GLOBALIZATION, OH THAT VERSATILE VILLAIN!

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Abstract:

The contemporary phase of economic globalization is regarded by some social scientists as a serious source of problems. There are others who, logically or illogically, consider it a negative, harmful, destructive, marginalizing and malevolent influence over economies and societies. No doubt, globalization can create opportunities for accelerating growth for the participating economies, but it can also pose myriad of challenges to and impose constraints on policymakers. In addition, it is justly blamed for uneven distribution of benefits from globalization. They are badly skewed within countries and between countries. Present policy environment is far from globalization-friendly. This paper focuses on the limitations of globalization in an objective and unbiased manner.

Keywords:

Contemporary globalization; limitations of globalization; income inequality; employment insecurity; offshore outsourcing

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> It is no longer safe to assert that trade's impact on income distribution in wealthy countries is fairly minor. There is a good case that it is big, and getting bigger. I'm not endorsing protectionism, but free-traders need better answers to the anxieties of globalization's losers.
>
> Paul Krugman (2007a)

> Since 2001 the pay of the typical worker in the United State has been stuck, with real wages growing less than half as fast as productivity. By contrast, the executive types gathering for the World Economic Forum in Davos enjoyed a Beckhamesque bonanza.
>
> *The Economist* (2007)

1. Globalization a Pernicious, Marginalizing and Malevolent Force?

The contemporary phase of globalization produced enormous aggregate benefits for the global economy as well as for several individual national economies. Convergence of income is one of its benign outcomes. As it created large potential for economic growth and development, most economists have tended to be fervent supporters of globalism and globalization[1]. However, globalization is Janus-faced. One glance in the rear-view mirror is enough to persuade us that if globalization created opportunities for accelerating growth and development over the preceding three decades, it also became the root cause of serious economic and social challenges in many economies, both developing and industrial[2]. Milanovic (2003) presented a detailed account of the malignant sides of historic globalization, which makes it look like a nauseatingly exploitative phenomenon. Winners and losers of globalization exist at both macro- and micro-economic levels. In the equation of tangible gains and losses from globalization, gains to the gainers may well be larger than the losses to the losers, yet the win-win premise of globalization has been increasingly disputed. There are many in different social disciplines who passionately favored globalization, but subsequently turned into naysayers. This includes some prominent names in the economics profession. Globalization has *inter alia* been discredited for creating unemployment, increasing income inequality and for immisirizing the poor in the global economy.

Economic globalization, that takes place by way of trans-border flows of goods and factors of production (including labor), can indeed be a source of adverse

[1] See for instance Bhagwati (2004), Wolf (2005) and Thirlwell (2005).

[2] The term industrial country has become a misnomer, because some of the emerging-market economies, like China, have become extensively industrialized. Contribution of industrial sector to their GDP is larger than that in the wealthy countries of the developed world, whose economies are overwhelmingly dominated by the services sector. These countries have become large exporters of manufactured products as well.

economic impacts, particularly when domestic markets failures or regulatory weaknesses exist. They are needed to be treated directly with the help of appropriate domestic policy measures. Without the required domestic policy cures, costs of globalization may well be high and dangers of a globalization backlash may take an ominous proportion. This negative potential of the process of globalization can only be ignored at exorbitant economic and social costs.

Not only there are some economists who regard contemporary globalization essentially a source of serious problems, but they also point out that the costs of on-going globalization can be serious for some industrial and developing economies, particularly for some population and employment groups. Vivid evidence is available to show that the benefits of globalization have been asymmetric in that they went disproportionately to the owners of capital at the expense of the provider of labor. This trend set off acutely skewed income distribution in many countries. Consequently progress of globalization does not look as inevitable and inexorable as it did only a few years ago. Some scholars (see Abdelal and Segal, 2007; p. 143) have begun asking whether the current phase of globalization has “started to come to a close”.

Myriad of economic and social problems are indiscriminately blamed on globalization. Many, logically or illogically, consider it a negative, harmful, destructive, marginalizing and malevolent influence over economies and societies. Not all denigration is ill-founded. It cannot be dismissed as parochial pique of the uninformed. Economic profession concur that globalization entails inescapable and inevitable economy-specific short-term costs. There can also be long-term cost of adjustments and reallocation of resources, both in the developing and industrial developing economies. They are *sui generis* challenges and each economy has to device its own short- and medium-term strategy to cope with them. Those who are disillusioned with the consequences of globalization would try to temper and modify this process, in lieu of reinforcing it.

In popular media, globalization is often regarded as villainous for *inter alia* roundly worsening the plight of the poor in the world. It is done in a sweeping manner. To be sure, impact of globalizing on the poor has often been questioned by academic and policy researchers as well. Although it is difficult to attribute any poverty or income inequality trend exclusively or mainly to globalization without rigorous analyses, the assertion that recent progress of globalization has had some adverse effect on poverty or income inequality cannot be rejected out of hand.

Over the years, some noted scholars have changed their position on the impact of globalization. An excellent illustration is two papers by Paul Krugman written in 1995 and 2008, respectively (Section 5.2). The latter article starts with an expression of remorse for the viewpoint expressed in the former, which estimated modest impact of globalization on wages and income inequality in the industrial economies. Other researchers of this period also presented comparable evidence of moderate impact on wages (Borjas, *et al* 1997; Cline, 1999). The reason these studies conclude that trade with the emerging-market economies (EMEs)[3] and the developing economies essentially had only minor impact on minor impact was that these researchers were using out-of-date statistical data (Bernanke, 2007). With the help of current statistical data, this view was subsequently refined and had to be modified.

Populist views on globalization frequently tend to be mixed, or on the negative side. Public perception in the mature industrial economies is dominated by anxieties regarding job losses and downward pressure on wages. Anecdotal accounts often draw a downbeat and damaging image of globalization, strengthening its disconcerting and harmful aura in the minds of communities in general. A popular TV commentator blames globalization for economically crippling the American middle class; if he is to be believed it is ready for extinction.[4] Periodically global economy finds itself in the clutches of one kind of financial, currency or economic crisis, which epitomizes another limitation of globalization. Both macro- and microeconomic costs of these crises are severe and often borne disproportionately by the poor in the societies where these crises strike. According to this view, capital movements and volatility associated with them can potentially lead to disasters. Benefits of globalization do not come without risks, and costs of globalization are exorbitant, while benefits puny. Consequently, strong backlash has frequently occurred against it in the past.

Facile and simplistic denigration of globalization is easy and is often indulged in by various individuals and institutional entities. Adherents of contemporary

[3] The term emerging-market economy (EME) was coined in 1981 by Antoine W. van Agtmael of the International Finance Corporation, the private sector arm of the World Bank. The developing countries in this category vary from small to large, even very large. They are regarded as emerging because they have adopted market-friendly economic reform programs, resulting in sounder macroeconomic policy structures. China is the largest and most important EME, along with several smaller economies like Tunisia. The common strand between these two economies is that both of them embarked on reform programs and consequently recorded rapid GDP growth. Both of them have liberalized their markets and are in the process of emerging onto the global economic stage. Sustained rapid clip GDP growth is the first indispensable characteristics of an EME. Many of them are in the process of making a transition from a command economy framework to an open market economy, building accountability within the system. The Russian Federation and the East European economies that were part of the Soviet bloc in the past fall under this category. Secondly, other than adoption of an economic reform program, an EME builds a transparent and efficient domestic capital market. Third, it reforms its exchange rate regime because a stable currency creates confidence in the economy and investors in the global capital markets regard it as fit for investment. Fourth, a crucial feature of an EME is its ability to integrate with the global capital markets and attract significant amount of foreign investment, both portfolio and direct. Growing investment—foreign and domestic—implies rising confidence level in the domestic economy. Global capital flows into an EME add volume to its stock market and long-term investment into its infrastructure. For the global investing community the EMEs present an opportunity to diversify their investment portfolios. Investing in the EME gradually became a standard practice among the global investors who wished to diversify, although they added some risk to their portfolios.

[4] Reference here is to Lou Dobb's 6 o'clock news on the CNN.

globalization point to a conspicuous and much-extolled achievement of globalization, namely, rapid economic growth and rising per capita incomes in the global economy during the latter half of the last century. Of especial interest is the performance of the East Asian economies and the EMEs over the last three decades that came to be better integrated with the global economy. Global community's commitment to eradicating poverty was renewed in the Millennium Development Goals (MDGs). Globalization did underpin the poverty eradication endeavors and led to measurable improvements.

However, these positive achievements of globalization do not conceal its negative and marginalizing aspects. If globalization creates opportunities for accelerating growth for the participating economies, it can pose myriad of challenges to and impose constraints on policymakers. It did create a litany of national, regional and global economic problems. First, it is correctly blamed for uneven distribution of the benefits from globalization. They are badly skewed within countries and between countries. A good deal of empirical shows that the poor are affected disproportionately when globalization-driven crises precipitate, while they are not able to share equitably during the globalization-driven upswings.[5] A group of economies did not benefit from the contemporary globalization. Income and job insecurity has risen, particularly for unskilled labor. Second, while foreign direct investment (FDI) and portfolio investment soared markedly, they disproportionately went to the mature industrial economies and EMEs.

Third, while integration of global markets generally spawned welfare gains, in some markets like the financial markets, integration became a source of value-destroying volatility. Frequency of financial crises increased with growth of trans-border capital flows. Crises in the large Latin American economies during the early 1990s, Asian financial crisis of 1997-98, Russia and Turkey towards the end of the decade, the sub-prime mortgage crisis of 2007-08 in the United States (US) and sharp decline in the value of the dollar, among others, demonstrated that economic and social costs of such crises tended to be high. In mid-2008, the US economy was teetering at the brink of a recession. These financial crises led to a high incidence of bankruptcies, unemployment, poverty and reduction in essential social and public services. Ultimate result was increase in social stress as well as fragmentation and acute deterioration in quality of life. Closer integration of financial markets, while enormously beneficial, also had a downside. It resulted in contagions and recessionary effects. Both the Asian crisis and the sub-prime mortgage crises testify to the detrimental effect of globalization, as do the others. The Union Bank of Switzerland (UBS), whose core business was staid wealth management, lost $38 billion on American mortgage-backed assets. Fourth, offshore outsourcing of white-collar and services sector jobs on the one hand and outsourcing components and routine manufactured products and sub-assemblies on the other to EMEs affected unemployment rates in the mature industrial economies. The outcome was

[5] For a literature survey, see, Nissanke and Thorbecke (2005).

attrition of the middle class and social distress, which has soured the attitude of the industrial countries towards globalization.[6] Fifth, information and communication technology (ICT), which is regarded as a strong sinew of contemporary globalization, is highly unevenly distributed globally. This disparity is termed the digital divide.

