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Is globalisation cheating the world's poor?

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Introduction

Globalisation pertains to integration between economies of all types, at different levels of development and encompasses developed and developing countries. The discussion below is principally concerned with the absorption of developing economies into the wider world economy, dominated by developed countries. Some radical critics of globalisation consider it the contemporary manifestation of Western expansionism and cultural hegemony. As a corollary, globalisation is held to conceal the mundane imperatives of exploitation and dominance in the language of economic determinism and progress.¹ The key concepts underpinning globalisation are, first and foremost, economic progress itself as well as its unspoken, but universally acknowledged, correlate the international division of labour. The second set of references pertain to the vehicles for their attainment, which are export orientation, the import of technology and transnational corporations, the crucial institutional conduit for wider economic interaction with the outside world. Finally, two contextual elements, good governance and structural adjustment, or transition in the former planned economies have come to be associated with globalisation. They are invariably presented as the pre-conditions that enable the instruments for achieving the putative goals to operate. These goals, means and pre-conditions are embodied in the so-called 'Washington Consensus', shared by the IMF, the World Bank and US official agencies.

The radical riposte to this depiction is that, in reality, the global economy is characterised by a growing concentration of wealth and inequality owing to exploitation, equalling plunder, as well as revolutionary new methods for generating wealth denied to developing countries.² Thus, globalisation is condemned as a neo-imperial ideology, a self-serving obfuscation that cajoles and ensures the consent of subordinate peoples. The dichotomy is between the promise of escape from dire material necessity and improved living standards through global economic integration and the failure to achieve it. And the discourse on globalisation supposedly diverts attention from the failure to promote its ostensible aim of welfare and, perhaps, the autonomy of its intended beneficiaries, to a self-absorbed intellectual teleology of economic integration.

This 'Washington Consensus' could be regarded as an ideology in the Marxist sense because it conceals social contradictions, but nevertheless aspires to the progressive historical outcome of economic advancement.³ However, while a Marxist perspective could agree that the goals are progressive the role and dynamics of the means for achieving it are questioned, as are the conception of governance and adjustment, suggested as necessary. Nevertheless, it is pertinent to note that these disagreements about globalisation now occur within the categories and assumptions of conventional economic analysis rather than some materialist conception of social contradictions that require different issues to be addressed. In relation to the Gramscian notion of ideology, to the extent that the victims of globalisation do not accept the ideological discourse on globalisation, but acquiesce in the prescriptions of its protagonists, the issue becomes one of power, or more exactly their lack of it.⁴ A contrasting liberal view would question the idea that globalisation and economic integration are primarily conflictual or a failure. In this view, if globalisation is an ideology it is a useful symbolic representation for simplifying complex reality, by compressing its multi-

dimensional character in a form of shorthand. The pro-market ideology of globalisation could then be regarded as both a convenient generalisation and a source of 'satisficing' action in the face of uncertainty and the absence of complete knowledge of options and consequences or their comprehension within a meaningful time frame. For example, the standard explanation of gains from trade can be allowed to settle policy questions when the general equilibrium outcome of a situation is difficult to predict.

The contention of the present discussion is that, firstly, globalisation is positive for the economic welfare of the majority, including the poor. Indeed, it is judged to be a pre-condition for it, even if the benefits are not immediate. Secondly, the only vehicle for easing poverty and deprivation in the short run is redistribution, which requires political decisions and specific programmes. However, there is little evidence of political support for effective and meaningful re-distributive measures either in the advanced or developing countries. Thirdly, on the contrary, not only are the poor ignored, they are the victims of various forms of discrimination in the market place because they only possess a weak political voice. Such discrimination occurs because the politicisation of markets primarily benefits the powerful and acts against the interests of the vulnerable, especially those in developing countries. Thus, it is argued that it is the political character of globalisation that distorts economic development and hurts the poor rather than any features inherent in the economic dynamics of globalisation, per se, which is the world-wide spread of capitalism.

Globalisation has multiple empirical dimensions, but both those who question its novelty or assert that it is an uniquely important contemporary phenomenon, if not altogether new, agree that globalisation is primarily an economic phenomenon.⁵ Critics of globalisation condemn its economic consequences as well as many of its socio-political manifestations. But the issue of its economic configuration remains a critical nodal point that needs to be outlined in order to comprehend the differing views of globalisation. In order to appreciate globalisation as a historical phenomenon it needs to be situated in relation to an older intellectual tradition and the ideas of classical political economists, like Adam Smith and David Ricardo on the one hand and Karl Marx and his followers on the other. It also necessary to identify the protagonists in the globalised economy and their interests in order to understand how the political economy of globalisation impacts on developing countries. The main actors are governments, domestic interests within them, transnationals (who likely have a political role in more than one national society) and inter-governmental organisations, who reflect government preferences but, perhaps, not with symmetric correspondence.

