1.2. S: Being able to participate in the community

7.1.3. N: Being able to participate politically and being capable of justice

8. Ecological Virtue

8.1. N: "Being able to live with concern for and in relation to animals, plants and the world of nature"

9. Leisure

9.1. N: "Being able to laugh, to play, to enjoy recreational activities"

10. Separateness

10.1. N: "Being able to live one's own life and nobody else's

10.2. N: "Being able to live in one's very own surroundings and context"

11. Self-respect

11.1. S: "Capability to have self-respect"

11.2. S: "Capability of appearing in public without shame"

12. Human Flourishing

12.1. N: "Capability to live a rich and fully human life, up to the limit permitted by natural possibilities"

12.2. S: "Ability to achieve valuable functionings"

To facilitate this ordering, it might be better for practical rationality and affiliation to "infuse" but not "organize" the other virtues. Crocker contrasts Nussbaum's approach with Sen's. Sen's and Nussbaum's lists differ at a few points. For Sen, the bodily capabilities and functionings (2) are intrinsically good and not, as they are in some dualistic theories of the good life, merely instrumental means to other (higher) goods. In interpreting Aristotle, Nussbaum distinguishes between bodily functionings that are chosen and intentional, for instance, "chosen self-nutritive and reproductive activities that form part of a reason-guided life" and those that are non-intentional, such as digestion and other "functioning of the bodily system in sleep" (forthcoming). She may want to say that intentional bodily actions that lead to being well-nourished and healthy are intrinsically good, but that being healthy or having good digestion are not functionings (because not intentional) and are valuable only because of what they enable us to do. Another option open to her would be to adopt Sen's view that bodily states and processes, whether intentional or not, both as intrinsically and instrumentally good but as less valuable than other inherently good capabilities/functionings.

Furthermore, Nussbaum has included items 5 and 8-10, for which Sen has no counterparts. These items are welcome features. Item 8, which I have called "ecological virtue", is an especially important recent addition to Nussbaum's outlook. In a period when many are exploring ways of effecting a convergence between environmental ethics and development ethics, it is important that an essentially anthropocentric ethic "make room" for respect for other species and for ecological systems. Worth considering is whether Nussbaum's "ecological virtue" is strong enough. Perhaps it should be formulated to read: "Being able to live with concern for and in relation to animals, plants, and nature as intrinsically valuable." Item 9 injects some appealing playfulness in a list otherwise marked by the "spirit of seriousness." What explains the presence of these items on Nussbaum's list, their absence on Sen's list, and, more generally, the more concrete texture often displayed in Nussbaum's descriptions? One hypothesis is that the differences are due to Nussbaum's greater attention, in her Level 1, to the limits, vulnerabilities, and needs of human existence. Further, it may be that Nussbaum's richer conception of human beings derives from making use of the story-telling imagination far more than the scientific intellect." On the other hand, Sen helpfully includes the good of self-respect, a virtue that enables him to find common ground with Rawls and to establish links with the Kantian ethical tradition, in which moral agents have the obligation to respect all persons, including themselves, as ends-in-themselves.

Both Sen and Nussbaum agree, however, that these capabilities are distinct and of central importance. One cannot easily trade off one dimension of capability against another. At most, one can do so in a very limited way. They cannot be reduced to a common measure such as utility.

As Crocker points out, "capability ethic" has implications for freedom, rights and justice going far beyond simple distribution of income considerations. If one accepts the capability approach as a serious foundation for human development, then it follows that going beyond distributive justice is necessary for a complete evaluation of the impact of economic policies.

In evaluating international financial regimes and national economic policies from this perspective not only do we wish to pose the question of efficiency but also the whole set of questions regarding human freedom. In particular, the positive human freedom to be or to do certain things. Thus, creation of markets and efficient production by itself would mean very little if it led to a lopsided distribution of benefits. Worse yet, if markets and other institutions led to phenomena such as reduced life expectancy, increased unemployment, reduced consumption levels for many and deprivation for certain groups such as women and minorities then they will not even be weakly equitable global economic structure. On the contrary, under such circumstances, the global markets and other financial institutions will be strongly inequitable from the capability perspective.

