Pacific Economic Paper No. 275

January 1998

Globalisation

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Papers submitted for publication are subject to double-blind external review by two referees.

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ISSN 0 728 8409
ISBN 0 86413 220 4

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GLOBALISATION

'Globalisation' has become fashionable. Enthusiasts speak of the borderless world, no more national frontiers, the whole world one market. More sober versions refer to the fact that, with liberalisation of markets and the information revolution, the ease and speed with which goods and services, and capital, move from one country to another has greatly increased. But there is much confusion in the literature about the causes and effects of this development. This paper attempts to sort out both, especially in relation to short and long-term capital movements. The concluding section addresses some of the hostile reactions that 'globalisation' has provoked.

Introduction

'Globalisation' has become fashionable. A few years ago, the term 'globalisation' took over from 'globalism' (Arndt 1996). Still unknown to the Oxford English Dictionary or spell checkers, it has spread like wildfire through the political economy literature: see 'The borderless world' (Ohmae 1990); 'No more national frontiers' (Reich 1991); 'The end of the nation state' (Ohmae 1995); and 'The whole world one market' (Radius Prawiro *forthcoming*).

These extravagant slogans clearly belong to fantasy land. The world still consists of nation states; there are nearly 200 members of the United Nations (UN). They all have national frontiers attended by immigration and customs officers. Politically, the trend is all the other way. Separatists — such as Kurds, Basques, Chechens, Tamil Tigers, Bougainvilleans (not to mention Quebecois and Scots) — are out to break up nation states.

Certainly, the world is one market in the sense that goods and services produced in one country can be sold in all other countries, subject to government-imposed trade barriers and transport and transaction costs. But this was also true in 1900 and 1800.

What has changed is the ease and speed with which goods and services, and capital, can move from one country to another. Governments have reduced trade barriers, while technical progress has greatly reduced the cost of transport by road, sea and air and increased the speed of communication by means of the phone, the fax and the Internet. The world has experienced a marked opening up of national economies and an increasing degree of internationalisation.

This is an important fact, with important implications for economic policy. But it needs to be examined with a sense of proportion and some effort to sort out the various phenomena that have been lumped together in the literature of 'globalisation'. To make such an examination is the object of this paper.

Causes

There is a tendency in the literature to attribute 'globalisation' simply to technological change (e.g. Ohmae 1995, p. vii). This is unconvincing. The crucial change in recent decades has been the liberalisation of international trade and payments by all developed, and many developing, countries.

The present century has witnessed a paradigm shift, from increasing government regulation and control of the economy in the first half to deregulation of trade and financial markets in the second half. It would take a separate paper to try to explain these profound changes. The strengthening of political democracy and organised labour in the wake of industrialisation in the 19th century; the emergence of socialist movements; the Great Depression of the 1930s, and consequent widespread pessimism about the future of capitalism; the imposition of direct controls over all aspects of the economy during World War II; and the distortions of production and trade which resulted from these developments all played a part in the first half of the century (Arndt 1944). The campaign of the United States for freer trade and non-discrimination; the mounting evidence for the inefficiency of state enterprises and direct controls in the Soviet Union and elsewhere; and the unexpected conjunction of full employment and sustained economic growth in the 25 years from 1945 presumably have been the chief factors in the second half (Maddison 1997).

Whatever the explanation, it is primarily this shift towards market-oriented and outward looking policies that has propelled the internationalisation of national economies. Rapid growth of modern technology in transport and communications has undoubtedly played an important part; 'The free flows of information, capital, expertise, technology and ideas have made the world smaller' (Gurung 1995). Liberalisation and technical change have interacted.

But that interaction has mainly taken the form of liberalisation being facilitated by changing technology. The result has been a very large increase in the international flow of goods and services. In the past two decades, world trade has grown twice as fast as world output (Howe 1994, p. 116). International long-term capital flows have increased much faster still and the daily volume of short-term international capital movements is being counted in trillions of dollars.

