

Globalization 5**Controlling globalization****By Kanes**

This article is republished as a part of it was inadvertently left out last Sunday. We regret the inconvenience caused to our readers.

Globalization being inherent in the process of world development may be unstoppable, but it is controllable. The challenge before us is how to ensure that globalization delivers benefits to all countries and all people equitably without marginalizing any. In order to achieve this we must find ways and means of preserving the advantages of global markets and competition while removing its negative feature of excessive domination by the market. In other words, globalization must be given a human face; it must be made to operate for the people and not only for profit. We must not forget that the real wealth of a nation is its people and the purpose of economic development is to create an enabling environment for people to enjoy long, healthy and creative lives. Thus, economic development must necessarily be pro-people to reduce inequalities and enhance human capabilities. The majority of the world's people are in developing countries and are poor; consequently, economic development needs to be pro-poor. As the winner of the Nobel prize for economics, Professor Amartya Sen said recently.

"The objectives of economic development have to be more people related rather than commodity related, and the people related economic policies will have to particularly focus on those who are worst off in society".

There are 4.4 billion people living in the developing countries. Of these, nearly one-third live in absolute poverty, one-fifth are illiterate, malnourished and have no access to modern health of any kind, one-fourth do not have adequate housing, one-third lack access to clean water, and one-fifth of the children do not attend school to grade 5. In South Asia alone, there are 575 million absolutely poor people (earning less than \$1 a day), 395 million illiterate adults and 77 million people who will not live up to 40 years. By no stretch of imagination can we believe that poverty, disease and illiteracy on this scale can be wiped out by the free market forces of globalization. Markets may cause efficient production but not human development. It does little to provide the poor, with access to primary health care, education, clean water, sanitation, housing and employment. It is concerned more with profits than with human welfare and preservation of the environment. Market priorities based on short-term profits may not coincide with national priorities based on long-term needs. Economic growth with equity - to ensure the flow of benefits to the poorest people - cannot be achieved, as experience illustrates, by free markets. Yet globalization elevates the market and make the private sector the engine of growth emasculating the state and eliminating state intervention. The kind of economic growth promoted by the free market will not remove disparities and inequalities between people and countries, reduce poverty, deprivation, disease, ignorance and human rights violations, remove insecurity, and threats to culture and environment. Growth with equity can be achieved only by moderating the ruthless forces of the markets which underlie globalization.

Need for Governance

Globalization can be made to serve the people only if we control or humanize it with strong governance - through new rules, practices, boundaries and institutions at both national and global levels. At the national level, globalization can be controlled to yield equitable opportunities and benefits by stronger govern-

ments, not weaker governments and by selective state intervention - not less as demanded by the IMF. This is because the role of the state in the era of globalization is as important as ever for capturing opportunities in trade, investment and migration, protecting people from the new vulnerability and insecurity created by globalization forces of the market, insulating the economy from external shocks, to reduce inequalities in opportunities for human advancement, to narrow disparities in wealth and income and to protect indigenous culture and the environment. Globalization does not mean that the national state should abdicate its crucial role and cease state intervention for then the market forces will benefit some and marginalize others. Unlike governments, transnational corporations owe no loyalty to societies or nations, not accountable to the country it operates in, and no respecter of social values.

They have no conscience and they can never be substitutes for governments. High economic growth and equitable distribution of opportunities and benefits in developing countries require a dynamic public sector playing a leading participatory as well as interventionist role in economic activity; without it, economic growth can never be pro-people, pro-poor. As the South Commission has emphasized:

"However, the role of the state in the management of development will remain essential even if the market is chosen as the primary instrument for resource allocation. Economists have long recognized that market forces alone cannot be relied upon to yield the optimum rates of savings or to safeguard the interests of future generations. Market processes are likely to lead to under-investment in such areas as education and health - areas in which the benefits to society at large exceed the returns to the investors. Lastly, competitive market cannot be taken for granted. Markets need a regulatory framework - for instance to ensure effective freedom of new entry, access to information and prevention of monopolistic practices - for allocating resources with reasonable efficiency".

