Globalization

THE NATURE OF GLOBALIZATION

Globalization is the process of integration of the world's countries and their people, bringing them closer and increasing their interdependence through economic, technological, cultural and political links. From the economic point of view, which is the most important, globalization is the growing economic interdependence of all countries and the integration of national markets into one global market through the increasing volume and variety of cross-border transactions in goods and services, international capital and money movements and technology transfers. It is the internationalization of production, trade and investment as economic activity spills over national borders for market access, cost advantage and higher profit. Politically, it is the spread of democracy, human rights, basic freedoms, gender equality, transparency in governance and the N.G.Os. Socially, it is the adoption of English as the world language and the spread of Western culture in the forms of pop music, Hollywood films, blue jeans, fast food and affluent life styles. Generally, the globalizing forces radiate from the industrial countries aiming at assimilating the developing countries into the global system shaped by these forces. It is mostly a one-way traffic as Western capital, technology, culture, ideas and life styles penetrate the developing countries. It is consequently a process of homogenization (or Westernization) of economic, cultural, political and ideological systems and policies of the world's countries.

Modern Technology

Globalization is also the shrinking of space, the shrinking of time and the disappearance of national borders by advances in technology. The new information and communications technologies – the Internet, mobile telephone and the fax machine – with their low cost, high speed and wide coverage have catalyzed the integration of financial markets, the spread of multilateral corporations and exchange of ideas and information among people. The cost of a three-minute telephone call from New York to London fell from $245 in 1930 (in 1990 prices) to $3 in 1990 and to about 35 US cents in 1999. Sea freight declined from $60 per ton in 1930 to $29 in 1990; average revenue per passenger mile in air transport fell from $0.68 in 1930 to $0.11 in 1990; the cost of computers in 1990 is one hundred and twenty fifth of that in 1960. The average cost of processing information fell from $75 per million operations to less than a hundredth of a cent in 1969-1990. While more and more people are using the telephone, fax and the Internet, more and more people are watching television. TV sets per 1000 people doubled between 1980 and 1995 from 121 to 235 in the world; they increased from around 50 in 1985 to 250 in 1995 in East Asia and 150 in South-East Asia. A village in Sri Lanka is as likely to be linked to Hollywood films like ***Dynasty*** and ***Baywatch*** and to advertisements on Coca Cola and Kentucky Fried Chicken as it is likely to be linked by road to the next town.

Dr. J.B. Kelegama

Technological advances in global communications have been accompanied by technological advances in production: new machines to produce more, better and cheaper products and to displace labour by automation; improved or genetically modified seeds which are pest resistant and produce higher yields; transgenetic plants; genetically engineered animals and growth hormones for cattle. It is the tremendous expansion of production by the new technologies which is far in excess of domestic requirements that has led to the drive to liberalize trade to provide easy market access to surplus production.

Globalization, however, is not driven by technology alone. Economic globalization has been facilitated by an ideological shift to neo-liberal/monetarist economics with emphasis on *laissez faire* and open markets. Neo-liberal economics — espoused by the USA, the IMF, World Bank and the WTO – aims at improving economic efficiency by allowing market forces to operate without hindrance through liberalization, deregulation, privatization and an emasculated role of the state. Developing countries who seek assistance from the IMF are enjoined to pursue such liberalization policies without exception. India for example, reduced its tariffs from 82 per cent in 1990 to 30 per cent in 1997 and liberalized her investment laws. The opening up of economies has contributed much to the expansion of international trade, tourism, foreign investment, technology transfers and to the spread of Western culture and affluent life styles in the developing world. The world is more prosperous with average per capita incomes having more than trebled in the past 50 years, the share of people enjoying medium human development rising from 55 per cent in 1975 to 66 per cent in 1997 and the share of low human development falling from 20 per cent to 10 per cent.

Globalization is not a new phenomenon. It began with the chartered companies like the East India Company in the sixteenth century and gathered momentum under Imperialism and Colonialism. It grew in strength with the breakdown of the Bretton Woods system of fixed exchange rates in 1971 and the collapse of the Soviet style socialist economic systems in the early nineties. Globalization today is different from the old in several ways. While the old system concentrated on trade in goods and services and investment in raw materials, the current one covers in addition foreign exchange and capital markets. It is facilitated by the Internet, media networks and computer-aided design. The launching of the Internet's World-wide Web in 1990 and the distribution of free browsers by Netscape in 1994 turned networked communications into a more user-friendly and accessible tool. Globalization is promoted by new agents – transnational corporations, WTO, IMF and the World Bank and is supported by new rules, multilateral agreements on trade, services and intellectual property backed with strong enforcement mechanisms resulting from the Uruguay Round of trade negotiations concluded in 1994.

Extent of Globalization

The extent of the interaction between nations and people and their global integration are larger than ever as illustrated by the following figures:-

(a) World exports valued at $7 trillion averaged 21 per cent of GDP in the 1990s compared to 17 per cent in the 1970s.

(b) Foreign direct investment reached $400 billion in 1997, seven times the level in real terms in the 1970s. Cross-border mergers and acquisitions of firms has become the major force in foreign direct investment. Such mergers and acquisitions which exceeded $1 billion each numbered 58 in 1997 mainly in financial services, insurance, life sciences, telecommunication and the media. In 1992 mergers and acquisitions amounted to about $70 billion and accounted for 42 per cent of the total foreign direct investment. By 1997 they had risen to $236 billion accounting for 59 per cent of total foreign direct investment. Foreign direct investment is undertaken for internationalizing or transnationalizing production by breaking the production process into many geographically separated stages in a variety of locations, the labour-intensive stage being located generally in the low wage developing economies. It is mainly such investment in labour-intensive manufacturing industry which has integrated the developing countries into the global economy. Portfolio and other short-term capital flows amount to around $2 trillion in gross terms and are about three times those in the 1980s.

(c) International bank lending grew from $265 billion in 1975 to $4.2 trillion in 1994.

(d) The daily turnover in foreign exchange markets increased from around $10-20 billion in the 1970s to $1.5 trillion in 1998.

(e) The number of tourists more than doubled from 260 million in 1980 to 590 million in 1994.

(f) Some 130-145 million legally registered migrants live outside their countries and migrant workers' remittances reached $58 billion in 1996.

(g) Time spent on international telephone calls rocketed from 33 billion minutes in 1990 to 70 billion minutes in 1996. Internet had more than 140 million users in mid-1998 and the number is expected to pass 700 million by 2001. The number of Internet hosts – computers with direct connection to the Internet rose — from under 100,000 in 1988 to over 36 million in 1998.

Market Domination

Globalization offers through new technology, foreign investment, trade expansion and media and Internet connections, many opportunities for human advancement, enriching people's lives, eradicating poverty and building a global community of shared values. It has in fact generated unprecedented wealth for those who have been able to take advantage of the increasing flow of goals, services, capital and knowledge across national boundaries. The best example for developing countries is East Asia where the countries achieved substantial growth of 6 to 8 per cent a year in the last 30 years with high rates of export growth and substantial inflows of foreign capital until the currency crisis of 1997. However, globalization is being driven increasingly by market expansion – opening national markets for trade, capital and information – outpacing governance of these markets and their repercussions for people. More attention is being paid to appropriate policies and institutions for open or free markets than for people and their rights and commercial interests have relegated the building a community of shared values and achieving common goals into the background. Competitive markets may achieve efficiency but not necessarily equity, and as long a globalization is dominated by the spread of markets, it will put a squeeze on human development. Many activities and goods essential for human development are provided outside the market but they are being squeezed by the pressures of global competition, e.g. fiscal squeeze on public goods, time squeeze on care and an incentive squeeze on the environment.

The UN Human Development Report 1999 has summarized the effects of market domination of globalization as follows:-

"When the market goes too far in dominating social and political outcomes, the opportunities and rewards of globalization spread unequally and inequitably – concentrating power and wealth in a select group of people, nations and corporations, marginalizing the others. When the market goes out of hand, the instabilities show up in boom and bust economies, as in the financial crisis in East Asia and its worldwide repercussions, cutting global output by an estimated $2 trillion in 1998-2000. When the profit motives of the market players get out of hand, they challenge peoples' ethics and sacrifice respect for justice and human rights".