Liberalisation has taken four main forms. There has been a marked reduction in government-imposed trade barriers, including but not limited to tariffs, and a decline in transaction, transport and communication costs. In exchange rate policy, there has been a shift from fixed (or at least stable) exchange rates towards floating exchange rates. Domestic financial systems have been liberalised. Industrialising countries have sought to attract direct foreign investment through tax incentives and in other ways.

The increase in the volume of international trade is readily explained by the combination of growth of GDP, not least in the developing countries of East Asia, and opening up of national economies. The huge increase in the volume of international capital movements is more puzzling. The increase, in the course of world economic development, in the number of countries with significant domestic financial systems is part of the explanation. But where has all the money come from? Part of the answer is probably to be found in the expansionist monetary policies pursued by some countries, especially the United States, during the 1970s and early 1980s (cf Arndt 1995). The ease with which liberalised financial markets have come to be able to generate pyramids of liquidity, especially in the form of Eurodollars, has undoubtedly been another factor, and here the increased speed of telecommunication has played a part.

Some of the literature links 'globalisation' with 'regionalisation' (e.g. Chen and Kwan 1997), an equally ugly word but one with more substance. As long ago as 1959, the Executive Secretary of UNECLA (United Nations Economic Commission for Latin America), Raul Prebisch, promoted the idea of 'free trade areas'—the 'internationalisation of protection', as Harry Johnson called it (Arndt 1996, p. 377). Since then, regional preferential trading arrangements (PTAs) have proliferated, from the European Common Market to the European Free Trade Agreement, the North American Free Trade Agreement, the ASEAN Free Trade Agreement and more. The object here has been limited trade liberalisation, widening the protected market from national to regional boundaries. Technical progress has had virtually nothing to do with it.

Effects

Short-Term International Capital Movements

Since the early 1980s, the domestic financial markets of many economies have been increasingly globalised in the wake of liberalising policy initiatives implemented by governments around the world... Assisted by significant improvements in information technology and falling transaction costs, this has resulted in record growth in international monetary flows in the 1990s (Makin 1997, p. 31).

Volatility of international short-term capital movements is a problem that goes back to at least the 1930s. (Indeed, financial crises caused by domestic and international flights from a currency are as old as capitalism; cf. Kindleberger 1996.) It was suggested more than fifty years ago that:

> the rapid and unpredictable movements of huge volumes of capital from one country to another which played a large part in the breakdown of the gold standard during the years 1931–3 and which were largely responsible for the unprecedented instability of exchange rates during the 1930s, were an altogether new phenomenon of the inter-war period (Arndt 1944, p. 285f).

In the 1960s the problem recurred in a form later associated with the name of Robert Mundell:

> High interest rates calculated to enforce domestic monetary restraint, induced inflows of short-term funds which increased domestic liquidity. In other words...an active interest policy for domestic objectives is liable to be rendered partly self-defeating through its effects on international short-term capital movements (Arndt 1996, p. 174).

The effect, it came to be argued, was loss of national monetary autonomy. In the past decade, the problem has recurred dramatically, in Mexico in 1994 and in Southeast Asia recently.

At the 1944 Bretton Woods conference, which re-established the gold standard system of stable exchange rates in the modified form of adjustable pegs, Keynes advocated one exception to the accepted objective of abolition of exchange controls: short-term capital movements. These, he said with the experience of the 1930s in mind, could wreck the new system. In the following years exchange control over international capital movements came to be increasingly recognised as impracticable, if only because leads and lags on current accounts could achieve large outflows of funds. Indonesia was the first major developing country to accept this fact, by opening its capital account in 1970.

> The abandonment of gold convertibility of the dollar by US President Nixon in 1971 signaled the end of the Bretton Woods system of stable exchange rates. The decision was induced not by actual flows of 'hot money' but by the increasing risk of potential outflows (chiefly Japanese withdrawals of funds) arising from US unwillingness to carry out the domestic macroeconomic adjustment required to sustain the old exchange rate.