National and International Governance

Whatever the pressures from international financial institutions, the national state should not lose the power to determine the development strategies that suit it best. It should, for instance, be able to reject full liberalization, deregulation and privatization as demanded by the IMF and opt for slow and selective policies which suit the circumstances. Free trade tends to undermine domestic agriculture and industry which frequently need protection until they reach world standards. Many seem to forget that the USA through various trade restrictive measures as the McKinley Tariff of 1890 and the Dingley Tariff of 1897 became the most protectionist country in the world by the beginning of the twentieth century and that Japan even went further by closing its doors to global market forces until its industries reached world standards. It was after their industries were well established that they began to talk of trade liberalization. Transnational corporations tend to crush and swallow up indigenous firms and thus may require restrictions on foreign ownership. Volatile short-term capital movements destabilize countries - as illustrated by the East Asian crisis - and therefore warrant capital controls; in fact, Malaysia imposed such controls and succeeded in preventing the crisis getting

worse, as Chile had done earlier by imposing a one-year deposit on short-term capital flows to discourage them. Capital controls also help to prevent undesirable foreign investments designed to undermine indigenous enterprises and to encourage speculative activities. In fact, it is partly because of the lack of such controls that South East Asian countries experienced a massive inflow of foreign capital, in excess of their development needs, which went to fund speculation in real estate and stocks and raise foreign debt to dangerous levels.

Globalization cannot be controlled by action at the national level alone. National action needs to be complemented by intentional action. The developing countries must work collectively to have a bigger say in the international institutions - UNO, IMF, World Bank and

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the WTO - so as to formulate measures which would protect and advance their interests such as more favourable prices for commodities, bigger flows of foreign direct investment and official aid, review of intellectual property rights and TRIPS, access to developed country markets, debt relief, less austerity measures by the IMF and code of conduct for transnational corporations. Intergovernmental policy making today is in the hands of major industrial powers and the institutions like the IMF, World Bank and WTO they control. One crucial area where international action is urgent is in short-term capital movements which disrupt the developing economies. It is a paradox that while world trade is disciplined by the WTO world currency transactions which are \$1.5 trillion a day remain uncontrolled. Even George Soros the speculator who is believed to have caused the East Asian crisis, states now that financial markets are inherently unstable and supports international control over short-term capital movements. "I am advocating greater supervision and regulation of capital markets in general. I think that obviously the totally free flow capital is not advisable, so you need to create some mechanism for introducing stability". The former German Minister of Finance - Oscar Lafontaine - fully supported controlling international markets and declared "globalized markets need a framework that creates internationally binding rules for free and fair competition".

The UN Human Development Report 1999 points out:

"Without strong governance the dangers of global conflicts could be a reality in the twenty first century - trade wars promoting national and corporation interests, uncontrolled financial volatility setting off civil conflicts targeted global crime infecting safe neighbourhoods, business and the police".

"The structures and processes for global policy-making are not representative. The key economic structures - the IMF, World Bank, G-10, G-22, OECD, WTO - are dominated by the large and rich countries, leaving poor countries and poor people with little influence and little voice, either for lack of membership or lack of capacity for effective representation and participation. There is little transparency in decisions and there is no structured forum for civil society institutions to express their views. There are no mechanisms for making ethical standards and human rights binding for com-

rations and individuals, not just governments. In short, stronger national and global governance are needed for human wellbeing, not for the market".

"The surge of globalization over the past decade or two is only a beginning. The globally integrated world will require stronger governance if it is to preserve the advantages of global market competition, and to turn the forces of globalization to support human advance".

Will Controls Retard Development?

Many fear that controls will interfere with the free flow of trade, capital, technology and information and slow economic growth of developing countries. The IMF in particular, emphasizes over and over again that liberalization is an essential prerequisite to growth while

controls are the main cause of stagnation. It appears that the importance of liberalization has been exaggerated and dangers of controls magnified when we consider the following facts. The first is that while East Asian countries -

which had the highest rates of economic growth in the world in recent years - had liberalized their financial sector but not the other sectors of the economy. They provided protection to their domestic industries by tariff and non-tariff restrictions. The weighted mean tariff on all imported products in Thailand for instance was 41.5 per cent in 1993 which exceeded even that of Sri Lanka - 23.0 per cent. Average mean tariff in the mid-nineteen eighties on colour television receivers was 50 per cent in Indonesia, Thailand and the Philippines, 37 per cent in Malaysia and 24 per cent in South Korea compared to 20 per cent in Sri Lanka. Similarly, average mean tariff on bleached cotton fabric was 50 per cent in Indonesia and Thailand and 40 per cent in the Philippines compared to 32.5 per cent in Sri Lanka. Most of the East Asian countries like South Korea had rigid import restrictions on goods which competed with their domestic industries.