Thus, globalization is proceeding at breakneck speed, but the process is uneven and unbalanced, with uneven participation of countries and people in the expanding opportunities of globalization. The new rules of globalization and the players writing them tend to focus on integrating global markets, neglecting the needs of people that markets cannot meet. The process is concentrating power and marginalizing the poor countries and poor people.

TRANSNATIONAL CORPORATIONS

Globalization, as pointed out earlier, is driven to a great extent by the market. The principal players in the market are transnational corporations which are therefore the principal agents of globalization. They have an inherent tendency to expand their operations on account of rapid advances in technology and economies of large-scale production. The national market is too small to absorb all what they produce and what they save and they are in competition with one another. Thus, they are constantly acquiring or merging with rival companies and opening sales outlets abroad to capture markets, relocating their industries to derive cost advantages and market access and investing their savings in money markets for higher profits. There are about 53,000 large transnational corporations in the world with about 450,000 affiliates and they are involved in as much as two-thirds of world trade, half of which is intra-firm trade which bypasses altogether the free play of genuine market competition. They dominate the production, distribution and sale of many goods from the developing countries, especially in cereal, mining and tobacco markets. The top 300 industrial transnational corporations account for 70 per cent of the total foreign direct investment and control about 25 per cent of the world's stock of productive assets.

Merges and Acquisitions

Transnational corporations are ubiquitous. There are those which concentrate on trade like Coca Cola, Pepsi Cola, McDonald Hamburgers, Pizza Hut, Shell and Caltex, those that provide services such as Hilton, Inter-Continental, Holiday Inn hotels, City Bank and American Express and others that are mainly manufacturing concerns such as Unilever, British American Tobacco, Batas and Nestlés. Competition among themselves drives them into mergers and acquisitions such as those between Boeing and McDonnel, Douglas aircrafts, Exxon and Mobil oil companies, Microsoft and Apple computers, BMW and Chrysler, Volkswagen and Rolls Royce and Sandoz and CIBA. In a period of rapid technological change, firms need to spend billions to stay competitive or to increase their market share; mergers and acquisition give them command over resources for this task while at the same time reducing competition. They also crush and swallow up large and profitable firms in developing countries. In the wake of India's liberalization for instance, foreign transnational corporations appeared to be gaining control of

Indian industries by buying up domestic companies with whom they had formed joint ventures. For example the Korean Daewoo raised its share in the car venture with DCM, British Carlton Communications bought up a television venture of the Mody family, General Electric bought out its partner in a lighting venture and Coca Cola and Pepsi Cola bought out local soft drink bottlers. It is in this context that the Indian Prime Minister pledged to protect domestic industries by giving a "Swadeshi" thrust through a selective approach instead of an open door one to foreign investment.

The East Asian currency crisis and the consequent full liberalization policies imposed by the IMF as a condition for its assistance, have provided an excellent opportunity for the transnational corporations to take over the troubled Asian firms at rock bottom prices. Examples of mergers and acquisitions are: BASF (Germany) and Daesang (Korea); Commerzbank (Germany) and Korea's Exchange Bank; Bosch (Germany) and Mando Machinery Corporation (Korea); Volvo (Sweden) and Samsung Heavy Industries (Korea); Tesco (UK) and Lotus Supermarkets (Thailand); AES (US) and Hanwha Energy (Korea); Coca Cola (US) and Korean bottlers; ABN-AMRO Bank (Netherlands) and Bank of Asia (Thailand). Many other cash stripped Asian firms are being acquired by transnationals almost daily with the blessings of the IMF. In fact, there is now a reaction against increasing foreign ownership of domestic assets in several quarters.

The annual number of mergers and acquisitions in the world more than doubled between 1990 and 1997 from 11,300 to 24,600. Cross-border mergers and acquisitions accounted for $236 billion in 1997.

Power and Influence

The largest transnational corporations have more resources and are more powerful than most developing countries. In 1994 the total sales of General Motors amounted to $164 billion which exceeded Thailand's GDP of $154 billion, Saudi Arabia's GDP of $130 billion and Malaysia's GDP of $98 billion. To what extent they have globalized their operations is illustrated by the fact that McDonald Hamburgers of USA has over 22,000 restaurants in over 106 countries and Pizza Hut has over 10,000 in 86 countries. They are so powerful that they have been instrumental in changing governments in some countries where they operate, particularly in Central and South America. The United Fruit Company for example had used its influence to oust governments hostile to its interests, and install governments sympathetic to them in the "Banana Republics" of Latin America. In fact the "Banana War" between the USA and the European Union has arisen because of EU's discrimination against Latin American banana exports largely controlled by US companies the chief among them being 'Chiquita' the old United Fruit Company's new name. Transnational corporations also do not hesitate to use their governments to open new markets; Motorola for instance, influenced the US government to secure through official negotiations a market share in Japan for its cellular telephones.

The sheer size and global network of transnational corporations enable them to violate national laws and regulations. They can and do for instance, lower their tax liability by using transfer pricing to shift profits from a high tax country to a low tax one and make it difficult for governments to raise revenue. Import of inputs from affiliates can be overinvoiced and exports to them can be underinvoiced to reduce or hide profits in a particular country. Import prices can be similarly manipulated to justify price increases of their products. They can threaten to shift their factories elsewhere and coerce governments to change policies to suit their interests. In India, transnationals have sometimes charged 2, 4 or even 10 times the prices they would charge for inputs in Europe and the United States in order to avoid controlled low prices. As they are maximizing global, not national profits, they do not want to set a low-price precedent in the developing countries.

World markets are dominated and world market prices influenced by transnational corporations. The percentage share of the market of the top 10 transnational corporations in each sector in 1998 was 86 per cent in telecommunication, 85 per cent in pesticides, nearly 70 per cent in computers, 60 per cent in veterinary medicine, 35 per cent in pharmaceuticals and 32 per cent in commercial seed. Five mega transnationals have gathered over half the world market in key sectors such as aerospace, electrical equipment, electronic components and software, two in fast food and five in soft drink, beverages and tobacco. The world tea market is also dominated by a few transnational corporations. Unilever Group which has acquired Lipton, Brooke Bond, Bushels (Australia), Salada (Canada) and Quality Tea (New Zealand) controls about 35 per cent of the world trade in tea. Unilever and Allied Lyons control about 53 per cent of the British tea market. Advertising is now a $435 billion business and the bulk of it is done by the transnational corporations to create or increase demand for their goods. In addition, the developed countries – in effect their transnational corporations – hold 97 per cent of the world's patents.

The world market thus does not operate in idyllic competitive conditions as buyers and sellers do not have equal bargaining power. As transnational corporations are becoming bigger with mergers and acquisitions and fewer, their domination over world markets and world prices will tend to be greater. Privatization does not automatically lead to competition; on the contrary it tends to lead to monopoly. The European Community in fact, has raided Coca Cola's offices in Britain, Germany, Austria, and Denmark to investigate whether the company unlawfully coerced retailers into stocking its products over those of rivals in violation of its competition laws. The Indian farmers burned down five of Monsanto's genetically modified cotton trial sites to demonstrate their opposition to "seed colonisation" by the firm which has swallowed up the leading Indian seed companies and India's most advanced genetic engineering research centre and was planing to introduce "Terminator" or "Suicide Technology" – seeds which grow into healthy plants but then produce infertile seed.

Technology is being concentrated more and more into transnational corporations, they define research agenda and tightly control their findings with patents, racing to lay claim to intellectual property under the rules set out in Trade Related Aspects of Intellectual Property Rights (TRIPS) of the WTO. The TRIPS Agreement will enable transnational corporations to dominate the global market even more easily. New patent laws pay no attention to the traditional knowledge of indigenous people; in fact, their traditional knowledge is silently stolen – "bio-piracy" – by them as illustrated in the case of Basmati rice, turmeric, pepper and margosa or neem which are being patented in the US. The new technologies of the transnationals are priced for those who can pay; they are out of reach for the poor people.