In a globalized world economy, crises have a penchant to turn global hurriedly. During 2007 and 2008, grain prices in the world markets soared by 60 percent in a year. Rice, maize and wheat prices in the international markets reached a record level in the first quarter of 2008.[7] Wheat alone shot up by 130 percent. In Asia, rice prices doubled. The principal causal factors included increasing demand in a lot of the rapidly growing countries, such as China and India, soaring energy prices that made it much more expensive to produce food and increasing use of food crops as a fuel source. Drought in Australia and floods in West Africa were the other sources of loss of many crops. Small contribution was made by panic buying, hoarding, some countries closing their markets and lastly speculation. While its sources were localized, spike in the prices of food crops became a global quandary. Food riots took place in 32 developing countries and we witnessed the first ever globalization of a humanitarian crisis (Bartiromo, 2008). Secondly, during the same period, petroleum prices rose precipitously and globalization was once again made out to be the villain. Thirdly, the collapse of the housing bubble in the US mutated into a global phenomenon. The US housing market bust was transmitted to Europe without delay. Real estate prices collapsed in a synchronized manner in the United Kingdom (UK), Spain, China and India. Even the Baltic economies were not spared. Thus viewed, the list of collateral damage from globalization is not trivial by any measure.

There is another perspective of academic economists who straddle both the beliefs and take a yes-but attitude.[8] While conceding the welfare effects of globalization this group of analysts asserts that the power structure of national and supranational institutions is such that potential benefits of globalization cannot be realized. This group of economists believes that the conviction that globalization leads to welfare gains is based on the assumption that markets function optimally, in a competitive manner, while in reality they do not and suffer from imperfections. This group contends that failure of globalization is caused by its governance. While they are not averse to the theoretical link between globalization and welfare gains, they see clear flaws in its management. It is because of this limitation that globalization has turned into "a perverse malign force hurting millions" (Stiglitz, 2003a, 2005 and 2006). They take a nuanced

[6] The term industrial country has become a misnomer, because some of the emerging-market economies, like China, have become extensively industrialized. Contribution of industrial sector to their GDP is larger than that in the wealthy countries of the developed world, whose economies are overwhelmingly dominated by the services sector. These countries have become large exporters of manufactured products as well.

[7] In May 2008, after staying at their high perch, grain prices declined from their peak levels.

[8] Nobel Prize winning economist and former Senior Vice President of the World Bank, Joseph E. Stiglitz, is one such academic analyst.

approach and see adherence to globalization as an incomplete strategy. It needs to be complemented by adopting eclectic policies tailored to the individual realities of each economy (Rodrik, 2007a).[9]

2. Antagonistic Perspectives on Globalization

Politicians of various loyalties often find that they get more mileage out of being globalization skeptics than out of being its proselytizers. Political payoff from opposing globalization is high both in the European Union (EU) and the US.[10] Opinions and writings in news media and journals have begun questioning the need and sustainability of global economic integration. In general, global policy environment in 2008 was not globalization-friendly. That the Doha Round of multilateral trade negotiations (MTNs) was allowed to languish is a proof of disillusionment with and estrangement from globalization.[11]

Ironically, some of the most trenchant assaults on the consequences of globalization came from the industrial economies, the very architects and builders of contemporary phase of globalization. Protectionist sentiments in the EU and the US have been on the rise; inward FDI and immigration have become issues for policy makers as well as of rancorous popular concern (Abdelal and Segal, 2007). A stronger anti-globalization sentiment is also to be found in the African and Latin American countries, where people feel that they are the losers from globalization. A 2008 opinion poll, conducted in 34 countries, found that while there was general support for globalization (positive answer outnumbered the negative two to one) there was unease about globalization and its pace. Of the 34,000 respondents, 50 percent considered economic globalization as moving too fast. This proportion was 57 percent in the Group-of-Seven (G-7) countries. Majority (64 percent) of those polled also believed that gains and losses from globalization were distributed unevenly.[12] Benefits and burden of globalization were asymmetrically shared, therefore it was believed be an unfair phenomenon.

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[9] See Stiglitz (2005) also.

[10] For instance, several important European countries, including France, voted against the EU's constitutional treaty. Mittal Steel's successful bid to acquire Arcelor was initially blocked by the French and Luxembourg governments.

[11] After the crucial Group-of-Four (G-4) meetings of June 2007 in Potsdam, Germany, when multilateral convergence seemed tantalizingly close because components of an interim agreement was identified, which was to become a launching pad for the rest of the Doha agreement. The negotiations broke down once again, disarray in the Doha Round continued. There was a discernible rise in protectionist sentiment in the industrial economy after this point (Das, 2008b). This was taken as an indicator of the reversal of the current phase of globalization.

[12] This survey was conducted for the BBC World Service by the international polling firm GlobeScan, in collaboration with the Program on International Policy Attitude (PIPA) at the University of Maryland in January 2008. See "Widespread Unease about Economy and Globalization". Available at http://www.worldpublicopinion.org/pipa/articles/btglobalizationtradeera/446.php?lb=btgl&pnt=446&nid=&id=. Washington DC. World Public Opinion. Posted on February 7, 2008.

Tangible gains from globalization to the EU, Japan and the US have been sizable. Income boosts, employment generation and GDP increases in the three economies have been substantive. Yet, pressure for a policy shift has been strengthening in both the EU and the US. Its essential source is the economic adjustment that the on-going globalization calls for in these economies. If the feelings, perceptions and opinions towards globalization continue to be negative, protectionist pressure as well as that for a policy shift would build up further. Social and political antagonism will rise. Eventually, instead of facilitating ever deeper global integration, this environment will credibly slow or modify the process of globalization. Positions taken by the trenchant critics cannot be dismissed out of hands because it cannot be denied that not everyone benefited from the onward march of contemporary globalization. Also, in many cases adjustment costs tended to be high and had both economic and social dimensions. Although one cannot regard all the denigration as objective, logical and valid, globalism does have a downside.

In search of higher returns on their investments, several EMEs and the six Gulf Cooperation Council (GCC)[13] economies have established Sovereign-Wealth Finds (SWF). Due to negative perception about globalization, financial protectionism has begun affecting the operations of the SWFs. These are funds owned and run by the government of a sovereign nation that manages national savings, budget surplus and excess foreign exchange reserves by investing them globally into corporate stocks and bonds and other financial instruments. These foreign currency assets are managed separately from the official reserves of the monetary authorities. However, whether these foreign assets are a part of the reserve assets of a country is hitherto ambiguous. SWFs funnel capital into other investment vehicles than the low-yielding US Treasury securities. Their essential objective is to improve returns on investments of sovereign governments. Financial markets and analyst have been concerned about these large sources of global capital which are owned by governments in the EMEs and the GCC. The US Department of Treasury estimated aggregate assets of the SWFs range between \$1.5 trillion and \$2.5 trillion (The US Treasury, 2007). The estimated range of the IMF is between \$1.9 trillion and \$2.9 trillion (IMF, 2007a). Deutsche Bank Research (2007) put this number a tad higher, at \$3 trillion. This is a mammoth amount of capital and the SWFs from the EMEs can find investment opportunities for them in their own economies, or at least in their respective regions.

In spite of large volume of their operations, the SWFs had managed to remain by and large low-keyed and obscure for a long while. Only occasionally in the last three or four years, they became a source of argumentative debate, even sour controversy, when they tried to make a large and conspicuous acquisition in the industrial economies. Popular and financial media did not begin copious discussions regarding the operations of the SWF until the last quarter of 2007,

[13] The Gulf Cooperation Council (GCC) was established in 1981. Its members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

when they acquired considerable eminence (Mallaby, 2007; DeLong, 2007, Tassell and Chung, 2007 and Farrell and Lund, 2008). *The Financial Times* and *The Wall Street Journal* have begun covering SWFs extensively and a new class of SWFs experts has emerged. Esteemed institutions like Deutsche Bank, Morgan Stanley and Standard Chartered began publishing well-researched pieces on SWFs. In rapidly globalizing financial markets, the growing role and activities of SWFs also began attracting a great deal of attention of the central bankers and finance ministers in the industrial economies. In the Group-of-Seven (G-7) meeting, held in October 2007, leaders of industrial economies had expressed concern about the investments made by the SWFs, in particular they had disapproved of the lack of transparency in their operations.[14] The Senate Banking Committee in the US heard lengthy and repeated hearings on the SWFs in October and November 2007.[15] In mid-November, the IMF convened its first annual roundtable on sovereign assets. For the first time, the US Treasury discussed SWF operations in its *Semi-Annual Report on International Economic and Exchange Rate Policies*, published in June 2007. The industrial countries have felt uncomfortable about the operations of SWFs. The illustration of China's CNOOC failing to buy the US oil company Unocal is one example of financial protectionism raising its head in the US. The prolonged Dubai Port World saga was another similar case in point.

Academic researchers and policy mandarins have paid a great deal of attention to the issues of the impact of globalization on poverty alleviation, domestic income distribution and global income disparities (Das, 2004a and 2004b). There are distinct possibilities of globalization hurting the poor. It has been observed that the lower the skill level of the people, the greater is the probability of getting adversely affected by the onward march of globalization. Globalization causing closure of businesses and raising rates of unemployment aroused strong upsetting emotional responses in many people and societies. Although in some instances these could be essentially short-term and exclusive phenomena, there are strong arguments against certain set of policies that are frequently recommended by the supranational economic institutions for advancing globalization, for instance, the so-called Washington consensus[16] (Stiglitz, 2005

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[14] This G-7 meeting was hosted by the US Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben S. Bernanke in Washington DC, on October 22. Aside from the U.S., members of the G7 include Japan, Germany, France, Britain, Italy and Canada.

[15] Several noted scholars including Kenneth Rogoff, Patrick Mulloy and Edwin Truman participated in these hearings. Christopher Cox, the Chairman of Securities and Exchange Commission, expressed his concern regarding the operations of the SWFs in a speech at the Harvard University on October 24, 2007.

[16] John Williamson reasonably argued that the set of policy reforms that would serve the developing economies, particularly those of Latin America, well should encompass the following ten propositions: emphasis on fiscal discipline, a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure, tax reform (to lower marginal rates and broaden the tax base), Interest rate liberalization, a competitive exchange rate, trade

and 2006). There are recent instances where economies like those in Latin America, which embraced the Washington consensus unreservedly, on balance suffered from this set of policies. Argentina is one recent tragic example of Washington consensus-led globalization (Rodrik, 2007a)[17].