The US decision to deal with the disequilibrium in its balance of payments not by a devaluation, as envisaged by the Bretton Woods system, but by in effect allowing the dollar to float, was influenced by a change of outlook about exchange rate policy that had developed for some time, associated chiefly with the name of Milton Friedman. He argued in favour of a system of flexible exchange rates on the grounds that it would minimise the costs of adjustment and that speculation in foreign exchange markets could be relied upon to be stabilising. As a currency depreciated beyond a point, an increasing proportion of speculators would bet on appreciation.

The issue has dominated debate about exchange rate policy ever since. The European Union has opted for a single currency (in effect, fixed exchange rates among member currencies) chiefly for political reasons, but is still struggling to overcome formidable adjustment costs in member countries. Most developing countries have tended to 'anchor' their currencies to a major currency (or to a trade-weighted average), at best operating a managed float. But the Thai financial crisis of 1997, with its 'contagion' effects on other East Asian currencies, demonstrated once again that, in the absence of the necessary domestic adjustment, destabilising currency speculation renders the maintenance of a fixed exchange rate impracticable.

Behind this debate lies a more fundamental issue. The classical gold standard, as it operated during 1870–1914, was designed to achieve international equilibrium automatically by imposing international discipline upon domestic macroeconomic policies. A deficit in the balance of payments would be corrected automatically by outflow of gold which compelled a reduction in domestic money supply and thereby a fall in domestic prices (including wages).

The basic reason for the final collapse of the gold standard in the 1930s was that money prices, and especially money wages, had ceased to be sufficiently flexible downward (Hicks 1953).

Allowing currencies to float suspends the international discipline imposed by fixed exchange rates. In its place, international discipline is imposed by the market. The market reacts to imprudent domestic macroeconomic policy, excessive expansion of money supply through budget deficits or unsound bank lending by speculation against the currency. Sooner or later, corrective action to obviate the adverse effects of currency depreciation on domestic price stability and foreign trade becomes unavoidable.

International discipline is resented. In the 1930s, in Britain and other countries which were suffering from unemployment and balance of payments deficits imposed by the domestically generated US depression, the gold standard prescription of deliberate further deflation was regarded as quite unacceptable (Arndt 1944, p. 97). In the recent Southeast Asian crisis, the Prime Minister of Malaysia, Dr Mahatir used strong language against Soros and other speculators, the 'beasts':

> I say openly these people are racists. [They are] not happy to see us prosper. They stab us. They say we are growing too fast, and when we do not listen to them they initiate action to make us poor. (Mahathir 1997).

The immediate reaction by the market was a further sharp fall in the ringgit. Prime Minister Mahathir's reaction may have been extreme, but there is no doubt that his resentment of the discipline imposed by speculators — mainly rich, foreign capitalists — is widely shared.

Long-Term Capital Movements

Portfolio Capital

Throughout the 19th century long-term capital movements predominantly took the form of portfolio capital, chiefly consisting of funds raised in the London bond market by colonial and other governments to finance railway and other infrastructure development (Arndt and Drake 1985). Huge flows of capital were effected internationally by the issue of bonds, and to a lesser extent equities, floated principally in London. Such flows generally eclipsed direct foreign investment (Arndt 1996; Bloomfield 1968). Foreign direct investment (FDI) was in the main confined to primary industry.

In the second half of this century, the situation has been transformed. During the long post-war boom, FDI expanded rapidly, accompanying and promoting development in industrialising countries, especially in East Asia. Portfolio investment also grew substantially in volume; some statistics suggest that it increased faster than FDI (Argy 1996, p. 3). But, under the impetus of financial innovations — securitisation and development of financial derivatives — and the emergence of new financial centres, such as Hong Kong and Singapore, the distinction between long-term portfolio and short-term capital movements has become increasingly blurred. Bonds and equities are now transferred internationally with the same volatility as bank funds.

International flows of portfolio capital, therefore, now have much the same effects as short-term capital movements. They respond to changes in interest and exchange rates in the same way and tend in the same way to diminish national monetary autonomy. But in so far as the distinction between short and long-term capital movements can still usefully be made, the suggestion that 'increased availability of credit and reduced liquidity constraints have produced a sustained reduction in private saving' (Argy 1996, p. 2) in capital-importing countries would apply primarily to portfolio capital. As an aspect of 'globalisation', the increased volume of international portfolio capital flows, like that of short-term capital movements, reflects interaction between deregulation of financial markets and improved information technology.