The empirical economic dimensions of globalisation

Economic interaction in the contemporary global economy contains both familiar and novel forms of interaction. It particularly highlights the enhanced importance of new institutional forms and the role of non-state actors, principally, the transnational corporation. The most important economic relationships are trade and investment, which overlap and encompass different types of capital as well as technology flows. There is also a rapid growth of international trade in services

that is integrating global production and consumption distinctively as well as on a bigger scale.⁶

The most spectacular manifestations of globalization are capital mobility and the Internet. There has been a huge increase in the turnover of global capital, especially in foreign exchange markets. In 1998 \$1.5 trillion of foreign exchange was swapped daily, an amount equal to one-sixth of annual US output and more than 50 times the value of trade in goods and services. The number of Internet hosts world-wide increased from around 2 to 45 million between 1993 and 1999. There has also been steady growth of international trade, as measured by trade/GDP ratios. The ratio of trade to output has doubled since 1950, with a significant increase in the past decade. In fact, its impact has been greater because non-tradable services have contributed a large share of the growth in output during this period. Price changes in fuel also understate the magnitude of increased interdependence during the period. Tariff barriers on imports of manufactured goods were expected to fall to 3% after the Uruguay Round, as compared to 47% in 1947.⁷

Between 1995 and 1998 alone foreign direct investment flows rose from \$ 315 to \$644 billion, more than a rise by a factor of twelve since 1981-5. Although the share of developing countries fell in the aftermath of the Asian financial crisis in 1997, it had been growing steadily to reach 37% of total inward flows by then.⁸ Transnational corporations (TNCs) are also responsible for a quarter of total international trade and a fifth of world output. Intra-firm trade is estimated to account for a third of all merchandise trade and a further third of it occurs between different TNCs. A high degree of monopoly and oligopoly therefore prevails in two thirds of all international trade transactions. It suggests that the architecture of the world economy has become institutionalized and acquired deeper roots than would be the case if international trade were dominated by arms length, third party transactions, which lack a similar “internalized” character. To the extent that the world economy exhibits elements of structural institutionalization and continuity, similar to that which exists at the national level, globalization can be said to have occurred.

Classical political economy and globalisation

Classical political economists like Adam Smith and David Ricardo considered the international division of labour and capitalism inextricable, though obviously not a phenomenon exclusive to capitalism because, historically, the former precedes the latter. The logic of the division of labour for Smith and comparative advantage for Ricardo created gains from trade and highlighted the compelling rationale for participation in it.⁹ The diffusion of economic transformation and advancement was a potential corollary, though not exclusively dependent on it. Their critic Karl Marx considered the international division of labour to arise out of the internal contradictions of capitalism, leading to the extended reproduction of capital and he described it as imperialist because it entailed relations of domination and subordination between capitalist and pre-capitalist societies. However, as Shlomo Avineri and Ernst Gellner have pointed out, Marx's philosophy of history denies subjectivity to non-European cultures, regarding them, like Hegel, as societies in stagnant equilibrium.¹⁰ He assumes, rather startlingly for a theorist of the dialectical nature of change that there was no

internal catalyst that would propel an autonomous path of development in the backward colonial world. In his view, this transformation of the colonial world would occur through its encounter with European imperialism. The outward expansion of capital was expected to postpone the end of the capitalist mode of production, but only until its global limits had been reached, an issue emphasised by Immanuel Wallerstein.¹¹

Classical political economists and Marx therefore viewed the international division of labour positively, although he was conscious of the human drama of conquest and plunder associated with both mercantile capitalism and the subsequent archetypal capitalist expansion, which combined conquest with the drive to export and the quest for profit.¹² Nevertheless, in terms of Marx's theoretical assumptions about the non-European world, contemporary globalisation can be deemed unremarkable as well as politically benign. Marx's analysis is not a counterpoint to the reviled 'Washington Consensus', which, in comparison, is embarrassingly insouciant.¹³

The developmental logic of capitalism has also been the subject of critiques by Friedrich List who, inspired by Alexander Hamilton, insisted on the need for infant industry protection because, he argued, the spread of industrialisation would otherwise be hindered by distortions in the marketplace. However, although List had a holistic view of the nation, in which he thought the citizen should not be regarded as mere producer and consumer, and asserted the legitimacy of a balanced economy, he did not reject capitalist development. Lenin denied the capacity of late nineteenth and early twentieth century capitalist-imperialism to usher economic progress in the colonial world, but did not deny the historic transformative mission of capitalism itself. In his analysis, capitalism in the advanced countries had reached a financial monopoly phase and was incapable of completing the historic task associated with capitalist-imperialism, which was the industrialisation of less advanced economies and especially the backward colonial world, largely associated today with the so called third world.¹⁴