We cannot possibly forget the academic analysts who straddle both the opposing beliefs on globalization.[18] While admitting the welfare enhancing effects of globalization, this group of analysts contends that the power structure of national and supranational institutions is such that potential benefits of globalization cannot be realized. It is largely because of this limitation that globalization has turned into "a perverse malign force hurting millions". Stiglitz believes that globalization is driven by a "special privilege" agenda, therefore, fundamental problems underlying globalization were not addressed. He found it particularly disturbing that, "while we were talking about how wonderful globalized financial system is in addressing the problem of risk, the developing countries were left to carry the burden interest rate and market volatility. This has had enormous *(negative)* consequences for the developing countries" (Stiglitz, 2003b).[19]

3. Detractors of Globalization

Among lay persons, there is no scarcity of those who are completely and intransigently opposed to globalism and globalization and are certain of their perverse and malevolent contributions. Protracted protests, both peaceful and violent, by detractor of the globalization process became commonplace. They were blamed for the debacle of the 3rd Ministerial Conference of the World Trade Organization (WTO) in Seattle in 1999. This collapse left a lasting impression on the mind of TV viewers globally. It was far from the first manifestation of anti-globalization opposition, which had continued all through the 1990s and picked up extra momentum in the closing years of the decade. The street theatre and protest marches of the anti-globalization activists continued.

3.1 Targets They Home in on

The Bretton Woods twins and the WTO become frequent objects of those who disapprove of globalization because they see them as the principal perpetrator or arc villain. In December 2005, during the Sixth Ministerial Conference of the WTO, pitched battles took place between anti-globalization activists and the Hong Kong police. Large parts of the host city had to be closed down because the police came under heavy attack from the demonstrators, particularly the indignant South Korean rice farmers who were dead set against free trade in rice.

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liberalization, liberalization of FDI inflows, privatization, deregulation (in the sense of abolishing barriers to entry and exit) and secure property rights. Its emphasis was on deregulated markets.

[17] Rodrik (2007), see chapter 9.
[18] Nobel Prize winning economist and former Senior Vice President of the World Bank, Professor Joseph E. Stiglitz, is one such famous academic analyst.
[19] Italics by author.

During the Turin winter Olympics in February 2006, the anti-globalization mob vented their wrath by attacking the Olympic flame, because they regarded the large expenditure on it grossly and ostentatiously wasteful. Anti-globalization activists' protests and rallies against economic and corporate globalization have grown louder and frequently violent. The annual meetings of the IMF and the World Bank have become a routine target of disruption for the detractors of globalization.

Often it is unclear whether the grievances of the detractors are more against big business in general than against global integration of the world economies. One common feature of these protests is the strong passion, with a touch of clouded judgment. In one of the recent World Bank annual meetings, I saw a banner paradoxically reading, "World-wide Movement against Globalization". The ironic, banner reflected the intensity of the passion. Although they are motley groups, detractors of globalization essentially include three basic categories of people. The first one is the incorrigible enemies of market capitalism, big business houses and large transnational corporations (TNCs), having an anti-establishment disposition. Majority in this group is not open to serious thinking, analysis or a logical dialogue. The second large category comprises well-intentioned but ill-informed young idealists living in the industrial countries. This is a proactive group that does not realize that ignorance about such a major policy area can indubitably have perilous consequences. If anything, it can beat the purpose for which they are out demonstrating.

The third group comprises well-informed, highly-educated groups of left-of-the-center well-wishers of the have-nots in the world. They are not only knowledgeable people, capable of clear thinking, but also provide wholesome policy percepts. Their thinking, analytical prowess, bearing, comportment and behavior pattern are those of seasoned professionals. This group operates largely through its membership in non-governmental organization (NGOs). A large majority of them has emerged as avowed critics of globalization *per se,* or its various consequences. They hold globalization, in particular the operations of the big business, TNCs and supra-national institutions, responsible for many of the economic woes of the developing economies, and in general the misery of the global poor. Their intentions are noble. According to them globalization has resulted in rapid clip expansion of big business corporations and TNCs. They in turn have glaring exploitative tendencies because profit maximization is their *reson d'etre*. They firmly believe that the supra-national institutions, in particular the Bretton Woods twins and the WTO, do not really understand what grass-root economic development really is about. According to these antagonists, the supra-national institutions are in a state of institutional denial regarding their professional capability. Being limited to theoretical percepts, their developmental strategies are misguided. In their view, the poverty alleviation methods adopted by these institutions are in fact deepening it and worsening the plight of the global poor. They were highly critical of the handling of various EMEs' financial crises by the IMF in the 1990s and early 2000s. They were sure that the IMF's crisis management was a debauched operation. In particular, they found numerous faults with IMF's analysis and perception of the Asian crisis as well as its management. It was not only erroneous on the theoretical grounds but also lacked, what they called, a "human face". Their denigration successfully influenced the crisis management formulae of the IMF.

The critics of globalization believe that the activities of big business houses and TNCs have expanded far too rapidly and that they have become economically too powerful, garnering a disproportionate proportion of global resources. This process has been termed "transnationalization" of the global economy. Antagonists contended that in their manufacturing facilities in the developing economies TNCs exploit labor as well as the host country in different crafty ways. These manufacturing facilities are nothing more than sources of high-profits for the big businesses and the TNCs.

3.2 Upsurge in Corporate Profits

Rising corporate profits rub the detractors the wrong way. It vindicates their globalization-is-a-villain view. Upsurge in corporate profits in the US was monotonic; they were higher in 2007 than any time in the last half century. Benefits of globalization went asymmetrically to the owners of capital. Roach (2006; p. 1) called it "a veritable bonanza for the return to capital—pushing the profits share of national income in the major countries of the industrialized world to historical highs…" Normally productivity growth in the economy is correlated with growth in real wages. But over the 1996-2001 period, this relationship did not work in the US. Only the top 10 percent of the income earners enjoyed a growth rate of real wages or salary equal to or above the average rate of productivity growth in the economy. Median real wage and salary barely recorded an increase, albeit average wage and salary continued to grow apace with productivity growth in the economy. As almost half of the income gains went to the top 10 percent, the remaining 90 percent was left with little (Dew-Becker and Gordon, 2005).

In the past, labor unions would have reacted strongly to this trend, but in a globalizing world economy of the 1990s, the labor unions have become feeble. However, politicians have espoused the cause of labor in the industrial economies; there have been strident calls for assuaging and moderating globalization and promoting protectionism. This penchant is strong in the US and several West European economies, namely, Germany, France, Italy, and Spain. In Australia and Japan, it is moderately high. In many of these countries, the squeeze on labor income, which has altered the income distribution in many of these societies, became one of the most passionate, energetic and acrimonious political issues. Recent presidential political campaigns in France and the US assigned a great deal of significance to it. To court the workers and attract their votes, Mme Segolene Royal rejuvenated several pro-labor formulas of the yore during her presidential campaign. Although the powerful forces of globalization cannot be stopped in their tracks, the body-politic in many industrial economies has tilted leftward, towards the interests of the working classes. They are the losers of globalization. This leftward tilt is not limited to the wealthy industrial world. The critics are certain that globalization is an instrument of immiserizing the developing economies as well, particularly the low-income groups in them. Convinced that it is a villainous economic force, they contend that globalization threatens employment and living standards everywhere and that it is a means of thwarting social and economic progress all the world over.

3.3 Asymmetric Income Distribution

That income distribution in many economies, particularly in the wealthy industrial economies, was unfavorably affected is another glaring social malaise cause by the advent of globalization. For the detractors this is a serious and valid affront and a limitation of globalization. Although after 1980 income distribution in the industrial economies did become genuinely skewed, it was not due to global integration. In the US, the share national income of the top 10 percent between 1947 and 1980 hovered around 31 percent. Thereafter it began to rise and in 2004 it rose to 44 percent (Piketty and Saez, 2006). This trend was observed in all the English-speaking countries, but not in Europe and Japan. In the late 1970s, top wage and salary earners' income began to increase. It accelerated in the early 1990s. Consequently, top salary earners, or the so-called working rich, replaced capital income earners at the top of the income distribution in the English-speaking countries (Atkinson, and Piketty, 2006).

Globalization is often squarely blamed for being the causal factor of this asymmetry in income distribution, although numerous other obvious reasons were also responsible for widening income asymmetry in the US and the EU, particularly in the English-speaking countries. Levy and Temin (2007) assigned a great deal of responsibility to economic institutions. In the early post war period when the US income distribution was not so uneven, it was due to active institutions like strong labor unions. A negotiating framework set in the Treaty of Detroit was set up and taxation was progressive. Besides, in real terms minimum wages were high. All these institutions and regulations were instrumental in broadly distributing the gains from productivity and economic growth in the society. The role of these institutions and practices changed with the passage of time. They slackened, even reversed, during the recent decades.

Technological development was another major factor causing income inequality. As discussed in Section 5.1, during the recent decades, it became increasingly skill- and factor-biased and adversely affected both the income of the blue-collar and low-skill workers as well as income distribution. Another recent relevant change was acceleration in the compensations of senior and top corporate managers since the early 1990s, which widened income inequality. The highly trained and accomplished top managers' market value rose in the English-speaking countries because of reasons that had no relation to global integration. Inflated compensations of business executives were due to domestic market based considerations rather than globalization. One of the reasons was that many of these top income earners succeeded in determining their own market values. The current trend of relating CEOs' compensations to the performance of firms or to stock market also contributed to steep rise in their compensation packages. Stock options became an increasingly common part of compensation.

Domestic political climate, conservative policy dominance and changing tax structure were also responsible for rising incomes for those in the top income brackets, resulting in exacerbating income inequality (Krugman, 2007b). Therefore, globalization and expanding international trade with the EMEs and developing economies can only be "seen as factors operating within this broader institutional story", not as the exclusive causal factors behind worsening income inequality (Levy and Temin, 2007; p. 12). Basing his analysis on factor content rising sophistication of imports, Lawrence (2008; p. 80) deduced that rapidly expanding trade with the EMEs and the developing economies had "little to do with global forces that might be expected to especially affect unskilled workers" in the industrial economies. While counterintuitive and surprising, this inference does seem logical.

4. Globalization and Surging Income Inequality

Global income inequality, that is income inequality among countries, increased dramatically over the last two centuries, albeit much of this increase had taken place before 1950. It almost exploded in the nineteenth century, which is historically regarded as the worst period of worsening of income inequality in the world. Global income inequality did not worsen significantly since 1950. If anything, the contemporary phase of globalization witnessed a slowing down in secular trend towards growing global inequality among countries. It was essentially due to partial convergence of the GDP per capita in a subgroup of developing economies towards that of the industrial economies. This subgroup comprises the rapidly globalizing East Asian economies, China and the other EMEs. Another subgroup of countries that joined in income convergences is the members of the GCC. In stark contrast to this convergence, many rapidly globalizing economies, both developing and industrial, demonstrate widening domestic or within-country income inequality, which has been alluded to in Section 3.