Relocation of Industries in Developing Countries

Transnational corporations can directly influence the flows of foreign capital investment as the 300 largest firms, as shown earlier, control 70 per cent of the world's foreign direct investment. Foreign direct investment has grown

four times as fast as world output and three times as fast a world trade. Foreign direct investment in developing countries is mainly in labour-intensive production in order to exploit their lower labour costs. Modern communications and information technology have enabled transnational corporations to coordinate production, exporting and marketing of products of several geographically separated stages in a variety of locations. For example, Matsushita Electric Company manufactures various parts and components of audio equipment in a number of countries: Singapore (transistor, switch, speaker and motor), Malaysia (variable resistance capacitor, tuner, electric capacitor), Philippines (electric capacitor) and Indonesia (speaker), for assembly in Indonesia, Philippines, Singapore, Taiwan and Thailand for exports to North America, Europe, the Middle East as well as to supply the domestic markets. Japanese foreign affiliates in South Korea, Hong Kong, Taiwan and ASEAN countries provided Japan with 12.7 per cent of her non-oil imports in 1998. Nearly three-quarter of Japanese imports from Asia in general machinery electrical machinery, transportation machinery and precision equipment were supplied by Japanese foreign affiliates. Developed countries as a whole outsource about $585 billion worth of production to exploit low labour costs in developing countries and it formed more than two-fifths of their exports.

Transnational corporations globalize their operations both by establishing affiliates and by sub-contracting for parts and components. The Mercedes Benz Company is a good example of this. It has located assembly plants in countries with good market prospects such as India, Indonesia, Malaysia, Philippines, Thailand and Vietnam and import parts and components for assembly from affiliates and sub-contractors all over the world. The company's own plants produce about 40 per cent of the car — the engine, gearbox, axles, and car body and imports the rest from outside: cable harnesses from Austria and Bulgaria, air ducts from Italy, heating and air-conditioning from France and Japan, wood for the interior from Canada and Romania, circuit boards from Malaysia and the Philippines, seat covers from the Czech Republic and natural fibres from South East Europe and Brazil. Thus, the Benz is truly a multinational car. Most of the garment factories in Sri Lanka are suppliers or sub-contractors to transnational corporations specializing in garments.

Table 1

Transnational Corporations

Country	No. of Foreign Affiliates in 1995
China	15,966
Singapore	10,708
Taiwan	5,733
South Korea	3,671
Hong Kong	2,628
Brazil	7,110
India	926
Sri Lanka	139

The extent to which transnational corporations have penetrated developing countries for trade, production, financial and other services is illustrated in the Table 1.

In Singapore for instance, there are over 100,000 workers making electronic components in American-owned factories to be shipped to the US. The share of exports produced by the affiliates of transnational corporations is fairly substantial in some countries like Singapore. Transnational corporations have taken the place of the chartered companies which launched international integration of national economies in the fifteenth-sixteenth centuries with the rise of capitalism and overseas expansion through imperialism and colonialism. Unlike in the past, however, they are welcomed with the red carpet in developing countries for their capital, technology and marketing skills which developing countries need to develop their resources. In fact, they are liberalizing, deregulating privatizing, reducing welfare expenditure and budget deficits, lowering income taxes, adopting flexible labour policies, removing restrictions on foreign trade and investment and eliminating state intervention mainly to create the 'enabling environment' to attract transnational corporations. These liberalization policies and opening the market for transnational corporations to integrate with the world market or to globalize is encouraged, supported and sometimes imposed by the IMF. They are presumed to increase foreign investment, particularly to export-based industries, expand exports, raise economic growth and improve the living standard of the people. Globalization, however, erodes national economic sovereignty as power shifts from national governments to transnational corporations and international financial and trade institutions like the IMF and the WTO. In its concern for market efficiency, it is concentrating on creating an 'enabling environment' for the market to flourish not for people to enjoy long, healthy and creative lives.

UNEQUAL OPPORTUNITIES AND UNEQUAL BENEFITS

Globalization, currently driven mainly by free market forces and commercial interests has failed to provide equal opportunities for growth and equal distribution of benefits to all the countries of the world. It has certainly provided opportunities and benefits to some countries – the developed and a few newly industrializing developing countries, but it has marginalized the majority of the developing countries. The biggest beneficiaries are the developed or industrial countries and the richest people who live in these countries, and the biggest casualties are the poorest developing countries and the most impoverished people living in them.

The fifth of the world's people living in the highest income industrial countries, for example, have the following:-

86 per cent of the world gross domestic product (output or income).
82 per cent of the world export market.
68 per cent of world's foreign direct investment.
74 per cent of the world's telephone lines.
88 per cent of the users of the Internet.

The bottom fifth of the world's people, in the poorest developing countries have only one per cent in each sector – income, exports, foreign direct investment and telephones. World's research and development are also largely in the hands of developed countries. In 1993, just 10 developed countries accounted for 84 per cent of global research and development and controlled 95 per cent of the US patents of the past two decades.

Surprisingly, people in 85 countries, mainly developing, are worse off than they were a decade ago, despite globalization and per capita income in some 40 developing countries is still less than it was 20 or more years ago. The poorest 20 per cent of the world's people who live in developing countries suffered a reduction in their share of world income from 2.3 per cent in 1960 to 1.3 per cent in 1997. Africa, in particular, has not benefited at all from globalization. Average African household consumption, actually, fell by 20 per cent in the last 25 years. In the decade 1983-1993 alone, the proportion of malnourished children rose from 5 per cent to 25 per cent, while primary school enrolment fell from 79 per cent to 67 per cent.

Unequal Trade, Investment and Growth

Unequal opportunities for growth has resulted in uneven economic growth; while some countries achieved high rates of growth, others experienced low growth or negative growth. In the period 1980-1997 only 33 countries had 3 per cent and over growth in per capita GNP a year, 79 experienced average growth below 3 per cent and 59 mainly in Africa or over one-third of the countries suffered from declining growth of per capita GNP. In 1965-1996 GNP per capita grew at an average annual rate of 5.5 per cent in East Asia, 2.2 per cent in South Asia, 1.1 per cent in Latin America and declined at the rate of 0.2 per cent in sub-Saharan Africa. The share of agriculture in GDP fell in most developing countries with economic growth but increased in Sub-Saharan Africa between 1980 and 1996. Uneven economic growth resulted from uneven growth of trade and foreign investment. Average annual growth of exports of goods and services in the period 1980-1996 exceeded 15 per cent only in 15 countries, was in the range of 5 per cent to 10 per cent in 43 countries and was below 5 per cent in 55 or around half the countries. Average annual export growth in the period 1965 to 1996 in East Asia as 8.8 per cent, South Asia 6.2 per cent, Latin America 5.2 per cent and Sub-Saharan Africa 2.1 per cent. Africa's share of world exports has fallen. Exports of developing countries, further, are concentrated in a few countries; about 80 per cent of the exports of developing countries in 1996 was by just 15 countries – and these are the ones who benefited most by globalization.

Like trade, foreign direct investment too is unevenly distributed. In 1997 for example, of the total world foreign direct investment of around $400 billion, about $150 billion or 37 per cent went to developing countries while about $230 billion or 58 per cent went to developed countries. Foreign direct investment, like trade again, tended to concentrate in a few developing countries. Of the foreign direct investment received by developing countries and countries in transition in the 1990s, about 80 per cent was received by 20 countries, mainly China. Foreign direct investment has averaged less than $100 million a year since 1990 for 100 countries and net flows have been negative for nine. In 1996 alone, 95 per cent of the foreign direct investment in developing countries, went to just 26 countries leaving the balance 5 per cent to be shared by 140 other developing countries. East Asia attracted most of the foreign capital while Africa received only a trickle. In fact, Africa's share of foreign direct investment rose from 0.4 per cent in 1990 to only 0.6 per cent in 1996 despite African countries signing 260 bilateral investment treaties offering various concessions to foreign capital and liberalizing their trade and investment regimes. In 1997, Asia received 22 per cent of the world's foreign direct investment and Latin America 14 per cent while Africa received only 1 per cent. Some 94 per cent of the portfolio and other short-term capital flows to developing and transition economies went to just 20 of them in 1996. Today, only 25 developing countries have access to private markets for bonds, commercial bank loans and portfolio equity. The rest are shut out by their lack of credit rating.

South Asian countries have attracted relatively little foreign capital as compared to East Asia. In the eight years 1990-1997 foreign direct investment inflows were as follows: China $200 billion, Malaysia $40 billion, Indonesia $26 billion and Thailand $17 billion. In the same period, India received only $9 billion and Sri Lanka $0.8 billion. In 1997 foreign direct investment equalled 4.0 per cent of GDP in East Asia but only 0.7 per cent of GDP in South Asia; while the ratio was 4.9 per cent in China and 4.5 per cent in Malaysia, it was 0.7 per cent in India and 0.9 per cent in Sri Lanka. See Table 2.