The state played a crucial role in guiding, supporting and protecting indigenous enterprises and actively participated in economic activity. In Malaysia, for instance, state-owned enterprises accounted for 26 per cent of total investment in the country in 1990-1995; the figure for Indonesia and South Korea was around 15 per cent. Indonesia had 164 state-owned firms worth \$60 billion and employing 700,000 workers; the state-owned BULOG had the monopoly of import of basic goods - rice, wheat, corn, sugar, soyabean and fishmeal. In Taiwan and South Korea, most of the largest banks are state-owned. The government of Singapore owns the greater part of Singapore Airlines - the most efficient airline in the world - Singapore Telecom and the Development Bank of Singapore - the largest bank of South East Asia, and is a shareholder of most of the leading firms. Few are aware of the fact that the government and government-linked businesses create about 60 per cent of Singapore's GDP. Some of our policy makers have taken Singapore as a model for Sri Lanka mistakenly assuming it to be a free market economy.

Most of the East Asian countries, further, had restrictions on foreign ownership of property. In South Korea, foreign ownership of land was severely restricted only for business purposes; thus only 0.039 per cent of national land belonged to foreigners. Malaysia had limited foreign ownership of local bank to 30 per cent. In Thailand foreign firms could not buy property directly; they had to form joint ventures with

Thai partners who must hold the controlling stakes. Alternatively, a foreign company could own 100 per cent of a property by entering into a 30-year lease agreement. Further, there were limitations imposed on foreigners in the stock exchanges of both South Korea and Taiwan.

These controls on foreign ownership, tariff, import restrictions and state-ownership and active state intervention apparently had not discouraged foreign investment and reduced economic growth in these countries. In the eight years 1990-1997 foreign direct investment inflows to them were substantial: Singapore, \$52 billion, Malaysia \$40 billion, Indonesia \$27 billion, and Thailand \$17 billion. In fact, over the past 20 years, some 80 per cent of the manufacturing investment in Singapore has come from transnational corporations.

The second and the more interesting fact is that China which maintains a dirigiste or centrally controlled economy, attracted more foreign direct investment than any other developing country. In 1990-1997 it attracted \$200 billion. Further, as mentioned earlier, there were 15,966 affiliates of transnational corporations in China. Similarly, Vietnam, another centrally controlled economy, where liberalization is virtually unknown, attracted in the same period, \$11 billion in foreign direct investment which exceeded the \$9 billion received by India. This seems to indicate that foreign investments did not regard lack of liberalization as a deterrent to investment.

The experience of China also indicates that capital controls have not proved to be an obstruction to foreign direct investment. China has perhaps the most rigid capital account controls in Asia, but they have not in any way discouraged foreign direct investors or affected economic growth. China's experience further showed that capital controls can insulate an economy from external shocks. China did not become a casualty in the East Asian currency crisis because of its capital controls. South Asia too, like China, has not liberalized the financial sector and its capital controls enabled her to prevent excessive movements of speculative, short-term capital and maintain stability during the East Asian crisis.

South Korea and to some extent Taiwan, illustrates how high economic growth can be achieved by selective control of foreign investment. As South Korea's domestic savings exceed 40 per cent of GDP, it does not need foreign direct investment as those developing countries whose domestic savings are low. Consequently, it controlled the inflow of foreign capital selectively encouraging those which were needed to assist domestic enterprises and discouraging those which competed or threatened them.

It is because of these selective controls that the inflow foreign direct investment to South Korea was relatively small - \$11 billion in 1990-1997 as compared to \$52 billion to Singapore and \$40 billion to Malaysia. The smaller inflow of capital however did not prevent South Korea from achieving one of the highest growth rates - 9 per cent - in the 30 years 1970-1990. Taiwan, similarly, achieved the same high rate of growth in the same period although it too received relatively little foreign capital - \$11 billion.

The UN Human Development Report 1999 underlines:

"Economic policy making should be guided by pragmatism rather than ideology - and a recognition that what works in Chile does not necessarily work in Argentina, what is right for Mauritius may not work for Madagascar. Open markets require institutions to function and policies to ensure equitable distribution of benefits and opportunities. And with the great diversity of institutions and traditions, countries around the world need flexibility in adapting economic policies and timing their implementation".