An empirical study of Latin American economies presented compelling evidence of within-country income inequality being higher for the periods when globalization progressed and the domestic economies were relatively more open. During periods when policymakers ignored globalization and kept the domestic economy closed, income inequality was markedly lower in this sub-group of economies. This result was empirically tested and found robust under four different definitions of openness (Baten and Fraunholz, 2004). Some of the most conspicuous cases that conform to this trend during the contemporary phase of globalization are China, India, Japan, the UK and the US. Over the preceding three decades, income inequality worsened noticeably in the US; a lot of culpability for which is frequently put on the door of globalization (Bernanke, 2007). A striking feature of the inequality data in many economies was that income gap widened more between the top and the middle of the income distribution, but it remained stable between the middle and the bottom (Wilson, 2007).

The Gini coefficient, statistical measure of unequal distribution of income, has starkly deteriorated in economies that were either globally integrated, or were doing so rapidly.[20] The value of Gini moved closer to 1 (or 100 percent, depending upon the scale) for the rapidly globalizing economies, implying increasing inequality in the distribution of disposable income. Rising Gini stands for worsening income inequality. Recent calculations of the Gini coefficient show that over the 1985-2005 period the Gini rose in most regions of the global economy, including the East Asian economies, the EMEs and the mature industrial economies. Conversely, it declined for the sub-Saharan Africa and the Commonwealth of Independent States (CIS) (IMF, 2007b). In the industrial economies globalization influenced the Gini coefficient adversely by several causal factors discussed in Section3. Other than greater inflow of unskilled labor and pressure from low-price imports from the EMEs, rising competition from foreign suppliers who supplied their goods and services to the importing firms in the industrial economies through offshore outsourcing and global production network channels also affected the wages and income of low-skill workers. Increasing income inequality in the industrial economies is largely explained by rise in earnings inequality (Atkinson, 2000).

Under the auspices of the General Agreement on Tariffs and Trade (GATT) and subsequently the WTO, various multilateral rounds of trade negotiations took place and trade and non-trade barriers manifestly declined sharply. Consequently, trade, one of the principal channels of globalization, expanded at an accelerated rate particularly since the early 1980s. Its long-term (1980-2006) average annual rate of growth was 7.1 percent. In a generation multilateral trade sextupled. The share of multilateral trade in world GDP increased from 36 percent to 55 percent (Jaumotte, 2007). In the process, the EMEs increased their share in multilateral trade from 25 percent to 37 percent over the 1990-2005 period (Braeuninger, 2008). Many of them grew into significant exporters of manufactures, and some commercial services. Taking all the developing economies, which includes the EMEs, the share of trade in total multilateral trade went up from 28 percent in 1990 to 43 percent in 2005. In this case, the data for the recent years has been influenced by high commodity prices, which includes petroleum. Share of exports of manufactures from the developing economies in the total manufactures trade also shows a significant increase (Section 5.2).

An important characteristic of accelerated integration of the global economy through the trade channel during the 1990s was entering of former socialist economies in the global trading system and many developing economies,

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[20] The Gini coefficient can assume any value between 0 and 1 (or 0% to 100%). The closer the value is to 1 (or 100%), the more unequal is the distribution. This implies that only a small section of society posses an overwhelmingly large proportion of income.

particularly those of Asia, dismantled their trade barriers. Most trade theories stresses that expanding trade leads to increased specialization. It also leads to increased competition in the global markets. These two aspects of trade coalesce and lead to gains and prosperity from trade. This trade expansion opened new markets for the industrial country firms. Their ability to specialize was increased considerably by offshore outsourcing and global networked production, two idiosyncratic features of contemporary globalization. These firms also exploited scale economies, which in the long-run become a source of large and lucrative gains. The largest gains from this channel of globalization accrued to consumers who benefited from lower prices and greater variety in goods and services.

However, there was a downside of this channel of globalization. Large risks were created for the firms and workers that were in production of low-technology and labor-intensive products. The competitive pressure rendered them out of business. The lower-skilled part of the work force in the industrial economies suffered wage stagnation and dislocation. In the US the lower-skilled workforce declines, while in the EU economies they faced increased risk of unemployment. These households not only failed to share the benefits engendered by globalization but were also faced with declining incomes and seriously damaging economic plight. No quick resolution could be found for this segment of the labor force. If the less-skilled workers do not flexibly learn to shift to higher-skill and higher-productivity occupations, they will run the risk of remaining vulnerable to the on-going globalization. The same observation applies to the firms that have been unable to compete in the newly evolving global industrial structure.

Notwithstanding the fluctuations, FDI, another important channel of globalization, accelerated since the early 1990s. It is known to have become a virtuous circle, that is, firms that had made a high level of FDI, recorded better than average financial performance, which in turn encouraged them to invest more globally. Firms having a high level of FDI are defined as those earning more than 25 percent of revenues globally or having more than 25 percent employees outside their home country. Such firms learned from their global ventures, took a more sanguine view of global production, consequently their confidence and risk-taking propensity increased. Despite a slowdown in the US economy in 2007, global FDI inflows were $1.76 trillion, above the previous record level of $1.4 trillion achieved in 2000.[21] As global integration picked up momentum, FDI accelerated. This had analogous impact over worsening of income inequality. In the host developing countries, FDI increased the demand for highly-qualified and skilled workers. In tandem with that, outward flows of FDI in the industrial economies led to reduction in the demand for relatively low-skilled workers.

[21] The sources of these statistical data are EIU (2008) and *World Investment Prospects to 2011.* 2007. London and New York. The Economist Intelligence Unit in co-operation with the Columbia Program on International Investment (CPII).

To worsen the situation further, the supply of unskilled labor exceeded demand in the global economy since the early 1980s. On an average, the Gini coefficient of disposable household income for the OECD economies climbed from 29.3 percent to 31 percent over the 1985-2000 period, this meant a worsening of Gini by almost 6 percent. The increase took place far more over the 1985-94 period than during 1995-2000 period. One reason for a steady Gini over the latter period were the labor market reforms in the OECD economies (Bumiaux, *et al,* 2006). After 2000, Gini coefficient again began to climb for the OECD economies, reflecting the end of the New Economy boom, and the consequent rise in unemployment rates. Above average inequality continued in Italy, Spain, the UK and the US, while the rise in the Gini coefficient was relatively less in Germany and the Nordic economies. Over half a century ago, Simon Kuznets (1955) suggested that income inequality may follow an inverse-U curve, that is, first rising with globalization and then declining. There is a likely possibility that Kuznets relationship still hold and future should be able tell us when we enter the declining phase of income inequality with advancing globalization.

4.1 China: A Case Study of Escalating Income Inequality

If the long-term trend is analyzed, in terms of income inequality, China displayed a U-shaped pattern. When the Maoist reforms began in 1953, the Gini coefficient of household disposable income was as high as 56 percent, an alarmingly high level, making China a country of one of the most unevenly distributed income. However, after the era of socialist reforms, the Gini sharply declined to 26 percent in 1975. This stood for a rather egalitarian society, albeit large regional disparities existed. As this egalitarian society had exceedingly low per capita income, there existed an equality of poverty. Measured by international poverty lines, millions lived under the $1 a-day. In 1978, China adopted its now-renowned *Gai Ge Kai Fang,* or “change the system, open the door” strategy. Gini coefficient at that point in time stood at 32 percent. Economic reforms began with rural households and spread to the other sectors of the economy. They transformed China both economically and socially.

Before 1978, China was an autarky. Since the early 1980s it turned into an epitome of global integration. Trade (export + import) accounted for 69.4 percent of the GDP in China in 2005; the corresponding proportion was 39.6 percent in 2000.[22]This is but one indicator of its rapid clip global integration. Vertiginous long-term GDP growth rate and global integration increased China’s per capital income. In 2005 it was almost six times its 1985 level (Wan, 2008). Quickening of economic growth was accompanied first by a modest surge in income inequality, but it rose rapidly after 1985. In 1988, the Gini was 38 percent. After 1990, as GDP and per capita income rose, income inequality worsened at a higher rate; in 1995 it was 43 percent and 1998 it declined marginally to 41 percent (Gustafsson and Zhong, 2000). Rapid increase in income inequality can be traced to a widening of the rural-urban gap, which in turn was driven by urban-based

[22] The source of these statistical data is the World Development Indicators 2007.

industrialization and export-led growth, which was made feasible by rapid growth of special economic zones (SEZs) situated in the coastal provinces.[23]

Rise of China is regarded as globalization-powered. Rapid outer-oriented GDP growth that China was able to sustain for a long time without any period of major decline, coupled with focused endeavors of the Government to reduce rural poverty, which started in 1980, led to remarkable poverty alleviation. Absolute poverty in rural areas declined from 250 million in 1978 to 26.1 million in 2004 (OECD, 2005). This is regarded as the largest single contribution in global poverty reduction in the global economy. Large scale poverty alleviation in the rural areas owes a great deal to the rural production responsibility system, which is often referred to as the “second land reform”. Under this system, land was not only decollectivized but allocated to individual rural households. This ensured that the early growth in China was pro-rural, which led to reduction in rural income inequality as well as narrowing of the urban-rural income gap. As in the mid-1980s, the emphasis of reforms shifted to urban China, inequality in China stopped declining. Since then, as testified by the rising Gini, little official attention was paid to equity concerns until recently. By 2008, China Gini coefficient reached as high as 46.9 percent, in that it was ranked below India (36.8 percent), Indonesia (34.3 percent), Republic of Korea (31.6), Russian Federation (39.9 percent) and Turkey (43.6 percent). However, China was still better off than countries like Argentina (51.3) and Brazil (57.0), these are EMEs with the most uneven income distribution (HDR, 2008).

Rapid global integration, sustained brisk growth and breakneck industrialization created a middle class of some 400 million, which is a little higher-up the income scale. They own their apartments and some even have bought their first cars. There is a small super-rich class, albeit there is no Chinese billionaire in Forbe’s 2008 list of 20 richest people in the world. The same phenomenon made tangible contribution to poverty alleviation endeavors. However, concurrently China’s income inequality rose steadily to a high level. Also, a striking spatial gap has emerged in China. Export-oriented industrialization essentially took place in the coastal provinces of southern and eastern China, where majority of SEZs are located (Das, 2008a). It passed by the other half of China, which included those who were not part of this veritable economic revolution in the urban areas and the rural inhabitants.