Economic integration is thus dividing developing countries into those that are benefiting from global opportunities and those that are not.

Table 2

Average Annual Growth Rates 1965-1996 %

Region	GNP		GDI	Exports of G&S	FDI as % of GDP	
	Total	Per Capita			1908	1996
East Asia	7.4	5.5	9.4	8.8	0.4	4.0
South Asia	4.6	2.2	5.3	6.2	0.1	0.7
Latin America	3.3	1.1	2.0	5.2	0.8	2.1
Sub-Saharan Africa	2.7	-0.2	-1.1	2.1	0.0	1.1
All Developing Countries	3.8	1.6	—	—	0.2	2.2
World	3.1	1.2	3.1	5.8	0.6	1.1

Decline in Commodity Prices

While the process of globalization provided market access and favourable prices for industrial exports of developing countries, it tended to restrict the market for primary commodities and depress their prices. Between 1980 and 1997, the real prices of commodities fell by 39 per cent: agricultural raw materials by 28 per cent, metals, minerals and beverages by 38 per cent, petroleum by 65 per cent, rice by 51 per cent, cotton by 43 per cent, copper by 30 per cent, palm oil by 27 per cent, iron ore by 31 per cent, rubber by 52 per cent, coconut oil by 35 per cent, cocoa by 29 per cent, coffee by 20 per cent and tea by 22 per cent. Most developing countries are exporters of primary commodities and they have been adversely affected by the declining prices. Global integration for primary commodity producers is actually a vulnerability to the whims of the primary commodity markets. In fact, one of the major causes for their low export and economic growth is the unfavourable prices for commodities. Price of petroleum has risen in recent weeks as a result of the decision of OPEC to restrict supplies, but this is expected to be temporary and commodity prices will decline further or at best remain flat.

The decline in commodity prices is caused partly by increasing supplies resulting from export-led growth strategies of globalization and from newcomers who had been prevented by war, civil conflict and other causes from maximizing their production in the past. Farmers also tend to make up for lower prices by increasing the quantity produced; besides in most developing countries, in the absence of industries, there is no alternative but to produce and export more commodities for survival. On the demand side, advanced technologies have dematerialized production – or using less raw materials per unit of industrial production — substituted synthetics for natural materials like rubber, jute, wool and cotton and devised energy saving methods to economize in the use of petroleum products. Further, the expansion of the size and the reduction in the number of trans-national buyers have reduced competition in commodity markets. All these tend to depress the demand for raw materials in the context of increasing supplies and exert downward pressure on prices.

Inequality of Wealth and Income

Globalization has resulted in widening the gap between the developed / rich and developing/poor countries. The income gap between the richest one-fifth of the world people (in

developed countries) measured by average national income per head, widened from 30 to 1 in 1960 to 74 to 1 in 1997. Per capita income of the least developed countries declined in real terms from $272 to $233 in the last 25 years. Average annual per capita private consumption growth in 1990-1996 was 1.4 per cent in high income countries while it was a negative rate of 1.0 per cent in sub-Saharan Africa. The three richest men in the world have assets that exceed the GDP combined of all the 48 least developed countries of the world containing 600 million people.

Polarization between the developed and developing countries has been accompanied by a polarization between the haves and have-nots and between the knows and know-nots. Widening disparity between countries is paralleled by increasing inequality of incomes within countries. The rich have grown richer and the poor poorer. In the last ten years the average income of the bottom 20 per cent of households in US rose by 8 per cent while that of the highest 20 per cent increased by 44 per cent and that of the highest 5 per cent rose by 60 per cent. The fortune of Bill Gates, the richest man in the US and the world is equal to the net worth of 106 million poorest Americans. In the United Kingdom between 1979 and 1988, the share of total income of the lowest 20 per cent of households fell from 5.8 per cent to 4.6 per cent whereas that of the highest 20 per cent rose from 39.5 per cent to 44.3 per cent. The same process of income polarization operates in developing countries which have been globalized and achieved high economic growth. In Brazil for instance, the share of income of the highest 20 per cent was 64.2 per cent in 1995 while that of the lowest 20 per cent was only 2.5 per cent; in Malaysia the highest 20 per cent had 53.7 per cent of the income while the lowest 20 per cent had only 4.6 per cent in 1989. South Asia which is less liberalized has a more egalitarian distribution of income. The share of income of the highest 20 per cent of the population was 39.3 per cent whereas that of the lowest 20 per cent was 9.2 per cent in 1994. The 200 richest people in the world more than doubled their worth in the four years to 1998 to $1 trillion. Thus, the benefits of globalization have accrued to the rich more than the poor.

INSECURITY AND UNCERTAINTY

Globalization or integration of world markets has contributed to the rapid growth and rise in income of developed and a few developing countries but it has at the same time created new threats to human security and generated a sense of uncertainty among people in most developing countries. These threats to human security come from disruptions of the pattern, stability and harmony of daily life by events and developments associated with the globalizing market forces. They are several; loss of employment and income from automation, downsizing, and free trade; human rights violations in factories and workshops; financial market instability created by volatile money flows; criminalization of society by crime syndicates operating illegal traffic in narcotics, weapons, women, children and dirty money; health hazards from growing tourism and migration; invasion of western materialistic culture and affluent (American) lifestyles and the destruction and the degradation of the environment by the consumerist society.

Job and Income Insecurity

While globalization has trended to increase job and income security of the rich it has created job and income insecurity to the poor. Job insecurity is increasing in both developed and developing countries in the wake of corporate restructuring and the dismantling of social protection measures. Technological advance, in particular automation, mergers, acquisition, downsizing and relocation of industries tend to create unemployment and lower wages in some sectors of developed countries. Six countries of the European Union have had continuous unemployment exceeding 10 per cent for several years reflecting jobless growth. As a result of automation and information revolution, large transnational corporations are now in the habit of downsizing – an euphemism for macro corporate firings – and throwing thousands of workers into unemployment. The German auto industry, for example, has cut more than 100,000 jobs since 1991. The largest private oil company the Royal Dutch/Shell Group announced in January 1999 that it would cut 105,000 jobs. The high unemployment rates and the possibility of industrial relocation, further have enabled transnational corporations particularly in Europe, to put pressure on their workers to work longer hours for less pay by threatening to move to low wage economies.

The workers and the farmers in developing countries on the other hand are facing risk of unemployment and/or loss of income as a result of liberalization and the flood of cheap imports which undermine domestic agriculture and industry. Farmers in developing countries, for example, are being threatened by subsidized and cheap imports of wheat, rice, maize, beef, milk, butter and other foods from developed countries on the one hand and reduction or removal of import duties and restrictions on such products under the IMF inspired policies of liberalization on the other. Competition from cheap imports following trade liberalization is also making things difficult for domestic industries. Further, while employment opportunities are available and accessible for the highly skilled and professionals, there are national barriers to prevent movements of unskilled labour. To make matters worse, liberalization has helped transnational corporations to squeeze large domestic firms which compete with them and to swallow them up as shown earlier. They are also supported by the patent laws in developed countries which allow silent theft of indigenous traditional knowledge from developing countries as clearly illustrated by the recent steps taken by US firms to patent Indian traditional food and herbal cures such as Basmati rice, margosa (neem), turmeric and pepper oil and Sri Lankan herbs such as Karawila, Pathola, Kothala-Himbutu, Nutmeg, Cardamom and Venivel. To cap it all, insecurity is increased by the IMF policies of emasculation of the state and reduction of expenditure on social services and human welfare and its policies of adding flexibility to the labour market by encouraging informal employment.

Human Rights Violations

Human rights violations also increase workers' insecurity. Transnational corporations are accused in several developing countries for payment of low wages, denial of trade union rights and neglect of human welfare, in their factories and in export processing zones. A number of them like Disney, Mattel, Nike and Wal Mart have faced public attacks for the working conditions of their contractors' factories in Asia and Latin America. Transnational corporations have relocated their labour-intensive industries in developing countries mainly because of low labour costs and consequently they are opposed to raising labour costs by granting higher wages, improving working conditions and expanding welfare services. Their contractors in fact use about 60 million children for "slave work" to keep their costs low and stay competitive. The ILO and WHO point out that the continuing shift of industrial production to low-cost sites in developing countries where worker protection is lower is likely to increase the global incidence of occupation disease and injury. The WHO chief says: "From the occupational health perspective, trends to globalization of trade pose certain health risks".