Foreign Direct Investment

Until World War II, FDI was largely limited to mining and plantations. Railway companies financed their investments mainly by issuing their own bonds. This began to change soon after the end of the war. The impetus came from decolonisation and industrialisation in what was then beginning to be called the 'Third World'. For three decades, industrialisation in developing countries relied almost entirely on import-substitution. Direct foreign investment by developed country (DC) manufacturers was involved in two ways.

One was the phenomenon of 'tariff factories'. Developing (formerly 'less developed', hence 'LDC') country governments protected their infant industries through tariffs and in other ways. Rather than lose their export markets altogether, DC manufacturers established subsidiaries behind the tariff walls. The objective was import substitution — for many years there were virtually no exports of manufactures — and the initiative was with the DC manufacturer.

The other impetus to FDI came from the desire of LDC governments to attract foreign capital and technology. From the 1960s they offered tax and other incentives. Since they competed with one another, the benefits accrued mainly to the foreign multinationals. Few felt able to avoid providing costly incentives, but the ones that did best were those, such as Singapore, which were able to offer attractive conditions, including good port, rail and other infrastructure, law and order and minimal corruption (Hughes and You 1969).

During this phase, direct foreign investment had little to do with ‘globalisation’. It involved little international movement of capital — much of what was needed was raised by the overseas parent company in the host country — and it involved no significant new technology. The multinationals generally transferred existing technology, often technology that was beginning to be obsolete in the home country, with at best some adaptation to local conditions and some training of local staff (cf. Santikarn 1981). (Some industrialising countries, especially Japan following the Meiji Restoration in l868, and Korea in the period after World War II, secured transfer of technology without direct foreign investment, through imitation and reverse engineering, with or without patent rights.)

The role of FDI changed in the 1980s for two main reasons. One was the almost universal shift from inward- to outward-looking industrial development and trade and financial liberalisation. Manufacturing multinationals in the advanced industrial countries formed joint ventures with state or private enterprises in developing countries, to produce for export as well as home markets. The ‘national cars’ in Malaysia and Indonesia are examples. The same increasingly occurred in service industries such as banking and other financial services, sea and air transport and hotels. It is arguable that this trend represented ‘globalisation’, but while the spread of FDI in financial markets owed a good deal to the rapid improvement in information technology, the driving force here was opening up of national economies, rather than technical change.

The other factor was changing comparative advantage. As income and unit labour costs rose in the industrialising countries — first in Japan, then in the newly industrialising economies (NIEs) of East Asia and elsewhere — the labour-intensive industries which were the core of the first phase of industrialisation became increasingly uncompetitive. In the 1970s, many Japanese manufacturers transferred their plants to lower-wage countries in East and Southeast Asia, largely to produce for export, particularly back to Japan but also to third countries.

From the mid-l980s the NIEs, especially Hong Kong and Singapore, began to follow in Japan's footsteps, transferring their labour-intensive industries to lower-wage neighbouring countries, and 'moving up the technology ladder' into skill and technology-intensive industries, partly on the initiative of domestic manufacturers but chiefly by encouraging such investment by multinationals (Goh 1995). Towards the end of the decade, the countries of the Association of South-East Asian Nations (ASEAN), in turn, were concerned that they were losing their competitiveness in these industries to China and Vietnam (ASEAN Secretariat 1997). This 'flying geese' pattern of changing comparative advantage (Okita 1989)[1] owed little if anything to technological change or even to opening up. Manufacturers, domestic and multinational, were responding to changes in relative cost that came with economic and industrial development, in much the same way as had happened when Britain lost her comparative advantage in cotton textiles to India in the first decades of this century. In moving from labour-intensive to skill and technology-intensive industries, Singapore and other NIEs took advantage of technology available in DCs, but technical change was not the motive force.