Spatially, the northern and eastern provinces lagged behind in the race to prosperity. On the one hand you see glittering airports and six or eight lane highways. The view from Shanghai’s Bund across the Huangpu river to the towers of the new financial district of Pudong is world class and breathtaking. Beijing’s concentric ring roads are full of elegant modern cars. On the other hand, stark urban and rural poverty still visibly exists. While it exists all over China, its magnitude is higher in the north and the west of the country. The *nouveau riche*

[23] Das (2008) provides meticulous analysis of how this urban-rural inequality developed and intensified in China.

class that benefited from the economic revolution comprises those workers, professionals and entrepreneurs who succeeded in joining in the export-oriented economic expansion and be a part of the global-integration of the Chinese economy. Goodman and Zang (2008; p. 5) regarded emergence of a well-off social class "a consequence of globalization", so did Chow (2006; p. 271). Their higher incomes skewed the income growth in favor of those who were skilled, well-trained and were the owners of capital. This explains the high value of the Gini in 2008. While trickle-down may take place, it is a time consuming process.

5. Globalization and Employment Insecurity Angst

Globalization-employment-insecurity nexus has compelling and damaging implications for societies. In the mature industrial economies this nexus begot something of a popular movement against globalization. It has received strong support from popular press, which has piled up large anecdotal evidence to validate this viewpoint. It has received a lot of empathy and proactive backing from the political parties because workers are voters.

This nexus stimulated a vigorous debate in the industrial economies. Representing the pro-globalization side of the motion, Gregory Mankiw of Harvard University fervently contended that globalization of labor markets, which includes offshore outsourcing, is a long-term plus for the industrial economies. It also implies a larger benefit to the EMEs, making it a win-win proposition for the two sides. He regarded the eventual qualitative impact of globalization over the industrial economies comparable to intensified multilateral trade. However, Alan Blinder of Princeton University, who took position against the motion, held that labor market globalization has had a major impact over the industrial and employment structures in the industrial economies. As in the short-run it negatively influenced wages and labor turnover, it should matter to the policy makers. It has serious economic and social ramifications. This is Blinder's justification for adoption of a protectionist strategy (Blinder, 2007; Leamer, 2007). However, it must be emphasized that he did not refute the basic economic gains from globalization of labor markets.

That some workers, particularly at the lower rung of the skill- and technology-ladder, lost their jobs due to increasing global integration through trade channel as well as global integration of labor markets cannot be denied. Due to wage rigidities, job losses were much higher in the EU economies than in the US. Therefore, labor forces in the mature industrial economies, particularly in the EU, the US and other Anglo-Saxon countries, have demonized globalization for apparently legitimate reasons. They regard and portray it, first, as a job killer and, second, as a cause of wage-stagnation in their respective economies. Sizable job losses did occur in the some manufacturing and services sectors. Blame for higher unemployment rates in general and for retardation in the rate of employment creation was put on the doors of globalization in labor markets. Since 2001, workers' wages in the EU-15 economies and the US have languished. Particularly, in the US real wages grew less than half as fast as productivity. If these allegations are true, globalization must be spurned.

Does global integration of labor markets deserve this allegation? An honest answer cannot be categorically negative. The rationale behind this acerbically negative perception of globalization being a job destroyer evolved in the following manner: With progress in integration of labor markets, the labor forces in the East European economies, China, India and the Russian Federation have been incorporating into the global production system. There are no historical antecedents for this development. By joining in the global labor force, millions of workers in these and other EMEs have won a chance to eschew poverty and squalor they lived under for a long time. In terms of per capita incomes, these economies are still much lower than the industrial economies. As the wage gap, adjusted for productivity, between the two sets of economies is large, these economies stand to gain significantly from trading with the industrial economies. Assisted by the advances in the ICT and modern technology, globalization of labor in several sectors picked up momentum since the early 1990s. *Pari passu* firms in the mature industrial economies fond themselves in the fortuitous situation of having an oversupply of labor in global labor market. This in turn led to intensified competition in the labor markets. For the firms in the industrial economies, in several industrial and services sectors foreign workers not only became available in plenty but also at much lower wages, in many cases at a fraction of prevailing wages in their own economies. Therefore, their profits soared. Booming corporate profitability in the industrial economies has attracted a great deal of attention. Flip side of this coin was falling income of some workers and other low-income households in the industrial counties. Krugman (2006) noted that even in good years incomes of most non-elderly households failed to keep up with the rate of inflation and that the number of Americans in poverty rose. Blue collar workers in the US were financially worse-off in 2006 than 2000. Labor markets in the industrial economies, particularly the US, became polarized into high-wage and low-wage. While the former flourished, the latter languished (Autor, *et al* 2006).

Thus viewed, if workers in the industrial countries believe that globalization of labor markets roiled the labor markets in their economies and caused employment insecurity and adverse pressure on their wages, they are not wrong. The labor's share of GDP in the industrial economies fell steadily, and came doen to historic lows (Rose, 2007). With that, rising share of capital in the GDP has become the latest trend (Thirlwell, 2007). As labor market globalization accelerates in the foreseeable future, more and more workers will be exposed to foreign competition. Blue-collar workers and middle-class office-workers perceive themselves as the principal casualty of globalization. They clamor for protection, as set out in Section 3.2, making globalization of labor markets into a politically sensitive issue.

This view of globalization of labor market being a source of unemployment runs counter to what economists assert, that is, integration of labor force globally is a source of long-run welfare-gains both for the domestic economy as well as for the global economy. It is a win-win situation for both the firms in the industrial economies and the labor-exporting EMEs and developing economies, it matters little in what mode of labor export is chosen. The modern theory of international trade posits that factors of production are used far more efficiently when they are mobile than when they are static; labor mobility increases long-run welfare gains. Thus globalization of labor forces result in tangible benefits in the long run. Empirical evidence is available to demonstrate that offshore outsourcing did not account for a meaningful part of the job losses in the recent downturn in the US and slower rebound of the labor market. If anything, empirical evidence suggested that increased employment in the overseas affiliates of US multinationals was associated with more employment in the parent firm at home rather than less (Mankiw and Swagel, 2006). Also, productivity increases due to offshore outsourcing and rise in profitability may lead firms to increase domestic hiring, leading to net employment generation. A large survey of firms in the UK, that routinely imported services from abroad, were found to have faster employment growth than those that did not (Hijzen, *et al,* 2007).

Obviously, the workers who lose jobs in the industrial economies are not impressed by the plausible long-term welfare gains to their economies as well as net employment gains. Their innate and instinctive concern is short-term loss of income, which leads to personal distress and deprivation to their families. If it happens to (i) a lot of workers and to (ii) those who have aged in a particular profession and are relatively older, then it turns into large scale social distress in a society. It is easy to see why these categories of workers regard globalization a villainous phenomenon that intrudes into their lives and that of their families and therefore should be shunned, or at least controlled, at all costs.

5.1 Factor-Biased Technological Development

A factor that had little relation to globalization but had the same impact of worsening the Gini coefficient and increasing employment insecurity was biased technological development over the preceding three decades. It made globalization a scapegoat. The newly evolving technologies increased unemployment and spurred domestic income gap all over, particularly in the industrial economies. They were skill-intensive and increased the premium on skills. They had an obvious factor bias. The new technologies reduced the demand for unskilled workers, while increased that of the skilled ones. Advances in the ICT, which became a robust engine of economic change, intensified this trend. They contributed to worsening of the plight of the low-skilled workers in the industrial economies. *Au contraire*, those with higher-skills and superior education benefited markedly from this development. The ICT-led as well as ICT-enabled automation and transition to flexible production processes not only boosted productivity but also caused a shift from labor-intensive to capital- and skill-intensive production methods. The result was that those who were neither the owner of capital nor skills became the losers. Income flows became skewed in favor of better qualified and higher-skilled workers. The newly evolving technology also accelerated replacement of lower-skill workers by physical capital.

Although expanding trade of the industrial economies with the developing economies, particularly the EMEs, which are low-cost producers of manufactures and services (Section 5.2), had an adverse impact over the lower-skill labor segments and their wages in the industrial economies, it was the biased technological development that harmed them more (Lindert and Williamson, 2005). According to an empirical estimate, while globalization contributed 20 percent to wage stagnation and depression, the ICT was responsible for 60 percent (de la Dehesa, 2006). Some large EMEs, like China, have begun to have the same effect over the labor force in the large developing economies. Thus, global integration has been wrongly made guilty for the problems for the lower-skilled labor, which for a greater part emanated from the idiosyncratic technological evolution.

5.2 Gloomy Side of Globalization

The contemporary phase of globalization has led to swift movements of firms from the matured industrial economies to other parts of the developing and emerging-market economies, wherever they could find market-friendly investment environment and high quality labor force. As globalization progressed, this movement of firms became swift and with inward movement of firms jobs were created and with outward movement they were readily shed. Samorin in Slovakia, a relatively new member of the EU, epitomized this trend. Slovakia is a cheerleader of globalization and public opinion is enthusiastically supports it. Samorin is ideally located near a four-way border, where Slovakia, Hungary, Austria and the Czech Republic meet in a cat's cradle.

It had the location advantage as well as an industrial base. In the 1990s, it was full of low-wage and experienced workers with 20 percent unemployment rate. It attracted firms from Western Europe and even as far away as the US, where wages were high and labor markets highly regulated. The EU officials explained that these movements of manufacturing activity were in keeping with the current trend in globalization and that this process made the EU economy more competitive.

For Samorin this trend spelled a veritable economic boon; which led to sharply declining unemployment rate, rising wages and a segment of skilled labor force migrating to the other EU countries. What people in Samorin did not see was that the same trend could move the incoming firms to other places for the same set of reasons. Since early 2000, many large firms decided to move on to China and Vietnam, shedding large number of Samorin workers. Also, as supply chains break into ever smaller parts, jobs are lost in one place and created in a different parts of the globe. A typical example of globalized movements of firms and jobs is the German lighting firm that had moved to Slovania, recently sent its manufacturing operations to China and R&D back to Germany, shuttering down its facility in Samorin. Similarly, a large Hong Kong textiles manufacturer that had set up manufacturing operations in Latvia, shifted its production to Macedonia and Vietnam. In both these examples the earlier locations lost a large number of firms and jobs. Prosperity that had come to Samorin turned into gloom. In a globalizing world economy, firms behave like citizens of the world.[24]

5.3 Four Horsemen of Apocalypse

Little wonder that (i) import competition from the low-income, low-wage developing countries and the EMEs, (ii) technologically assisted offshore outsourcing, (iii) global production networks, and (iv) immigration of skilled and unskilled workers are regarded as the four horsemen of apocalypse by the labor forces in the industrial economies. Both in the EU economies as well as in the US imports from the EMEs and other low-wage developing countries increased steadily. In the EU-15,[25] proportion of imports from these economies almost doubled. They soared from 2.7 percent of GDP in 1990 to 4.9 percent in 2004. In the US this increase was a trifle more, from 2.2 percent of GDP to 4.4 percent over the same period. Another telling measure is increase in imports from this country group as a proportion of total imports. For the EU-15 economies, they rose from 12.4 percent of the total imports to 18.7 percent between 1990 and 2004. For the US, they soared from 24.4 percent to 33.7 percent.[26]

In the past, imports of manufactured goods in the EU economies as well as in the US were sourced from both the EMEs and other low-wage developing countries and other industrial economies. In the late 1980s this trading pattern began to change and exports for manufactures from the former groups of countries to the industrial economies began to rise and its share almost doubled (Bivens, 2007). Many of these developing-country exporters until the late 1980s were small and their exports of manufactured products were small in both relative and absolute terms. It is no longer true in the present times. Not only they grew large but their number also increased. The steady increase in their exports of manufactures to the industrial economies led to a greater income distributional effect than in the early 1990s, when the exports of manufactured products in were not large. The exporting economies were low-wage economies; hourly wages in these economies were only 3 percent of the US level. This transform in the trading pattern suggested that "the distributional effects of trade may well be considerably larger now than they were in the early 1990s" (Krugman, 2008; p. 4).