Financial Volatility

Integration of world's financial markets which are inherently unstable – by removal of all controls on capital movements – tends to destabilize those very developing countries which benefit from such liberalization by attracting foreign capital. This is well illustrated by the financial turmoil in East Asia which had liberalized its financial sector too soon. The large capital inflows to these countries apart from assisting rapid growth had also contributed to appreciation of real exchange rates, delayed devaluation at a time of increasing current account deficits, thereby reducing competitiveness, and expanded domestic lending to speculation and increased vulnerability to reversals of capital flows. The sudden outflows of capital – the short-term category – in 1997, amounting to 11 per cent of the pre-crisis GDPs of the crisis-hit countries, were too much for the countries to cope with and the result was massive currency depreciation, stock market crash, bank closures, company bankruptcies and loss of jobs for 13 million people. The IMF's prescriptions of high interest and fiscal austerity made matters worse by deflating the economies and creating an economic recession which through contagion effect spread to distant places like Russia and Brazil. Production losses from the East Asian crisis and its global repercussions are estimated at $2 trillion over the three years 1998-2000. A substantial part of the progress made by these countries in the last 30 years has been wiped out and people are facing a bleak and uncertain future. In Indonesia for example, per capita GNP in 1996 before the crisis was $ 1080 which exceeded Sri Lanka's $ 740; after the crisis, however, it fell to $ 403 in 1998 even below Sri Lanka's $805. An additional 40 million people or 20 per cent of the population fell into poverty. Nearly 100,000 children have stopped going to school because of the crisis in Thailand and suicides increased from 620 to 900 a month in mid-1998.

Criminalization of Society

Globalization has provided opportunities for criminal activities on a large scale to create personal insecurity. Advances in communications and information technology, cheaper transport and liberalized financial markets have facilitated the cross-border flows of narcotics, dirty money and arms. Illicit trade in drugs, women, weapons and laundered money is contributing to violence and crime the world over. There are for instance, 200 million drug users in the world threatening neighbourhoods. Traffic in women and girls for sexual exploitation – 500,000 a year to Western Europe alone – is a $7 billion business. The Internet is an easy vehicle for trafficking in drugs, arms, women and children through nearly untraceable networks. Illegal drug trade was estimated at 8 per cent of the world trade in 1995. Money laundering is estimated by the IMF to be 2 per cent to 5 per cent of global GDP. The root of all this is organized crime estimated to gross $1.5 trillion a year rivalling transnational corporations as an economic power. Global crime groups have the power to criminalize politics, business and the police, developing efficient networks extending their reach deep and wide.

Health Hazards

Growing travel and migration stimulated by globalization have helped spread HIV/AIDS to create health insecurity. There were more than 33 million people living with HIV/AIDS in 1998; and there were 6 million new infections in that year alone. With 95 per cent of the 16,000 infected each day living in developing countries, AIDS has become a poor man's disease, reducing life expectancy. A loss of 17 years in life expectancy is projected for 9 African countries by 2010, back to the life expectancy levels of the 1960s.

Threat to Indigenous Culture

While globalization opens people's lives to culture, ideas and knowledge from all corners of the world, today's flow of culture is unbalanced as it is a one-way traffic from the rich countries to the poor. The biggest export of the US to the world is entertainment as Hollywood films earned more than $30 billion from exports. The expansion of global media networks and satellites communications technologies have created a powerful new medium with a global reach, and it has brought Hollywood films to the remotest villages in developing countries. The number of television sets per 1000 people, as pointed out earlier, doubled from 1980 to 1995. Hollywood films are accompanied by other appurtenances of affluent (American) living such as Coca-Cola, McDonald hamburger, blue jeans, pop music and Marlboro cigarettes. Such an invasion of western culture can put cultural diversity at risk and make people fear losing their cultural identity.

The culture of globalization is money-culture of laissez faire capitalism and free markets. Culture has been made an economic good and identified with commodities that can be sold and traded – crafts, tourism, music, books, films – to the neglect of community, custom and traditions, and it is being homogenized. The market or transnational corporations utilize the modern media to stimulate consumption habits and build a consumerist society that enslaves the people to money and material things and trap them in debt. It propagates a culture that glamourizes affluence, avarice and individualism that is calculated to undermine the traditional culture of developing countries like South Asia which ennobles the virtues of moderation, altruism and sacrifice. One of the casualties of market expansion and globalization is care and altruism – care of the children, the elderly and the sick by women – which is threatened by the pressure the competitive global market is putting on time, resources and incentives for caring labour. Care has become a victim of increasing employment of women and cuts in state-provided care services following fiscal austerity. It is not a socialist but one of the world's leading capitalists – George Soros – who has recently warned of the free market threat to contemporary civil society in these words: "I now fear that the untrammeled intensification of *laissez faire* capitalism and the spread of market values into all areas of life is endangering our open and democratic society. The main enemy of the open society, I believe, is no longer the communist but the capitalist threat".

Globalization and the Environment

As markets under globalization reach into new countries and areas, and as the consumerist society spreads around the world, increasing consumption tends to cause an environmental squeeze by accelerating environmental degradation and depletion. Markets are no respecters of the environment. The increasing demand caused by higher consumption for food and raw materials stimulates higher production which in turn results in the rapid depletion of non-renewable natural resources like petroleum and other minerals as well as of other land and water resources like fish and forests. Further, the extensive cultivation of agricultural crops to meet the rising demand has led to the widespread use of chemical fertilizers and pesticides which pollute the soil and water; it has also resulted in bringing in marginal land under crops, intensive methods of production and overgrazing of pasture lands that have caused land degradation. The increased consumption of water for human needs, for agriculture, industry and animal husbandry is reducing available supplies including sub-terrain water resources.

The largest consumers, of course, are in the developed/industrial countries where the richest people live. The richest fifth of the world's

population, in fact, consume 45 per cent of all the meat and fish, 84 per cent of all paper, 87 per cent of the world's motor cars and 75 per cent of the world's petrol. The disparity in consumption between the rich and the poor countries is illustrated by the fact that the overall consumption of the richest fifth is 16 times that of the poorest fifth. Average annual meat consumption, for example, is 77 kg per head in the industrial countries as compared to 5 kg in South Asia and 10 kg in sub-Saharan Africa; it is 119 kg in the US as compared to 4 kg in Brunei and 3 kg in Bangladesh. Energy consumption measured in kg of oil equivalent per capita in the industrial countries is nearly seven times that of developing countries and nearly 13 times that of South Asia. The number of motor cars per 1000 people in the former is 25 times the number in developing countries and petrol consumption per capita is 12 times more. These high levels of consumption had led to accelerated use of natural resources: burning of fossil fuels has quintupled since 1950; consumption of fresh water has doubled since 1960; marine catch has increased fourfold and wood consumption is 40 per cent higher than 25 years ago.

The environmental consequences of high consumption are rather alarming. First, there is deforestation as a result of the excessive exploitation of tropical forests for timber. The rate of tropical forest loss is 15.4 million hectares or 38.1 million acres a year – or 72 acres a minute. Second there is declining fish stock; about 25 per cent of fish stocks for which data are available are either depleted or in danger of depletion, and another 44 per cent are being fished at their biological limit. Third, there is loss of biodiversity; about 12 per cent of mammal species, 11 per cent of bird species and almost 4 per cent of fish and reptile species are classified as threatened: between 5 per cent and 10 per cent of the world's coral reefs and half the world's mangroves have been destroyed; about 34 per cent of the world's coasts are at high potential risk of degradation and another 17 per cent are at moderate risk. President of the International Botanical Congress – Peter Raven – states: "We are predicting the extinction of about two-thirds of all bird, mammal, butterfly and plant species by the end of the next century, based on current trends". Fourth, there is soil depletion: nine million hectares are extremely degraded, with their original biotic functions fully destroyed, and 10 per cent of the earth's surface is at least moderately degraded. Fifth, there is environmental pollution: about 70,000 chemicals have been introduced to the environment and about 1,000 new ones are being introduced every year and the pollution they cause to soil; water and the air is the root cause of the growing incidence of several diseases; carcinogenic pesticides for instance, is one of the major causes of cancer and the number of cancer deaths is estimated to increase from 6 million a year now to 10 million by 2020; air pollution kills 3 million people and water pollution 5 to 7 million a year. Six, it is destruction and degradation of the environment which cause acid rain, global warming and ozone depletion with far reaching consequences on people's lives.