It is because of this perspective that the earlier positive analysis of the problems of global financial markets and institutions need to be put in a completely transparent “social capabilities” framework. Such a framework is openly normative and makes a strong ethical case for helping the disadvantaged increase their capabilities towards achieving equality of capabilities. Thus poorer nations and poor people in the global economy deserve a special ethical attention within any proposed global financial architecture. As

Khan(1998) shows in the context of adopting innovation structures leading to increased productivities, ultimately the aim of any increase in productivity needs to be the increase of freedom. Such freedom, as Sen (1999) points out has both an instrumental value and an ultimate value. Instrumentally, freedom as social capabilities can lead to a further increase in productivity. Thus even a hard-nosed, efficiency driven analysis must address this aspect as an empirically relevant issue.

The thrust of this paper so far has been to show how bad theories---- regardless of their ideological leanings, left, right or center---- can lead to bad policies. Likewise, a refusal to face up to serious ethical issues of equity and well-being for all can also lead to a troubled society. As we move towards the creation of a global society where individuality and rich diversity reflected in differences of cultures and social practices leading to well-being are equally respected, we can do no less than a genuine attempt to approach the reforming of old financial structures and building new financial institutions with a clear ethical perspective of global citizenship. Efficiency and equity are both important and sometimes can be achieved together. At other times at least short run trade offs must be considered carefully. Here, the advances in economic theory --- both positive and normative--- can play a modest but useful role. Therefore, In the realm of crisis prevention and crisis management, the minimization of costs and the maximization of the benefits from any financial system must be guided by advances in both positive economic theories and in economic ethics. The next two sections discuss some of the implications of globalization generally for the developing countries and a particular example, namely the Asian financial crisis. From both the general and the particular considerations, the main thesis regarding the dangers of a naïve neoliberal approach is confirmed. Furthermore, the need for policies that are (social) capabilities-enhancing is also confirmed.

Implications for Developing Countries

Regarding the intense discussion on the effect of globalization on the welfare and economic growth of developing countries, the dominant view appears to be that closer economic integration will enhance the flow of goods and services as well as factors of production, and hence promote economic growth and the welfare of all people. It is believed that globalization will result in a better division of labor, allowing developing countries (where labor is abundant) to specialize in labor intensive commodities while permitting developed countries to use their workers in more productive ways (*The Economist,* 1997a). It is also argued that globalization will allow capital to move in accordance with the productive investment opportunities and thereby increase the returns to capital.

Others (Falk, 1997; Khan, 1996; Sen, 1997, Sen 1999 Stiglitz 2002,2006) reject this argument and contend that globalization and regionalization has largelyl benefited the powerful economic entities, thereby marginalizing weak regions and nations. It is argued that globalization, while increasing the importance of service industries and skilled labor, also reduces the importance of primary commodities and unskilled labor. The revolution made in biotechnology, microelectronics and the like have eroded the importance of raw materials. Consequently, countries which were once considered wealthy, endowed with natural resources, are no more in the list of rich countries. It is no wonder that, today, the richest man in the world is Bill Gates, the owner of Microsoft. The advancement made in technology has not only changed the structure of inputs but it also changed their significance. Modern industries use fewer natural resources and as a result their importance has fallen out of the competitive equation. In modern economy, technology, knowledge and skills stand as the only source of comparative advantage (Thurow, 1996). Such a scenario puts developing countries, the main exporters of primary goods and unskilled labor, in a very disadvantageous position.

Moreover, globalization is already forcing developing countries to operate in accordance with the discipline of the global market, limiting the effectiveness of their national development policies(Khan 1998,2004a and b,Chang xxxx, 2007. Bonvin (1997) It has been known for quite some time by economists that the autonomy and effectiveness of national economic policy disappear when there is unrestricted capital flows across borders.

Furthermore, the growth in the global financial market and highly mobile private funds are weakening the ability of countries' central banks to manage exchange rates and design effective and sound macroeconomic policies (Khan2004b,UNCTAD 2006,2007).