[24] See *The Economist,* May 31, 2008, "In the Nick of Time: A Special Report on EU Enlargement" after page 52.

[25] The EU-15 comprised the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom. This was the number of member countries in the European Union prior to the accession of ten countries on 1 May 2004.

[26] These statistical data come from OECD STAN Bilateral Trade Database for 2008.

A large empirical study undertaken using a panel of 18 industrial countries over 1960–2000 inferred that while productivity growth increased labor's share of national income until the mid-1980s, after this time point it became biased towards capital and increased profits. Both globalization and trade with low-income, low-wage, developing economies had a negative impact on the labor share of national income in the industrial economies after the mid-1980s. This was in accordance with the Heckscher-Ohlin theory. The role played by the ICT revolution is relevant in this context; the ICT favored higher-skilled workers at the expense of low-skilled ones. Also, in keeping with the Heckscher-Ohlin theory, the industrial economies tended to specialize in skill-intensive industries, which *a fortiori* benefited workers with higher-skills. Thus, the declining share of labor in the national income in the industrial economies was more of a structural or equilibrium factor, rather than a cyclical one (Guscina, 2007). This tendency is supported by the standard theoretical Stolper-Samuelson model (1941), which emphasizes that trading pattern has a strong influence over income distribution. As this kind of trade pattern evolved with advancing globalization, the textbook analysis suggested that lower-skill workers in the wealthy countries were going to face the crunch. Trade with labor-abundant economies causes reduction in relative price of labor-intensive goods in the high-income industrial economies. This should *ceteris paribus* have an adverse effect over the wages of low-skilled and less-educated workers, both in absolute and in relative terms.

Several categories of jobs that are frequently outsourced offshore at present were regarded as immune to international competition until recently. Increased import competition, technologically assisted offshore outsourcing, global networked production and movement of skilled professionals in some high-technology production activities have created a new trend in global commerce during the contemporary phase of globalization. These are justifiably regarded as its characteristic features. The innovative trends are there to stay. If anything, they are likely to evolve and develop further. These trends have long-term implications for the global economy and will continue to influence employment security and relative wages of workers in the mature industrial economies. This applies *a fortiori* in the short term. That said, empirical studies reveal that quantitatively the impact on wages was not trivial, but it was not sizeable either (section 5.4).

5.4 A Flawed Line of Logic?

Most economists concur that in the long-run globalization, including that in the labor markets, will have a beneficial economic impact in both the industrial economies and their partner economies, be they developing economies or EMEs (Coe, 2008). Yet, towards the end of the decade, even those who regard globalization as having eventually beneficial implications became concerned about the short-term income and wage disruptive impact in the wealthy industrial economies. To some, it began to appear larger than visualized earlier; for political reasons it soon became an overly sensitive issue. The revisionists gave two reasons for it: First, trade of the industrial economies with low-income, low-wage, countries went on increasing at a rapid pace (Section 5.2). Second, due to fragmentation of production process and global networked production, workers in industrial countries had to compete with workers in the developing economies. This applied more in labor-intensive tasks than in capital- and technology-intensive ones (Krugman, 2008).

However, this line of logic is not without basic flaws. First, globalization is not limited to employment-shrinking and wage-stagnating imports in the industrial economies. It significantly increased exports, which tend to create jobs for different category of workers, including blue-collar jobs. It went unnoticed that exports that are generated are in higher-technology, higher-value-added, sectors. Therefore, the new jobs that are created are higher-wage jobs and result in far greater gains in the industrial economies than the losses incurred due to job losses. Second, not all the allegations of increasing income gap in the industrial economies could stand close scrutiny. Lawrence (2008) measured the income gap between the white-collar and blue-collar workers in the US and concluded that it did not widen markedly over the 1990-2006 period. Also, wages of the least-skilled workers improved in comparison to those of the middle-skilled ones. On analyzing recent US wage statistics, Lawrence (2008; p. 10) found “wages in the 50th percentile rising more slowly than those in the 10th percentile and … the wages of high-school dropouts rising as rapidly as the wages of high-school graduates”. Thirdly, in many industrial economies the labor force has been undergoing a transformation in that the proportion of the white-collar workers in these economies has been on the rise while that of blue-collar workers is on a decline. This is the natural outcome of these economies moving further up the technological ladder.

Scrutiny of recent research on this politically sensitive economic issue portends to the fact that the culpability of globalization on this count can not be substantiated. Several empirical studies concluded that “globalization does not appear to have had a *major* influence on the US labor market” (Blanchflower, 2000; p.50).[27] There were other studies, that used more current statistical data, came to a more credible and realistic conclusion. They demonstrated that while globalization was partly responsible for wage and income gap between skilled and un-skilled workers in the US and other industrial economies. Saito and Tokutsu (2006) concluded that while the effect of globalization on wages in industrial economies was statistically significant, it was small in magnitude. Its influence was limited, ranging between 10 percent and 12 percent. Most studies assigned blame to skill-biased or factor-biased technological progress for the greater part of the wage gap.[28]

[27] Both Blanchflower (2000) and Slaughter (2000) provide extensive review of research papers on this issue.
[28] Other noteworthy writings include Pierce (2001), Amiti and Wei (2005), Goldin and Katz (2007) and Reynolds (2007).

No doubt the EU economies or the US can stop all imports of manufactures from China and other low-income countries and produce them domestically using capital-intensive production methods. When imports are reopened, for sure they would displace workers in these economies, but without substantially widening the wage inequality. However, a caveat is essential here. This is not to deny that the share of income going to a small segment of the high-income earners in the workforce in the US increased substantially since 2000. This small class comprised highly and professionally trained people, having PhDs, JDs, MBAs and MDs. They recorded a sharp inflation-adjusted increase their take-home incomes.

6. Globalization and Financial Volatility and Macroeconomic Instability

Global integration is held responsible for macroeconomic as well as financial instability. Numerous financial crashed in the EMEs in the recent past and 2007-08 sub-prime mortgage crises in the US were blamed, partly or wholly, on financial globalization. They have had high economic and social costs, which vividly epitomized the downside of globalization. Going by simple logical proposition, financial globalization was to augment savings and investment in the developing economies that needed capital and underpin their growth endeavors, through direct and indirect channels. Intensive research found little evidence supporting this line of logic (Kose, *et al* 2006). Global financial flows failed to promote even risk sharing or consumption smoothening. Kose, *et al* (2007) found only a modest evidence of risk sharing, which was nowhere near the level predicted by theory. Furthermore, during the contemporary phase of globalization only industrial economies were able to attain a degree of risk sharing outcome. The developing economies were shut out of this benefit of financial globalization. Interestingly, even the EMEs, which participated in large cross-border capital flows, had little change in their ability to share risk.

Early on in the 1980s, it was believed that the costs of macroeconomic volatility caused by liberalization of trade and financial markets on long-term economic performance are minor. However, this view changed as more macroeconomic and financial crises that occurred in the 1990s and early 2000s. Some of the economies that were struck by serious volatility had a meritorious record of growth and were regarded as well-managed economies, like the Asian economies that were struck down by crises in 1997-98. These crises reduced long-term growth and had a large welfare cost, leading to a serious adverse impact over the poor in crisis-affected economies. The Asian financial crisis not only roiled the crisis-affected Asian economies, but also the entire region (Das, 1999; Das, 2005). Costs of these crises were borne “overwhelmingly by the developing world, and often disproportionately so by the poor”, who were the most vulnerable groups (Nissanke and Thorbecke, 2007; p. 2). This reinforces the oft-repeated allegation that globalization not only did not benefit the poor but also inflicted harm on this vulnerable group. In the post Asian crisis period, central bankers began to regard financial globalization as being volatility prone. To defend themselves from the vacillation and fickleness of the financial markets and high-cost macroeconomic and financial crises, the EMEs began to self-insure by accumulating large foreign exchange reserves. China's foreign exchange reserves reached $1.76 trillion in April 2008, the highest for any economy in the world (TCP, 2008). Other EMEs, particularly those in Asia, also accumulated sizeable amounts of forex reserves. This defensive strategy was self-defeating because massive reserves have low yields. This means that the social opportunity costs for the high-reserves economies is large, often close to 1 percent of the GDP.

6.1 Financial Volatility and Growth Performance

Economic and output volatility wrecks investment climate and reduces investment in an economy. It is usually followed by a credit crunch in the economy, which affects long-term growth. Infrastructure and long-term investment projects are usually put on hold, if not shelved completely. Openness of financial markets was found to increase volatility of output. DiGiovanni and Levchenko (2006) employed industry-level panel data to prove that openness also results in higher sectoral volatility. Kose, Prasad, and Terrones (2005) documented that countries subject to higher output volatility show worse growth performance on average than the more stable ones. A 1 percentage point increase in the standard deviation of output growth is associated with a 0.16 percentage point decline in the average growth rate of a developing country. A caveat is essential here. An economy's structural characteristics as well as the nature and origin of volatility have a good deal of impact over the empirical relationship between volatility and growth. Many of the financial crises in the EMEs coincided with sudden stops of financial inflows, which exacerbated macroeconomic volatility and worsened intensity of the crisis. These sudden stops work as financial shocks and tend to be costly for EMEs that are well-integrated into the global financial markets (Becker and Mauro, 2006).

Lately, financial volatility in the global economy has declined. Developing economies and the EMEs have not suffered a financial crisis. The reason for resilience in the face of financial turbulence was not the large mountains of liquidity amassed by them. Many of them have been running trade surpluses and lending capital to the rest of the world, particularly to the credit parched economies like the US. Rodrik (2007b; p.8) pointed to the irony hidden in the reversal of the direction of capital flows. That is, in order to protect themselves from "the whiplash of financial crises", developing countries have been forced not only to shun the benefits of financial globalization, but also to make large capital transfers to rich countries. Has financial globalization caused paradoxical and perverse flow of capital from the low-income developing to the high-income advanced industrial economies? This is a travesty of neoclassical economic thinking.