Perhaps the most alarming is the threat to the world's water supplies from the unchecked march of globalization and the consumerist society. Water scarcity has become the single biggest threat to life, health, food security and eco-systems. About 1.4 billion people or nearly one-fifth of the world population and two-fifths of world's urban dwellers, do not have access to clean, safe drinking water an about 3 billion people or half the world population, mainly the poor, lack water for proper sanitation. It is estimated that of the 5 to 7 million killed by water related diseases, every year 4 million are children. Unless development or globalization stays within limits of water supplies and current water shortage is reduced, a good part of the world population will face a serious water shortage in 2025. It is estimated that about 2.3 billion people in 48 countries will face water shortage by that time – 1.3 billion will experience severe water shortages and 1 billion absolute water shortage.

Transnational corporations are accused in several countries for overexploitation of national resources with no concern for the environment. Nearly all the mining companies have come under fire for ecological devastation and for violent crimes against indigenous people. The American firm – Free Port McMoran – for example, has conducted a vast and hugely destructive mining operation in one of the world's richest and least exploited environments in Irian Jaya which has some of the world's richest gold and copper deposits. The contract was granted to the firm in 1991 but Indonesian legislators want to review it because of various allegations against it including corruption. The open gold and copper mines operated by Free Port McMoran are destroying the environment by dumping 70 million tonnes of tailings a year into the Ajkwa River and polluting the waterway and blighting the entire forests along the banks. They will leave behind a 230 sq. km. scar in the jungle – visible from space – when the mines close in 30 years.

CONTROLLING GLOBALIZATION

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

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

There are 4.4 billion people living in the developing countries. Of these, nearly one-third live in absolute poverty, one-fifth are illiterate, malnourished and have no access to modern health of any kind, one-fourth do not have adequate housing, one-third lack access to clean water, and one-fifth of the children do not attend school to grade 5. In South Asia alone, there are 575 million absolutely poor people (earning less than $1 a day), 395 million illiterate adults and 77 million people who will not live up to 40 years. By no stretch of imagination can we believe that poverty, disease and illiteracy on this scale can be wiped out by the free market forces of globalization. Markets may cause efficient production but not human development. It does little to provide the poor with access to primary health care, education, clean water, sanitation, housing and employment. It is concerned more with profits than with human welfare and preservation of the environment. Market priorities based on short-term profits may not coincide with national priorities based on long-term needs. Economic growth with equity – to ensure the flow of benefits to the poorest people

– cannot be achieved, as experience illustrates, by free markets. Yet globalization elevates the market and make the private sector the engine of growth emasculating the state and eliminating state intervention. The kind of economic growth promoted by the free market will not remove disparities and inequalities between people and countries, reduce poverty, deprivation, disease, ignorance and human rights violations, remove insecurity, and threats to culture and environment. Growth with equity can be achieved only by moderating the ruthless forces of the markets which underlie globalization.

Need for Governance

Globalization can be made to serve the people only if we control or humanize it with strong governance – through new rules, practices, boundaries and institutions at both national and global levels. At the national level, globalization can be controlled to yield equitable opportunities and benefits by stronger governments, not weaker governments and by selective state intervention – not less as demanded by the IMF. This is because the role of the state in the era of globalization is as important as ever for capturing opportunities in trade, investment and migration, protecting people from the new vulnerability and insecurity created by globalization forces of the market, insulating the economy from external shocks, to reduce inequalities in opportunities for human advancement, to narrow disparities in wealth and income and to protect indigenous culture and the environment. Globalization does not mean that the national state should abdicate its crucial role and cease state intervention for then the market forces will benefit some and marginalize others. Unlike governments, transnational corporations owe no loyalty to societies or nations, not accountable to the country it operates in, and no respecter of social values. They have no conscience and they can never be substitutes for governments. High economic growth and equitable distribution of opportunities and benefits in developing countries require a dynamic public sector playing a leading participatory as well as interventionist role in economic activity; without it, economic growth can never be pro-people, pro-poor, as the south commission has emphasized:

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

National and International Governance

Whatever the pressures from international financial institutions, the national state should not lose the power to determine the development strategies that suit it best. It should, for instance, be able to reject full liberalization, deregulation and privatization as demanded by the IMF and opt for slow and selective policies which suit the circumstances. Free trade tends to undermine domestic agriculture and industry which frequently need protection until they reach world standards. Many seem to forget that the USA through various trade restrictive measures as the McKinley Tariff of 1890 and the Dingley Tariff of 1897 became the most protectionist country in the world by the beginning of the twentieth century and that Japan even went further by closing its doors to global market forces until its industries reached world standards. It was after their industries were well established that they began to talk of trade liberalization. Transnational corporations tend to crush and swallow up indigenous firms and thus may require restrictions on foreign ownership. Volatile short-term capital movements destabilize countries – as illustrated by the East Asian crisis – and therefore warrant capital controls; in fact, Malaysia imposed such controls and succeeded in preventing the crisis getting worse, as Chile had done earlier by imposing a one-year deposit on short-term capital flows to discourage them. Capital controls also help to prevent undesirable foreign investments designed to undermine indigenous enterprises and to encourage speculative activities. In fact, it is partly because of the lack of such controls that South East Asian countries experienced a massive inflow of foreign capital, in excess of their development needs, which went to fund speculation in real estate and stocks and raise foreign debt to dangerous levels.

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

The UN Human Development Report 1999 points out:-

> "Without strong governance the dangers of global conflicts could be a reality in the twenty first century – trade wars promoting national and corporation interests, uncontrolled financial volatility setting off civil conflicts, untamed global crime infecting safe neighbourhoods, business and the police".
>
> "The structures and processes for global policy-making are not representative. The key economic structures – the IMF, World Bank, G-7, G-10, G-22, OECD, WTO – are dominated by the large and rich countries, leaving poor countries and poor people with little influence and little voice, either for lack of membership or for lack of capacity for effective representation and participation. There is little transparency in decisions and there is no structured forum for civil society institutions to express their views. There

are no mechanisms for making ethical standards and human rights binding for corporations and individuals, not just governments. In short, stronger national and global governance are needed for human well-being, not for the market".

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

Will Controls Retard Development?

Many fear that controls will interfere with the free flow of trade, capital, technology and information and slow economic growth of developing countries. The IMF in particular, emphasizes over and over again that liberalization is an essential prerequisite to growth while controls are the main cause of stagnation. It appears that the importance of liberalization has been exaggerated and dangers of controls magnified when we consider the following facts: The first is that while East Asian countries – which had the highest rates of economic growth in the world in recent years – had liberalized their financial sector but not the other sectors of the economy. They provided protection to their domestic industries by tariff and non-tariff restrictions. The weighted mean tariff on all imported products in Thailand for instance was 41.5 per cent in 1993 which exceeded even that of Sri Lanka – 23.0 per cent. Average mean tariff in the mid-nineteen eighties on colour television receivers was 50 per cent in Indonesia, Thailand and the Philippines, 37 per cent in Malaysia and 24 per cent in South Korea compared to 20 per cent in Sri Lanka. Similarly, average mean tariff on bleached cotton fabric was 50 per cent in Indonesia and Thailand and 40 per cent in the Philippines compared to 32.5 per cent in Sri Lanka. Most of the East Asian countries like South Korea had rigid import restrictions on goods which competed with their domestic industries.

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

Most of the East Asian countries, further, had restrictions on foreign ownership of property. In South Korea, foreign ownership of land was severely restricted only for business purposes; thus only 0.039 per cent of national land belonged to foreigners. Malaysia had limited foreign ownership of local bank to 30 per cent. In Thailand foreign firms could not buy property directly: they had to form joint ventures with Thai partners who must hold the controlling stakes. Alternatively, a foreign company could own 100 per cent of a property by entering into a 30-year lease agreement. Further, there were limitations imposed on foreigners in the stock exchanges of both South Korea and Taiwan.

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

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

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

South Korea and to some extent Taiwan, illustrate how high economic growth can be achieved by selective control of foreign investment. As South Korea's domestic savings exceed 40 per cent of GDP, it does not need foreign direct investment as those developing countries whose domestic savings are low. Consequently, it controlled the inflow of foreign capital selectively encouraging those which were needed to assist domestic enterprises and discouraging those which competed or threatened them. It is because of these selective controls, that the inflow foreign direct investment to South Korea was relatively small — $11 billion in 1990-1997 as compared to $52 billion to Singapore and $40 billion to Malaysia. The smaller inflow of capital however did not prevent South Korea from achieving one of the highest growth rates – 9 per cent – in the 30 years 1970-2000. Taiwan, similarly, achieved the same high rate of growth in the same period although it too received relatively little foreign capital — $11 billion.