Thus in terms of both growth and distribution the developing countries as awhole are losing out. The success of China and earlier the East Asian economies was based on strategic integration where national trade, industrial and financial policies were relatively autonomous. Ironically, China--- where inequalities have grown remarkably during the high growth period and domestic demand can be expanded by using reserves--- is now supporting finance the profligate spending patterns of the very rich in the richest country of the world by buying an enormous amount of low-yielding US government bonds. There are systemic reasons for this but it can not be denied that this ararngemenbt has given the global economy as a whole a deflationary bias and have kept the standard of living inside China low, not allowing the poorer segments to benefit equally from the remarkable growth over almost three decades. The real dangers of Western corporate interest led globalization was brought home when once successful East Asian economies liberalized their financial markets in the 1990s, only to face the most severe financial crisis(Khan2004 and b; Stiglitz2002,2006). China and India survived the crisis mainly because they had refused to liberalize their capital accounts.

An Example of the Contradictions of Globalization : From Asian Miracle to the Asian Debacle during the Asian Financial Crisis

An illustration of the instabilities inherent in the forces of financial integration sweeping over the globe is the recent financial crises that began in Southeast Asia and later engulfed Korea. To some extent the Japanese recession and debt overhang also worsened because of the developments in Southeast Asia and Korea. A disintoxicated view of the Asian miracle and globalization is necessary in order to put the crisis and its implications in perspective.

A brief recapitulation of the crisis will show that the Thai crisis that began on July

2, 1997 and the subsequent contagion effects were all results of a number of factors present in various degrees in all the affected economies. These factors include but are not limited to a de facto fixed exchange rate with respect to the U.S. dollar, short-term borrowing and loans to dubious ventures in sectors such as real estate. The export slow down of 1996 had already created balance of trade deficits. When speculative attacks against currencies such as Baht, Ringgit and Rupiah began the central banks could no longer defend these currencies. But the crises that erupted were not simple currency crises. Soon the banking sector was affected. First there was illiquidity and finally insolvency for a large number of banks and other financial institutions. Eventually, the real economies were affected, most severely in case of Indonesia. In that country the economic crisis led to a full blown political crisis ending the thirty year rule by Suharto.

There is broad agreement now as to how to characterize the crisis. As Jomo (1998) and Khan(2004b) have pointed out, the debate between the IMF and its critics over the adjustment programs in these countries revealed many disagreements. However, in the policy debates some basic issues regarding the role of globalization in precipitating the crisis had not been addressed adequately.

The region as a whole grew rapidly beginning in the mid-1980s. Devaluations and relaxation of rules for foreign investment in countries such as Malaysia, Indonesia and Thailand attracted foreign direct investment (FDI). Fortunately, the high value of the Japanese yen (endaka) after the Plaza accord pushed many Japanese companies abroad. Some of the Japanese FDI found its way to Southeast Asia.

It was observed even during the crisis that the fundamentals were sound in Southeast Asia (Khan 2002a,b,c,d,e). In other words, fiscal balances were in order, monetary policy was not loose and inflation was not high. However, the export-led growth in Southeast Asia was also accompanied by bubbles in real estate and financial markets. The property and construction booms as well as the stock market booms essentially fed on themselves. The expectations of even higher gains tomorrow brought on the high prices and investments today. When this giddy momentum of helplessly escalating absurdity collapsed, the direction reversed suddenly and precipitously. The rhetoric of boom, which was not only banal but also complacent, was replaced by an equally banal rhetoric of doom.

In these one sided, linear narratives history progresses unidirectionally. However, the logic of globalization, as we have been at pains to point out, is much more complex. The Asian example shows how unleashing too many market forces at once — in particular, liberalizing capital accounts without prudential and other regulations and the ability to enforce them can lead to disaster and chaos.

There are similarities as well as differences between the Mexican crisis and the Asian crisis. In both cases there were free falling currencies. In both Latin America and in Southeast Asia there were also serious contagion effects. However, one crucial difference between the two cases is that the collapse of the Mexican peso and the ‘Tequila effect’ it produced did not lead to the kind of selling off of assets as in the Asian case. The Latin American crisis did not develop into a full scale debt-deflation.