The same applies to another new facet of international trade and investment which has attracted much attention in the literature: 'competitive advantage', which is associated especially with the name of Michael Porter (Porter 1990). It derives from the view that non-price competitiveness has played a major part in Japan's success in export markets. Japanese manufacturers, it is claimed, compete primarily through quality, not price. Stringent quality control, attention to consumer tastes, flexible adjustment to changing market trends (aided by a 'just in time' inventory policy), product innovation and skillful marketing: all these, it is said, enable Japanese producers to compete internationally on reputation rather than price, with the implication that other producers must follow the Japanese example if they are to hold their own (Arndt 1996, p. 52). Warr has suggested that, in the course of economic development, the emphasis shifts from price to non-price competition (Warr 1992), but has also emphasised that, while competitive advantage may be relevant for the performance of firms, comparative advantage remains as relevant as ever for the performance of nations (Warr 1994).

These are important trends in world trade and economic development, but they have little if anything to do with 'globalisation', being the internationalisation of national economies promoted by opening up and/or technological change. A much stronger case for 'globalisation' rests on the role of the 'product cycle' in international trade, as first propounded by Vernon (Vernon 1966) and subsequently amended by him and others. In its first version, the product cycle theory sought to explain the factors responsible for one country (specifically the United States) being the innovator, and how other countries gradually overcome the hurdles to imitation until the product becomes standardised and is produced in large-scale, highly capital-intensive plants for the mass market (Harris 1992, p. 30–1).

By 1980, Vernon himself came to think that the product cycle theory no longer explained trade patterns. The reason was the new role of multinationals:

> As the multinationals grew, and extended production and sales around the globe, there began an inevitable change in the perception of the management of these firms. Rather than viewing themselves as creatures of the United States' (or other countries') market system, they view themselves as part of an integrated world economy. All decisions were taken with an eye to maximising the overall economic efficiency of the world firm. This meant locating production, sales, R&D and management wherever profitable opportunity and the constraints of competition dictated... Modern technology reduced the information and communication problem of multinationals to the point where it was possible to run a firm with day-to-day monitoring of the activities of globally dispersed divisions. (Harris 1992, p. 33)

This is undoubtedly the most persuasive case for the 'globalisation' thesis. The behaviour of many major multinationals fits this description. But how much of world production and trade conforms to it? No statistical estimates seem available, but it is unlikely that more than l0 per cent of world trade and more than five per cent of world production is 'globalised' in this sense.

Another feature of 'globalisation' that has attracted some anxious comment is what has been called 'hollowing out' or 'outsourcing'. The relocation abroad of uncompetitive labour-intensive industries is said to have 'hollowed out' the Japanese and Hong Kong manufacturing sectors, and DC manufacturing companies, it is claimed, are shifting their purchases of equipment and parts from locally produced products to those of industrialising countries. There is little evidence that this is a serious problem. In so far as 'hollowing out' and 'outsourcing' are happening , both are incidental to changing comparative advantage within manufacturing, and to the structural change from manufacturing to service industries which is a universal feature of the most developed — 'post-industrial' — economies. Opening up has undoubtedly accelerated this process by intensifying international competition, presumably with favourable effects on productivity and growth.

It has also made it easier for manufacturing and other companies to move, or threaten to move, abroad to escape what they regard as government policies damaging to their interests. More often than not, the threat is bluff, but it is obvious that government policies sometimes deter inflow and induce outflow of investment. Similarly, movement of financial capital to 'tax havens' abroad, openly or through transfer pricing and other forms of tax avoidance, is an old story, going back decades, though financial liberalisation may have made it more difficult to counter.

Trade and financial liberalisation has greatly facilitated and promoted FDI in production of goods in much of the world. This is much less true of services. There are multinationals in banking and insurance, shipping and civil aviation, and media and other service industries operating in different countries, but trade liberalisation has here come up against strong resistance in many countries, based on national interest concerns, which the General Agreement on Trade in Services initiative under the World Trade Organisation's auspices has not yet been able to overcome.