The UN Human Development Report 1999 underlines:

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

GLOBALIZATION AND SRI LANKA

The economy of Sri Lanka has been liberalized gradually over the last 20 years. Tariffs, trade restrictions and taxes have been reduced, prices have been decontrolled, business has been deregulated, state sector has been emasculated and a plethora of incentives and concessions have been offered to foreign capital mainly under the guidance of the IMF. The enabling environment for private investment, in particular, foreign investment was thereby created. The government further announced in no uncertain terms that the private sector would be the engine of growth and doors would be wide open for foreign capital to flow into the country. The underlying objective of the government was to integrate the country with the global market in order to reap the much-advertised benefits of trade and investment. Has the country reaped these benefits?

Low Economic Growth

The best index of prosperity is the rate of economic growth, and it appears that Sri Lanka has experienced only a moderate rate of growth in the years of liberalization. The average economic growth in the entire period of 19 years of the open economy from 1980 to 1998 was only 4.7 per cent and this was at a time when the world economy was growing and world trade was expanding rapidly. Actually, average growth was 4.2 per cent in the 10 years 1980-1989 and rose to 5.2 per cent only in the last nine years 1990-1998. By contrast, South Korea, Taiwan, Hong Kong and Singapore – the Asian Tigers – had sustained growth of around 9 per cent a year for about 37 years 1960-1996 and South East Asian countries 8 per cent.

The major cause of this moderate growth was the low level of investment, particularly foreign investment. Sir Lanka's average domestic investment in the last five years was around 25 per cent of GDP whereas it was 35 to 40 per cent of GDP in East and South East Asian countries. The average annual inflow of foreign direct investment in the last five years 1994-1998 was $105 million or about 3 per cent of the total domestic investment and 0.75 per cent of GDP. By contrast, average annual foreign direct investment in Malaysia in the five years 1991-1995 (before the crisis) was as high as $4870 million or 46 times the amount received by Sri Lanka. In 1996 for instance, foreign direct investment inflow to Sri Lanka was $80 million which was equal to 0.6 per cent of GDP while in Malaysia it was $4500 million or 4.5 per cent of GDP. Thus, Sri Lanka has not attracted much foreign investment as it expected from liberalization.

The little foreign investment that flowed into the country appears to have gone mainly into the garments export industry, partly because of low wages and partly because of the country's unutilized garments export quotas in US. Thus, the country's industrial exports rose from 19 per cent of the total exports to 75 per cent in the last 15 years; it is significant that 62 per cent of the industrial exports consisted of garments and 7 per cent textiles. Industrial exports (mainly garments) did well as they rose by eight times in the last ten years. Globalization may have thus helped to expand the textile and garments industry but, it failed to develop other industries to diversify the export base. Garments and textile exports which formed 62 per cent of the country's industrial exports in 1988 increased to 69 per cent in 1998 making Sri Lanka excessively dependent on one industry. In the Philippines, by contrast, electronic and electrical products rose form 21 per cent of total exports to 58 per cent between 1988 and 1998 while the share of garments fell from 19 per cent to 8 per cent.

The excessive dependence on one export – garments – was brought home in 1998 and in the first half of 1999. Sri Lanka's textile and garments exports had risen in value by 20 per cent in 1997 but increased by only 8 per cent in 1998. The situation deteriorated further in the first half of 1999 when the value of textile and garments exports was 4.1 less than in the first half of 1998. This contributed to the decline in total exports and slowing down of overall economic growth in the first half of 1999.

Poor Performance of Commodity Exports

If globalization helped to expand the garments industry, it has clearly failed to stimulate agricultural exports. While industrial exports rose in value by eight times, agricultural exports have increased by only three times in the last ten years. The modest increase in agriculture exports was mainly due to one exports crop – tea. While the production of tea increased by 35 per cent in the last ten years, that of coconuts rose marginally by 3 per cent and that of rubber actually declined by 14 per cent. The picture is a little different if we take the last five years 1994-1998; tea production increased by 16 per cent but coconut production fell by 3 per cent and rubber production fell by 9 per cent. The volume of exports of several minor agricultural crops too declined in the last five years: vegetables by 53 per cent, fruits 38 per cent, coffee 64 per cent cinnamon 15 per cent, cardamom 38 per cent, betel leaves 28 per cent, manufactured tobacco by 26 per cent and other minor agricultural products by 68 per cent. The overall picture in the last five years is that industrial exports rose in volume by 32 per cent while agricultural exports increased by only 10 per cent.

Domestic Agriculture

The last five years have witnessed a deterioration of domestic agriculture, mainly as a result of globalization and free trade. The liberalization of imports by reduction or removal of tariffs and non-tariff restrictions has resulted in a flood of imports, which has undermined domestic agriculture. Production of the major food crops has either fallen or stagnated as shown in the table. The staple food crop paddy has virtually stagnated in the last five years, production in 1998 of 2,692 million metric tons being almost the same as in 1994. Sugar production has fallen by 15 per cent in the same period – to 61,549 metric tons; it met only 10-12 per cent of domestic consumption. The biggest fall in production was in subsidiary food crops which had to face competition from liberalized imports. Production fell by more than half in Big

Table 3

Production of Food Crops 1994-1998 (mt' 000)

	1994	1998	% Change
Paddy	2,684	2,692	0.3
Sugar	72	62	-14.8
Big Onions	81	17	-78.6
Red Onions	82	38	-53.8
Potatoes	71	26	-63.3
Chillies	32	16	-51.1
Maize	67	23	-49.6
Kurakkan	5	4	-13.7
Green Gram	23	16	-31.9
Cowpea	18	13	-25.6
Black Gram	15	8	-43.4
Groundnuts	16	6	-61.4
Soyabean	3	1	-81.3

(Central Bank: Annual Report 1998)

Onions, Red Onions, Potatoes, Chillies, Groundnuts and Soyabeans; it fell almost by half in maize and significantly in black gram, cowpea, green gram and kurakkan as shown below (see Table 3).

Sri Lanka has the potential to be self-sufficient in all these food crops provided the "enabling environment" is created to stimulate the farming population. The policy of trade liberalization to integrate with the global market or to globalize however prevents the creation of this enabling environment. The liberalized imports in accordance with this policy may keep the consumer happy but is disrupting domestic food production, and impoverishing the rural production with frightening social consequences. The rural farmers are unable to produce these goods at prices competitive with imports without protection. Free imports are adversely affecting other food items too: recently tomato producers blamed the free import of tomato juice for the unremunerative prices they receive and poultry and egg producers protested against the policy of importing these products and depressing their prices. Unrestricted imports of fruits – apples, oranges, mandarins and grapes – and fruit juices – apple juice, orange juice and grape juice – are threatening the country's horticultural and fruit processing activities; already, the influx of cheap oranges has virtually driven out the local green oranges from the market.

Domestic Industry

Import liberalization has also undermined several domestic industries such as handloom textiles, electrical appliances, fabricated metal products, chemicals, bicycle tyres, spectacle frames, printing paper and dairy products. The recent abolition of the 35 per cent tariff on textiles dealt a crushing blow to the local textile industry which if protected and upgraded could save Rs.82 billion spent annually on textile imports to the garments industry. The depreciating rupee has give some protection to local industries but not to those dependent on imported inputs which have increased in price with depreciation. The unrestricted imports of electrical appliances such as refrigerators, has led to the closure of one local refrigerator maker; the import of wooden and cane furniture has adversely affected the sale of high-class local furniture; bathroom fittings, water taps, sanitaryware, hardware are hardly produced locally now on account of cheap imports; tea machinery which was made here and exported to Kenya and Indonesia is now being imported from India. Coconut oil mills are being closed on account of the free import of palm oil whose tariff has been reduced from 35 per cent to 5 per cent. Several small-scale manufacturers have found it more profitable to import and sell goods than to manufacture them locally. Instead of encouraging and supporting both export-oriented development and import-substitution the authorities appear to have overemphasized export growth and neglected import substitution.