Therefore, the Asian crisis was not just a balance of payments crisis. It was as noted before a currency crisis that developed into a full scale and massive debt deflation and depression in the real sectors of the economy. One way to characterize this new type of currency crisis plus debt deflation is to view these as international capital market failures that are the logical results of the currene corporate-led globalization. In the first instance, globalized international capital markets have failed to allocate capital optimally — contrary to the neoclassical Arrow-Debreu general equilibrium model. As Alan Greenspan blandly pointed out during the crisis: `In retrospect, it is clear that more investment money flowed into these economies than could be profitably employed at modest risk' (Greenspan, 1997: 1-2). In the second place the banking system in the private enterprise sectors failed to absorb and channel the large foreign capital inflows. In Stiglitz's metaphor the banking system — more generally the financial system — failed to act as the brain of the economic system. In other words, it failed to monitor and evaluate risk effectively. Clearly, the lessons from the history of the past crises have not been learned as the most recent developments such as the subprime loans crisis that are related to financial deregulation in the advanced countries indicate.

Interestingly, the above discussion of the Asian crisis reveals in the East and Southeast Asian context the paradoxes of globalization that I have emphasized in this essay. As Sobhan (1989) and others have pointed out capitalism in developing countries has been led by the state to a large extent. However, the same states that had been instrumental in creating a modicum of successful capitalist economies, now seem powerless in the face of globalization. This paradoxical situation requires further elaboration.

In the developing economies of Asia, for instance, the state is often called upon to build the infrastructure for capitalist development. In many cases, the domestic capitalists grow as a class with the active support of the state apparatus which they control to a large extent. The paradox of Asian development is that the state was quite successful in doing this up to a point. But the limits reached by this state-led capitalist development are also clear now.

In the 1990s the developing countries in Asia accounted for roughly half of global expansion. However, growing by exports also made these economies open to pressures for liberalizing the capital markets. For South Korea, which was going to join the OECD group such liberalization was seen as a sine qua non. For the other Southeast Asian countries the combination of the flow of FDI and finance capital in the emerging markets funds seemed to justify further liberalization. A regime of fixed exchange rates and orthodox fiscal and monetary policies had already given credibility to these markets. Yet, the state — it turns out — can not protect the domestic capitalists in globalized markets as it could before. The so-called `crisis of governance' (Jomo, 1998) is really a crisis of the underdeveloped state apparatus which is virtually powerless to deal with the forces of globalization. Thus asymmetries in global economic and political power once again are revealed sharply. The uneven development of the real and financial sectors are also exposed to the scrutiny of the global investors. As confidence in the financial markets collapse, and investors flee with herdlike tenacity the weak states can do very little to shore up their domestic capital markets. As Siamwalla (1997) commented ruefully there were no alternatives for countries like Thailand to submitting to the onerous IMF conditions because of this type of failure of the Thai state and the Thai bourgeoisie. Given the complex relationship between the bureaucrats, politicians and business in Thailand (Krongkaew, 1997) it was unlikely that a coherent response to the crisis could emerge quickly. Under a different setting, the same crisis of governance under globalization continues in many countries.

In all this, the most important factor is the uneven development of the state apparatus in global capitalism. For example, in many Asian countries bureaucrats guiding and supervising experts in various specialized areas became relatively efficient at their jobs and — partly because of this — quite powerful. At the same time, many of these same countries did not have highly proficient experts and powerful bureaucracies for the banking and financial sectors. Even in cases such as Thailand where the central bank had a reputation for technocratic ability, the bureaucrats found themselves paralyzed in the face of liberalized markets with new institutions such as BIBF (Bangkok International Banking Facility) (Lauridsen, 1998).More recent crises such as the Argentine crisis and the rapidly developing global subprime loans crisis illustrate the same type of problems of rapid liberalization without adequate social supervision and economic regulation.

Summary and Conclusions

Globalization has obviously had some positive impacts such as the transfer of technology, raising of productivity in specific sectors, and the improvement of the living standard of some people in developing and developed countries. However, current type of globalization generally, while benefiting certain regions or groups, is marginalizing and distressing the vulnerable and disadvantaged regions and people. This type of corporate-led globalization is also forging imbalances among different human needs by privileging the acquisition of material wealth over human and spiritual values, resulting in violence, alienation and despair. The protests against globalization reflect all these paradoxes.