6.2 Question Mark over Global Capital Inflows and Rapid Growth

The proposition that financial globalization, or capital flows from economies with high capital-labor ratios to those with low-capital-labor ratios are normal and that they lead to rapid growth in the latter group of economies has been challenged. While prima facie correct, this proposition deserves to be analyzed in depth, bearing in mind the current climate of financial flows. Correlations between growth rate and current account balance over 1970-2004 analyzed by Bosworth and Collins (2003) and Prasad, *et al* (2007) show that the correlations are positive.[29] This implies that developing economies that did not rely on capital inflows grew more briskly, or those that depended less on global capital inflows grew faster. When Lowess regressions of economic growth on the current account for the entire sample of developing countries was computed for four sub-periods, the positive correlation for the first period, the 1970s, was absent. For the other three periods correlation was uniformly positive and robust. When the sample developing economies were divided into four groups based on whether their (i) ratios of investment to GDP and (ii) current account balance to GDP, are above or below the median, it was observed that countries with higher investment achieved superior growth rates of GDP per capita than those with lower. It does not appear to be counterintuitive. However, a noteworthy observation was that the developing economies that had *higher* investment ratios as well as *lower* reliance on global capital inflows, which was reflected in their smaller current account deficits or larger surpluses, grew at a brisker clip. This group of developing economies had approximately 1 percent higher GDP growth rate than those that had high investment but relied more on global capital finances. Economies do not grow at a brisk pace when they rely on external capital for investment. This is a crucial result for the policy mandarins.

The reasons for weak GDP growth in the presence of global capital inflows may be credit and product market imperfections in the developing economies. Weaknesses in financial markets and macroeconomic distortions are endemic in the developing economies. Given these systemic flaws, they are generally not able to use external capital for growth in an efficient manner. Gourinchas and Jeanne (2006) concluded that for many of them lower productivity and higher level of distortions are the principal factors determining GDP growth, not scarcity of capital. These difficulties limit their ability to absorb external capital.

7. Textbook Globalization is at Variance from Real Life Globalization

Proselytizers of globalization focus on its theoretical form, which is pristine and immaculate, and shows it a benign mechanism, ideal for building up total factor productivity (TFP), enhancing welfare gains and improving the economic lot of the impoverished groups of populations.[30] To this end, market forces need to be freed. In reality, its operations and management are not precisely what the theory indicates. The potential gains from global integration are not always delivered in the manner indicated by economic theory. If the contemporary globalization and

[29] A negative current account balance indicates a net capital inflow, while a positive current account balance indicates just the opposite, that is net out flows of capital.

[30] Total factor productivity (TFP) measures the use of better technology and improvements in the quality of labor and capital. TFP explains between half and three-quarters of economic growth. Differences in TFP account for most of the differences in output growth rates among countries.

its actual operation are closely examined, one can find that its negative aspects have been somewhat overlooked and consequently it was *a la* Stiglitz (2005) oversold.

Those who have closely analyzed its unfolding pointed to its potential weaknesses and asserted that many of its benefits are conditional (Rodrik, 2007a). They pan out only when certain macroeconomic policy prerequisites are present. For instance, it is vitally important that in the economies that benefit from globalization, market forces are perfectly operational. Furthermore, markets need to function in a competitive manner. That being said, some economies that are regarded as epitomes of successful globalization by its proponents, such as the four newly industrialized Asian economies (NIAEs)[31], China and lately India and Vietnam, did not play the game according to the orthodox neoclassical economic rules for appropriate and orderly global integration. China and Vietnam became WTO members late, years after achieving sustained high growth rates. This means that they could subsidize their exports and impose quantitative restrictions on imports. Trade liberalization in China, India and Vietnam was significantly delayed; tariff and other barriers were reduced well after the onset of rapid economic growth. Rodrik (2007b; p. 2) emphasized that Japan, Korea and China "combined orthodoxy on some (mostly macroeconomic) policy fronts with a good bit of heterodoxy on others (especially in microeconomic policies)." Each one of these economies "played by very different rules than those enunciated by the guardians of orthodox globalization—multilateral institutions such as the World Bank, IMF and GATT/WTO and by Western-based academics".

This successful group of Asian economies did not follow the full range of Washington Consensus strategies either. This proves that the problem essentially is not with globalization but with its implementation and management. Accepting the phenomenon of globalism uncritically for its strengths, while ignoring its limitations, can turn out to be a disadvantageous proposition for the economy in question, *a fortiori* when the weaknesses are left unattended by policy mandarins in individual economies. No doubt the so-called Washington Consensus and its emphasis on deregulated markets can have welfare-enhancing impact, national policies based on the ground realities are of crucial importance for eschewing the negative consequences of globalization. The process of globalization needs to be based on a *sui generis* strategic structure.

Although potential benefits of competently managed global integration are obvious, it is often unproficiently managed. The role of the supranational institutions of global governance, particularly the IMF, in this regard came in for frequent criticism. Besides, "the rules of globalization have been determined by the advanced industrial countries, for their interests, or more precisely for the interests of special interests" in their countries, which not only made operation of globalization complex but also more skewed in favor of the industrial economies (Stiglitz, 2005; p. 228). There is a lot of insight in and logic to what Stiglitz

[31] They are Hong Kong SAR, the Republic of Korea, Singapore and Taiwan.

contended. Democracies in the industrial economies have functioned for a long time, consequently their systems of checks and balances have evolved and normally work well. For the most part, these systems try to balance commercial interests, which assume a great deal of importance, vis-à-vis the other social interest such as labor, consumer and environment. In a strategic decision-making process, they are regarded as significant in their own right. As opposed to this, the system of global economic governance is relatively young and lacks a checks and balances mechanism. They were designed as professional institutions in their respective areas of expertise, which made their vision and focus narrow. The agenda of the IMF and the World Bank are run by the central bankers and finance ministers of the member countries, while in the WTO trade or commerce ministers call the shots. The resulting near-sightedness and limited vision of these institutions often leads of sub-optimal decisions. Their policies have often shown a strong imbalance in favor of economic variables. The non-economic variables are ignored, sometimes at a high cost to societies.

Failure of globalization is routinely blamed on the corrupt and incompetent governments in the developing countries, particularly their failure to launch macroeconomic reforms and complete lack of transparency in governance. No doubt these problems exist and allegations ring true. It is imperative for the developing economies to address these damaging and costly irritants and to implement the much-needed macroeconomic reforms. However, this is not an explanation of the negative aspects and impact of the on-going globalization. Even if corruption is eradicated and transparency in governance is achieved, globalization can, and did, have a detrimental effect over developing economies. Argentinean crisis is one case in point. Currency depreciation of its principal trading partners, while it followed fixed exchange rate regime, was enough to drive it into a crisis situation. Privatization, the IMF suggested remedial measure, deteriorated the situation further. Thus, blaming the developing economies for the problems created by globalization is not always correct.

Accepting the wisdom of Washington Consensus only partially, resulted in rapid growth with poverty alleviation for the East Asian economies, China and lately India and Vietnam. An inconvenient truth is that this group of economies flouted several policy guidelines of the Washington Consensus with impunity, devised their own development strategies, taking into account their own economic realities, and eventually had wholesome, even meritorious, results to show. Paradoxically, these economies succeeded despite their heterodox strategies. A good question to ask is whether they succeeded due to them.

There are many clear examples of this behavior. The Washington Consensus prescribed rapid deregulation, liberalization of trade and financial sectors in these economies, which progressed only at a snail's pace. All of them had elaborate government-designed economic and industrial plans, and strength of their private sector grew but again gradually, in short steps. As noted above (in this section), lowering trade barriers and opening up of the domestic economy also advanced rather slowly. Most importantly, the financial sector was kept closed for a long period, particularly for short-term capital inflows. Both China and India still have not fully liberalized their capital account (Das, 2006). While these economies had no illusions regarding the contribution that Washington Consensus as well as the value of global integration, they managed and crafted their macroeconomic policies according to their own exclusive needs and ensured that on balance they work to their advantage.

China's case is particularly enlightening in this regard. Its rapidly globalizing economy is a testimony to the fact that economies can productively and energetically integrate globally even after violating every rule in the book of the proselytizers of globalization. Significant trade liberalization began late in China, particularly when the economy was gearing up for the WTO accession. Dual value of the renminbi yuan was also unified late, in 1994. China persistently delayed its liberalization of financial markets. The most striking incongruity in this regards is China's deferred adoption of private-property rights; the property law was adopted by the National People's Congress in 2007 and came in force in October 2007. A large number of its gigantic state-owned enterprises (SOEs) have still not been privatized; they are merrily if wastefully chugging along. It continues to be a glaring weak spot of the economy. China's road to privatization has been long and winding (Das, 2008a). An extraordinary feature of the Chinese economy is that it managed to achieve a high degree of global integration despite the fact that it ignored the rulebook. The Chinese policy makers were pragmatic and earnest, and realized that "the solution to their problems lay in institutional innovations suited to the local conditions—the household responsibility system, town and village enterprises (TVEs), special economic zones (SEZs), partial liberalization in agriculture and industry—rather than in off-the-shelf blueprints and Western rules of good behavior" (Rodrik, 2007; p. 239).

The two earlier success stories of dynamic growth and global integration, those of Korea and Taiwan, portend to the same direction. During their early growth periods, they made use of high tariff barriers, import quotas, local-content regulations. These policy measures go counter to the grain of neoclassical economics, regarded as anathema by proselytizers of globalization and are prohibited under the WTO regulations. Furthermore, both the dragon economies strictly regulated capital flows until the early 1990s. Likewise, India that has began a lucrative integration with the global economy and recently upped its GDP growth rate to a much swifter clip than ever in its post-World War II economic history. In achieving this growth performance its competitive services sector was of helpe. Until recently, India had one of the most protectionist and irrationally restrictive trade regimes in the world. Its financial markets and capital account were liberalized quite late and hesitantly. Several controls still remain in place (Reddy, 2007).