International Mobility of Labour

'Globalisation', we are told, has made capital much more mobile internationally. What about labour? It is not obvious that the international mobility of labour is greater now than it was in the 19th century. Certainly, there have been great movements of people in the aftermath of war, in Germany and India for example. Migrant workers have been attracted from Turkey to Europe, from Mexico to the United States and from North Africa to France. There have been waves of refugees, including boat people from Vietnam and Rwandans from Zaire. But, with the partial exception of post-war migrant labour and the Mexican flow across the US border, these have all been crisis phenomena, not evidence of international mobility of labour in response to market forces. There is some international mobility, especially short-term mobility (such as conferencing and consultancies) among professional people, scientists, business executives and others. But in striking contrast to liberalisation of trade and finance, national governments still prohibit, restrict, or at best regulate, immigration. Here 'globalisation' has made virtually no impact.

Reactions

Many of the developments that have been brought under the portmanteau description of 'globalisation' have been unpopular: consider 'Has globalisation gone too far?' (Rodrik 1997); 'One World Ready or Not: the manic logic of global capitalism' (Greider 1997); and 'The Globalisation of Poverty: impacts of IMF and World Bank reforms' (Chossudovsky 1997). A recent UN Committee on Trade and Development (UNCTAD) report attributes to 'globalisation' all manner of ills: slow growth; rising inequality and widening income gaps between North and South; 'hollowing out' of the middle class; rapid expansion of private and public debt; and increased job and income insecurity. The UNCTAD Secretary-General, Rubens Ricupero, has warned there is:

> a real threat of political backlash which could wipe out gains of recent economic reforms, perhaps rolling back economic integration. The 1920s and 1930s provide a stark and disturbing reminder of just how quickly faith in markets and openness can be overwhelmed by political events. (UNCTAD 1997).

Some of these complaints about 'globalisation' merely echo the old socialist critique of capitalism, reinforced nowadays by the 'Green' critique based on environmental grounds. Some voice the grievances of less developed countries which found expression in the 1970s in demands for a New International Economic Order. Others raise traditional objections to power being exercised by foreigners. The distinguished historian, Arthur Schlesinger, believes that technology and 'globalisation' pose a threat to the future of democracy (Schlesinger 1997). Then there are the exponents of what Paul Krugman has recently called the doctrine of 'global glut': the view that, under the impact of technology in an environment of increasingly free trade, the world is flooded with an oversupply of goods (Krugman 1997). But these concerns, reminiscent of the Keynes–Hansen thesis of 'secular stagnation', have little to do with 'globalisation'.

Opposition to 'globalisation' in the specific sense of the increasing internationalisation of national economies derives, at bottom, from economic nationalism and protectionism, both reinforced by a widespread sense of insecurity (justified or not). It focuses on fear of cheap labour competition and on the two main forms of international mobility of capital described above: short-term international capital movements and FDI. Neither is new, but both have been extended and accelerated by technology and deregulation.

Mention was made before of the ferocious reaction of Prime Minister Mahathir to the currency speculation which forced a severe depreciation of the ringgit in the aftermath of the Thai financial crisis in September 1997. But Prime Minister Mahathir was not alone. There was much concern expressed throughout Southeast Asia about the crisis and its likely effects in slowing down economic growth in Southeast Asia and, indeed, throughout the world, when it spread to Northeast Asia, Wall Street and Europe. The sharp fall on world stock exchanges was seen as an overdue correction of a boom that had got out of hand. But in East Asia the crisis threatened a serious slowdown of economic growth. While it was generally admitted that unsound macroeconomic policies and banking practices were the chief cause of trouble, there was general agreement that the volatility of short-term capital movements had ignited it.

Some limit to national monetary autonomy is inevitable. No country can for long pursue reckless macroeconomic policies. International discipline is imposed either by a fixed exchange rate regime, as existed under the pre-1914 gold standard and now exists in the European Monetary Union, or by the market. The case for leaving it entirely to the market, in the form of a floating exchange rate regime, is that it allows for gradual adjustment in response to warning signals, instead of a sudden collapse when the fixed or anchored rate can no longer be held.