In today's global economy, the importance of raw materials and low skilled labor is declining while skilled labor and knowledge, particularly in the field of telecommunication and computer technology, are becoming increasingly important. This may put poor nations that are the major exporters of primary commodities and low skilled labor at a disadvantageous position.

Globalization imposes the rules and discipline of the global market on governments and nation states and thus limits the effectiveness of developing countries' national policy, including fiscal and monetary policy. As noted by Gilpin earlier,

> If a country restricts its money supply in order to fight inflation, the consequent rise in the domestic interest rate causes an inflow of capital that then defeats the original policy objectives and raises the exchange rate. …[I]t is impossible to keep the pursuit of domestic objectives separate from the stability of the international economy and monetary values (1987: P. 145).

The other negative impact of globalization is its effect on income inequality. As explained earlier, globalization has a tendency to increase income inequality between nations as well as individuals and regions. Falk summarizes the opinion of many others when he states

> …globalization as historical process is occurring within an international order that exhibits gross inequalities of every variety, thereby concentrating the benefits of growth upon already advantaged sectors with and among societies and

> worsening the relative and absolute condition of those already most disadvantaged .[4]

There is also some justifiable concern, given the concentration of economic activities and wealth in tripolar regions (North America, Europe, East Asia and the Pacific), that the flow of resources to other developing countries may decline, exacerbating the financial and economic problems of vast areas such as sub-Saharan African. While one may see globalization and regionalization as inevitable in today's environment, there is an urgent need to address the socio-economic problems that arise as a consequence of a global market economy.

In this paper, I have emphasized that the adverse effects of globalization should be addressed within the conceptual framework of a just global economy. The suggested conceptual approach for this is the capabilities approach. From this perspective any movement towards a just global economy will require considerable redistribution of global wealth and power. In particular, it will require the currently powerful countries to surrender part of their sovereignty to new international organizations which can promote global welfare by addressing the asymmetries between the developed and developing countries in a timely and equitable manner. The proposed global Tobin tax is one example of how some problems of global finance can be addressed multilaterally. If the proceeds from this tax can be used to finance development that will enhance the capabilities of the people of LDCs so much the better (Ul Haq, et.al., 1996).

However, the current state of affairs does not hold out much hope for either the adoption of a Tobin tax or its benevolent use for development to occur in the near future. In the mean time, it is in the interest of the developing countries to exercise whatever relative autonomy they have for independent action at the level of a single country, and concerted effort at the regional level, to mitigate the adverse effects of a fractured globalization. Such limited responses cannot be wholly effective, but are much to be preferred to the policy paralysis that seems to have been induced by an uncritical adoption of the dominant discourse of globalization. Ultimately, a just global order based on a transparent rule-based trading system and global financial architecture can enhance both efficiency and equity; but moving in that direction will require the willingness of all the parties--- or at least the major developed and developing countries--- to cooperate within the framework presented here.

If the main argument advanced in this paper is correct, the global financial markets in particular need monitoring and a proper global financial architecture needs to be erected for both efficiency and equity reasons. From the efficiency side the argument ---- in a world of undiversifiable systemic risks---- has been quite clearly one of exercising prudence through appropriate national and international institutional arrangements that can formulate and implement policies better than in the past. On the equity side, the foregoing argument based on the capabilities approach would lead towards creating institutions and policies that protect not just creditors, but also the ordinary citizens. In particular, careful attention must be paid to the

[4] Falk (1997),p.19, See also Khan(2004b).

problems of the disadvantaged and the vulnerable groups. Adequate social safety nets must be in place before the crisis, and swift response after the crisis to meet their urgent needs must be ensured. A more democratic decision making before the crisis could better realize such administrative structures. Once again, good governance at all levels is essential. If the 21st century is to be safer with a more civilized global society then these democratic imperatives must be heeded along with the technical advice that economists can at times give.

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