In contrast to East Asia, China and India, many developing countries and EMEs liberalized trade and capital flows in a hurry, in accordance with the policy prescription of the Washington Consensus. They were soon rewarded with financial crises and poor macroeconomic performances. One country group that stands out is the Latin Americans. Several large economies from this region that adopted the globalization agenda over-credulously, were unpleasantly surprised at the unexpected outcomes. They recorded growth rates which were far lower than their long-term averages and their income distribution worsened. Their economies also suffered from repeated bouts of volatility. Their GDP growth performance during the decade of the 1990-2003 was much poorer when compared to those of East and South Asia. While East Asian economies grew at an average annual rate of 6.4 percent and South Asian 3.3 percent, Latin American economies grew by a measly 1.0 percent over this period.[32]

Theoretically, integrated financial markets were going to be a boon to the global economy. They were expected to effortlessly facilitate channeling of capital from where it was to where it was needed and could be productively utilized. High saving economies like China, Japan, the other East Asian economies, Germany and the members of the GCC began investing in the US, where fiscal deficit was high and the economy had suffered from a chronic deficit in balance of trade in goods. The US economy needed external capital. One could treat this scenario as innocuous and take it as representing mere claims from "intertemporal trade" in goods and financial services (Cordon, 2007; p. 363). Alternatively, it can be couched in neutral terms of saving and investment imbalance in the economy. However, as it transpired, in a short span of time huge current account imbalances in the global economy developed. They were an unforeseen consequence of financial globalization. By 2006, the build up of macroeconomic imbalances began to pose a serious threat to the global economy. Based on the US fiscal and trade policies of 2000-2005 period, this deficit was projected to grow to 10 percent of the GDP in 2010; at that point US debt was projected to reach 60 percent of GDP. It was projected to cross 100 percent of the GDP by 2015 (Buira and Abeles, 2006). Disorderly unwinding of these imbalances could mean rapid dollar depreciation, sharp increase in the US interest rates, which in turn could have serious consequences for the global financial markets and eventually global GDP growth. A hard landing for the global economy, and a prolonged recession, were well within the realm of possibilities. However, assisted by an IMF-backed process of multilateral consultation, an abrupt unraveling of the imbalances was avoided. The imbalances peaked in 2007. In early 2008, they began to narrow. Slower growth and sharply depreciated dollar led to a decline in the US current account deficit. Also, the surplus economies made some progress in implementing policies made under the IMF-sponsored program to bring down their ever rising surpluses (Faruqee, 2008).

8. Plausible Shape of Things: Will the Genie Go Back into the Bottle?

A century ago, the erstwhile wave of globalization fell a victim to backlash in 1913, and went into reversal. It was partly provoked by distributional consequences. The question whether the present phase of globalization is likely

[32] Sources of these statistics are various issues of the *World Development Indicators*.

to meet the same fate is increasingly being pondered. It is well acknowledged that the on-going global economic integration has a downside and that it needs to be addressed by policy mandarins at the national levels thoughtfully and clairvoyantly. Will the problems spawned by the contemporary globalization derail it? Could they reverse some forms of global economic integration and undermine the progress achieved from globalization so far?

An educated and considered answer to the first question will have to be in the negative. So long as the world economy succeeds in keeping away from a major armed conflict or a steep recession, realistic probability of a full-fledged globalization backlash comparable to the one that occurred approximately a century ago, in the latter half of 2008, was not strong. That being said, there could be harmful ramifications of globalization fatigue. Problematic issues associated with globalization and its negative public perception are capable of undoing some forms of global economic integration and undermining the progress achieved thus far.

The present core of institutions of economic governance has succeeded in laying down a reasonably sound institutional foundation of globalization. For instance, the WTO regulations that oblige the member countries to keep their markets free of tariff, non-tariff and other barriers for multilateral trade have evolved quite well, and this process is continuing in fits and start. The WTO has a more solid institutional and political base than its predecessor, the General Agreement on Tariffs and Trade (GATT), and much firmer structure of rules and regulations (Das, 2007). The objective of the WTO regulations is to lay down such a foundation of multilateral trade that economies can exploit their comparative advantage, and trade in goods and services that they can produce at lower opportunity costs than their trade partners. Second, demands for manufacturing industries for protection are muted. Third, the technological advances of the preceding three decades cannot be abruptly undone. Boeing 747 and Airbus A-380 will not be grounded. Fourth, barring the unforeseen, technological revolution that supported the current phase of globalization is likely to continue. Fifth, costs of transport and communication are also likely to continue their downward movement, enabling business corporations to expand their business operations globally. Sixth, global trends in networked production have become increasing intricate and cannot be undone in a short span of time. The same applies to global R&D, designing, marketing and financial networks, which have also become shock resistant to an extent and therefore likely to persist. Seventh, talent movements have also gained significant momentum, particularly those of technologically trained professionals. These factors debilitate the case of a globalization backlash, or a complete reversal of the contemporary phase of globalization.

However, given the problems spawned by the onward march of globalization, discussed in the preceding sections, resistance to global integration has been on the increase in the advanced industrial economies. Competition for resources, particularly energy, has become intense and has been affecting the global growth. In future, probability of further intensification is strong. If one takes a level-headed view of pros and cons, a plausible course of action could well be as follows: During the latter half of 2008, probability of a reversal or backlash does not seem high. While the advancement of globalization will continue, its pace is likely to be retarded. To some of those who have been examining this process closely, forewarnings of a slowdown in the pace of globalization were increasingly becoming obvious for sometime. If the negative consequences of global integration are not adequately and imaginatively addressed by the national governments, this slowdown may prolong. If that comes to pass, globalization is sure to wane as a powerful transformative force in the global economy. Stagnation in some forms or channels of global economic integration may occur. In addition, the welfare gains that global integration made feasible thus far may well be undermined.

It is apparent that a great deal will depend upon the abilities of the national policy makers to resolve the challenging economic issues. No doubt some will manage them deftly and in so doing ease the onward movement of global economic integration. Other may not be able to do so and cause a policy backlash. Can some pragmatic policy measures be taken to ward off the slowdown in global integration? There is prudence in taking the following two-tier precautionary measures. Domestically, a creative and upright approach would be to emphasize the benefits of the current phase of globalization to the wary constituents, make sure that those benefits materialize and then to ensure that those benefits are distributed in as equitable manner as possible. At the global level, creating an overarching structure of rules with the involvement of the supranational institutions like Bretton Woods twins, the WTO, the Organization for Economic Cooperation and Development (OECD) and empowering them to advance and manage globalization in accordance with those multilateral rules, in an even handed manner, without undue interference of any monolithic power, can be a pragmatic way out. It would lead to creation systemic strength to administer and manage globalization.

9. Summary and Conclusions

Some economist and other social scientists regard contemporary globalization a source of serious problems as well. There are others who, logically or illogically, consider it a negative, harmful, destructive, marginalizing and malevolent influence over economies and societies. Populist views on globalization frequently tend to be on the negative side. Anecdotal accounts often draw a downbeat and damaging image of on-going globalization. No doubt, globalization can create opportunities for accelerating growth for the participating economies, but it can also pose myriad of challenges to and impose constraints on policymakers. It did create a litany of national, regional and global economic problems. In addition, it is correctly blamed for uneven distribution of the benefits from globalization. They are badly skewed within countries and between countries.

Virulent criticism of globalization often comes from politicians, largely because they get more mileage out of being globalization's skeptics than out of being its proselytizers. Opinions and writings in news media and journals have begun questioning the need and sustainability of global economic integration. In general, present (in 2008) global policy environment is far from globalization-friendly. That the Doha Round of MTNs was allowed to languish is a proof of disillusionment with and estrangement from globalization. Not all deprecation is unwarranted. There are distinct possibilities of globalization hurting the poor. It has been observed that the lower the skill level of the people, the greater is the probability of getting adversely affected by the onward march of globalization. It did cause closure of businesses and worsened rates of unemployment, which aroused strong upsetting emotional responses in many people and societies. Also, there are strong arguments against certain set of policies that are frequently recommended by the supranational economic institutions for advancing globalization, for instance, the so-called Washington consensus.

Among lay persons, there is no scarcity of those who are completely and intransigently opposed to globalism and globalization and are certain of their perverse and malevolent contributions. Protracted protests, both peaceful and violent, by detractor of the globalization process have become commonplace. The WTO and the Bretton Woods twins become frequent targets of those who disapprove of globalization because they see them as the principal perpetrator or arc villain. Also, often it is unclear whether the grievances of the detractors are more against big business in general than against global integration of the world economies. The critics of globalization believe that the activities of big business houses and TNCs have expanded far too rapidly and that they have become economically too powerful, garnering a disproportionate proportion of global resources.

Rising income inequality, as measured by the Gini coefficient, is held out as another weakness of globalization. Many rapidly globalizing economies, both developing and industrial, demonstrate widening domestic or within-country income inequality. Rapidly expanding multilateral trade and FDI have exacerbated this intra-economy increase in income inequality. A case study of China, which globalized at rapid clip, emphatically proves this point.

Import competition from the low-wage EMEs, technologically assisted offshore outsourcing, global production networks and immigration of skilled and unskilled workers are regarded as the four horsemen of apocalypse by the labor forces in the industrial economies. That globalization creates unemployment is another ubiquitous angst, particularly in wealthy industrial countries. Globalization-employment-insecurity nexus has compelling and damaging implications for societies. In the industrial economies this nexus has instigated something of a popular movement against globalization. That some categories of workers, particularly those at the lower rung of the skill- and technology-ladder, lost their jobs due to advancing global integration of labor markets cannot be denied. Therefore, labor forces in the EU, the US and other Anglo-Saxon countries, have demonized globalization for seemly legitimate reasons. However, this view of globalization of labor market being a source of unemployment runs counter to what economists assert, that is, integration of labor force globally is a source of long-run welfare-gains both to the domestic economy as well as to the global economy. Also, while increasing trade with the EMEs and developing economies has affected the labor force, particularly low-skilled workers more at present than in the past, quantitatively this impact is still modest.

Proselytizers of globalization focus on its theoretical form, which is pristine, immaculate and streamlined, and show it to be a benign mechanism, ideal for improving TFP and enhancing welfare gains and, thereby improving the economic lot of the impoverished groups of populations. In reality, its operations and management are not precisely what the theory indicates. The potential gains from global integration are not always delivered as they are indicated by economic theory. If the contemporary globalization and its actual operation are closely examined, one can find that its negative aspects have been somewhat overlooked and consequently it was oversold as a policy instrument.

Those who have analyzed its operation comprehensively pointed to its potential weaknesses and asserted that many of its benefits are conditional. They pan out when certain macroeconomic policy prerequisite are present. For instance, it is vitally important that market forces are perfectly operational and that markets function in a competitive manner. Interestingly, some economies that are regarded as the poster babies of globalization by its proponents, such as the four NIAEs, China and lately India and Vietnam, did not play the game according to the orthodox neoclassical economic rules for appropriate and orderly global integration. This successful group of economies did not follow the full range of Washington Consensus strategies either. This proves that many of the problems basically is not with globalization but with its implementation and management.

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