External Effects

The integration with the global economy has increased Sri Lanka's exposure to the world market forces and made its economy more vulnerable. The export-led growth has suffered a setback from the economic recession caused by the East Asian currency crisis. The country's exports as mentioned earlier are falling in value partly owning to reduced external demand arising out of the recession and partly owing to the increased competition from South East and East Asian countries with depreciated currencies. The most seriously affected are the garment exports, which contributed to high export growth in recent years. Economic growth in most countries in 1999 will be lower than in 1998 and this includes the developed countries. Sri Lanka's principal export market is USA whose lower growth is expected to reduce the demand for Sri Lanka's exports such as garments while the recession in Japan has already reduced the demand for Sri Lanka's exports such as diamonds. The depreciated currencies of East and South East Asian countries in addition have made their exports more competitive and this has affected the competitiveness of Sri Lanka's exports such as garments, rubber and coconuts. Consequently, the value of total exports which had increased by 13.3 per cent in 1997 rose by only 2.1 per cent in 1998 and export volume which increased by 11 per cent in 1997 rose marginally by only 0.1 per cent in 1998. The prospects have become even more unfavourable with the exports in the first half of 1999 being 9 per cent lower than those in the first half of 1998. The country's external assets, reflecting the fall in exports, have declined by 7.6 per cent in the first six months of 1999.

The integration of financial markets, by liberalizing exchange restrictions, transmitted through the contagion effect, the Asian financial crisis to other countries and regions. Sri Lanka was also affected but not much because of the limited role foreign funds play in the share market and commercial lending. Portfolio investment of foreigners which had risen by Rs.356 million in 1996 and Rs.749 million in 1997 reversed in 1998 and was withdrawn to the extent of Rs.1521 million. This appears to have been the main cause of the fall in the CSE all share price index from 782 in April 1998 to 597 in December 1998; it fell further in 1999 to 563 in the third week of August. The Director General of the Colombo Stock Exchange himself has stated in the newspaper that the fall in share prices is due to the withdrawal of foreign funds on account of Sri Lanka's poor economic fundamentals. It should be noted that foreign investors are free to invest in the Colombo Share Market and free to repatriate their capital gains and dividends; there is no restriction as such only that such transactions have to be channeled through special accounts called "Share Investment External Rupee Accounts".

Pruning Capital Investment

The strategy of economic development which globalization demands appears to have failed to make Sri Lanka another "Asian Tiger". We have shown the relatively low economic growth in the last five years, the poor response of foreign capital to our inducements, the poor performance of agricultural exports, the decline in domestic food production, the undermining of import-substitution industries, the slowing down of export growth and the fall in stock market prices in the last twelve months as evidence of the limited benefits and negative results of globalization. The development strategy of making the private sector the engine of economic growth resulted in the emasculation of the public or state sector, but the private sector's poor response meant a stagnation in overall investment and slow economic growth. The government reduced its investment expecting the private sector to more than make it up but as private investments showed only limited response, the economy fell between two stools as shown in Table 4.

Table 4

Stagnant Investment as % of GDP

Year	Total Investment	Private Investment	Public Investment
1993	25.6	17.6	8.0
1994	27.0	20.0	7.0
1995	25.7	17.8	7.9
1996	24.2	18.0	6.2
1997	24.4	18.3	6.1
1998	25.4	19.3	6.1

Table 5

Functional Classification of Capital Expenditure as % of GDP

	1994	1995	1996	1997	1998
Total Capital Expenditure	7.5	7.4	5.7	5.7	6.8
Economic Services	5.1	5.4	4.1	3.6	4.4
Agriculture and Irrigation	0.9	0.9	0.6	0.4	0.6
Transport	2.5	2.8	1.6	1.5	1.9
Energy	1.0	0.7	0.8	0.8	0.9
Social Services	1.3	1.5	1.3	1.3	1.5
Education	0.5	0.5	0.6	0.5	0.6
Health	0.3	0.3	0.3	0.3	0.4

(Central Bank Annual Report 1998)

The government weakened itself in this process by deliberately reducing the financial resources that were available to it through lowering taxes. Total revenue from declined 19.0 per cent of GDP in 1994 and 20.4 per cent in 1995 to 17.3 per cent in 1998: tax revenue fell from 17.2 per cent of GDP in 1994 and 17.8 per cent in 1995 to 14.5 per cent in 1998; income tax revenue declined from 2.6 per cent of GDP in 1994/1995 to 2.0 per cent in 1998; revenue from sales and turnover taxes fell from 5.6 per cent of GDP in 1994 to 3.9 per cent in 1998 and revenue from import duties declined from 3.9 per cent to 2.8 per cent of GDP. These reductions in taxes were designed to stimulate private investment and to provide relief to taxpayers. It provided little incentive to private investment. Relief to taxpayers was unwarranted as the war against terrorism demanded not a reduction but an increase in taxes which the taxpayers would have borne as a necessary contribution to the war effort. It should also be ruled that in the free market economy of USA, tax revenue was 28.5 per cent of GDP in 1996 and the current corporate tax rate is 40 per cent.

By making unnecessary tax cuts, the government denied itself the opportunity of raising new revenue to finance increasing defence expenditures, and the rising defence expenditure was largely met not by new taxes but by cutting essential economical and social development: government's capital expenditure fell from 7.5 per cent of GDP in 1994 and 7.4 per cent in 1995 to 5.7 per cent in 1997 and 6.8 per cent in 1998. Capital expenditure on economic services as a proportion of GDP fell from 5.1 per cent in 1994 and 5.4 per cent in 1995 to 4.4 per cent in 1998; that on agriculture and irrigation declined from 0.9 per cent in 1994 to 0.6 per cent in 1998 that on transport from 2.5 per cent of GDP to 1.9 per cent and that on energy from 1.0 per cent of GDP to 0.9 per cent. Actually, the expenditure on agriculture an irrigation in 1998 was less than that in 1995 in absolute terms. Thus, capital investment on essential agriculture and irrigation, transport and energy has not been made in the last four or five years because of the wrong policy of reducing taxation when the situation demanded the opposite.

Investment in social services on the other hand, seems to have stagnated in the four years 1994 to 1997 and risen slightly only in 1998. It remained almost constant at 1.3 per cent of GDP in 1994 to 1997 and rose to 1.5 per cent in 1998: investment in education remained virtually constant at 0.5 per cent of GDP and on health almost constant at 0.3 per cent of GDP. Investment in social services would have been much larger and the number of new hospitals and schools much higher, if the government had not denied itself funds by lower taxation. (See Table 5).

In addition to a relative reduction in capital investment in economic and social development, there has also been a relative reduction in current expenditure on the maintenance of existing economic and social services of the country. Thus, current expenditure on social services fell from 8.6 per cent of GDP in 1995 to 6.3 per cent in 1998; that on schools declined from 2.4 per cent to 2.0 per cent and on health from 1.3 per cent to 1.0 per cent. Current expenditure on economic services fell from 1.21 per cent of GDP in 1995 to 1.0 per cent in 1998: expenditure on agriculture and irrigation fell from 0.57 per cent to 0.54 per cent, on transport from 0.30 per cent to 0.29 per cent and on energy from 0.15 to 0.07 per cent. Thus, maintenance of social and economic services too has suffered from the financial constraint caused by lower taxation.

Passive State

The state cannot entrust the important task of economic development to the free market and wait patiently for the magic wand of private enterprise to deliver the goods as globalization demands. In a developing economy like Sri Lanka, where private enterprise is still inadequately developed, the state has a responsibility to shoulder directly a good part of the burden of economic development. By following a policy of *laissez faire*, we are missing the opportunities of creating projects and programmes for rapid economic growth and employment creation. Public investment in developing countries complements rather than displaces or crowds out private investment. In a growing economy, there is ample room for both to coexist. The crucial role a dirigiste state can play in economic development is illustrated by France which was highlighted by ***The Economist*** of June 5th 1999 as follows:

> "To most Frenchmen, the dirigiste model remains a source of pride not resentment. This owes much to the part the state played in the 30 years of spectacular economic growth after the Second World War, which propelled a heavily rural economy into the modern industrial age. It turned France into the world's fourth largest industrial power after America, Japan and Germany, and its fourth biggest exporter. In terms of income per head, France overtook Britain in 1969, and has retained that lead to this day. Despite the heavy state, private enterprise has flourished. France is home to a host of profitable world class firms...".