While this has, in the past two decades, become the orthodox view, a floating exchange rate regime has by no means universal support. McKinnon, among other economists, has long argued for pegged rates (McKinnon 1981). 'Flexibility', it has been pointed out, 'has disadvantages...':

> The most important are that exchange rates can be volatile and, on occasion grossly misaligned. This can hinder trade... If trade is a large share of GDP, then the costs of currency instability can be high. This suggests that small, open economies may be best served by fixed exchange rates' (*Economist* 1997).

The next step along this line of thinking may be a revival of Mundell's idea of 'optimum currency areas' (Mundell 1961).

The Southeast Asian crisis has pointed to another risk of floating exchange rates: a repetition of the competitive depreciation following the breakdown of the gold standard when 'the process of exchange depreciation spread through... the desire of each country to protect its export trade' (Arndt 1944, p. 100; cf League of Nations 1944). Strictly speaking, competitive depreciation occurs only in an adjustable peg system; but managed floats tend to follow the same pattern, and even clean floats may do so if the market anticipates such management.

Tobin has suggested 'sand in the machine' in the form of a tax to moderate hot money movements (Tobin 1974), but it is doubtful whether such a tax could be effectively administered. At the September 1997 meeting of the International Monetary Fund (IMF) and World Bank in Hong Kong, the case for freely floating rates was strongly challenged, with some arguing for closer IMF involvement to introduce order into the international capital turbulence (*Straits Times* 1997). In a crisis such as that which befell Southeast Asia in September–October 1997, the most urgent need is to restore confidence, and that is probably the chief role of IMF involvement.

The debate on exchange rate policy remains unresolved. But the issues have not really changed in the past 100 years, even if international short-term capital movements have become larger and faster. 'Globalisation' throws no light on the problem.

The other main objection advanced by critics of 'globalisation' is related to protectionism. 'The forces of globalisation are increasingly associated with an inability on the part of national governments to tackle deep-seated problems of long-term unemployment' (Beeson 1997). Resentment of technical change as a cause of unemployment is as old as the Luddite destruction of textile machinery in Britain in the second decade of the 19th century, and the fear that resumption of free trade after the Napoleonic wars would cause unemployment in the United States and France (Arndt 1996, ch. 21).

There is no doubt that technical change and trade liberalisation impose adjustment costs by displacing labour in particular jobs, but these are temporary, given a reasonably flexible labour market and good economic growth. Relocation of industries in response to changing comparative advantage did not cause unemployment in Japan, Hong Kong or, more recently, Singapore; labour displaced from labour-intensive industries was readily absorbed by service and other industries higher up the 'technology ladder'. Whatever the explanation for the high rates of unemployment experienced by many Organisation for Economic Cooperation and Development (OECD) countries in recent years, there is no evidence that the opening up of national economies has made a significant contribution, even when wage rigidity and labour immobility have impeded adjustment.

A more plausible target for critics of 'globalisation' is, as we have seen, the 'world firm, the multinational company which views itself as part of an integrated world economy and locates production, sales, R&D and management wherever profitable opportunity dictates'

(Harris 1992). The injury, however, is not so much to the national economy, or even to exposed sectors — the decisions of multinationals will as often be beneficial as harmful, if only by encouraging economic reform — as to national pride. But the vulnerability of small nations to external pressure is not obviously worse if this pressure is exercised by powerful multinationals rather than by powerful states.

Finally, there will be some who, with George Soros, lament the social effects of 'globalisation': the spread of pop music, standardised fast food, pornography and drugs, undermining national or ethnic social values and traditions. Similar laments, about the spread of vulgar films and dances, short skirts and clean-shaved faces, were heard in the 1920s, though not much in the less developed parts of the world. But 'globalisation' has also brought modern medicine, literacy and access to other cultures. Once the bounds of economic discourse are transcended, the answers must be left to subjective judgment.

Note

1 Okita gave credit to Akamatsu as the originator of the idea in 1935, cf Akamatsu 1961.

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