In terms of the concerns of classical political economy of Smith and Ricardo, globalisation could be interpreted as a continuation of capitalist development and therefore the path for its eventual world-wide spread. By contrast, the catalytic stimulus for the capitalist development of the non-industrial world could instead originate internally rather than due to an external 'globalising' dynamic that Lenin rejected, because capitalist-imperialism in its monopoly phase no longer possessed transformative potential. This might be seen as the ideological precursor to the post-WWII advocacy of inward economic developmental strategies. It is possible to pose a further Listian qualification that national capitalist development cannot occur under conditions of free trade, which is likely to prevent or distort it. And allied to the Listian infant industry argument are the contributions, at some remove, of modern new trade theories that also justify some departures from the classical open economy approach that informed conventional debate until recent decades.¹⁵

Finally, there is a traditionalist rejection of both modernity and industrial life, which also has nineteenth century roots. In the present context, it is deemed to

entail the added disadvantage of being damaging to the few remaining traditional communities in the developing world, e.g. Amerindians in Brazil.¹⁶ However, recent discussions on globalisation, inspired by this ontology and epistemology, reach mutually inconsistent insights. For example, contemporary globalisation is perceived to perpetuate a self-serving 'Otherness' whose antecedents can be traced to the Spanish conquest of the Americas that progressed from 'Christianisation', to a colonial Anglo-French 'civilising mission' in the nineteenth century, followed by a post-WWII US ideology of 'modernisation and development'. Although globalisation is felt to exploit and homogenise, it is also imputed to give voice to the local and therefore liberate, exhibiting contradictory tendencies.¹⁷ Yet, this rejectionist view essentially constitutes a critique rather than a clearly specified normative alternative and basically implies autarchy, although that does not necessarily mean the rejection of capitalism.

Policy options and globalisation

The debate about the impact of the economic dynamics of globalisation concerns the nature and origins of capitalist development in latecomer countries. Classical political economy, as already indicated, assumed that economic advance would occur because of the division of labour as well as international trade. The mainstream tradition, deriving from classical political economy, therefore advocates more serious adherence to market rules and outcomes because they are considered to serve the interests of all concerned, at least in the long run.¹⁸ And it is worth stressing the variable-sum character of the view favouring market-led outcomes. Marx, who ignored the potential for internal capitalist development in the colonial world, can be deemed to have identified a more narrowly 'global' causality, since he argued that the advanced European core would be the ultimate catalyst of industrialisation beyond it. The Listian prescription for protecting infant industry and the Leninist preference for national capitalist development, implied by the conclusion that the economic stimuli could not be external, can be regarded as unavoidably convergent, although there are differences because List did not think that all societies were capable of economic development. Ultimately, the problem they both identified is a form of market failure. So, the issue needs to be assessed, firstly, in terms of how industrialisation spreads successfully. Secondly, is the catalyst for it either globalisation, which, in the contemporary world, effectively, implies the expansion of capitalism from the advanced economies, or policies dominated by inward development, i.e. import substituting industrialisation?¹⁹ Another variant that questions the wisdom of unconstrained market outcomes prefers shallow as opposed to the deep international economic integration imposed by contemporary globalisation.²⁰ It should be noted that this is the preference of some interest groups within advanced countries, especially organised labour and ecological NGOs rather than decision-makers in developing countries.

The policy orientation highlighting market failure favours intervention to correct them and finds its post-WWII expression in the notion of special and differential treatment, embodied in the GATT system, as well as in the ideas of other international forums like the UNCTAD. It permits departures from internationally agreed norms and rules of liberal trade, enshrined in the GATT. This view derives from scepticism towards the ability of unfettered global capitalism to instigate the socio-economic transformation of less advanced

economies, echoing Lenin and List. It represents an important intellectual tradition that also includes Raul Prebisch's structuralist analysis and dependency ideas, associated with Paul Baran and Andre Gunder Frank that arose as a critique of structuralism.²¹ These views are not mutually exclusive, although there are essential differences in assumptions about how the world economy functions and appropriate policies to achieve, in fact, the common goal of development. The approaches to economic development contrasted as 'globalisation' or market-led versus import substitution actually have a great deal in common, although there are distinct emphases on how sectoral growth should be sequenced. But the critical factors determining success are initial conditions and whether the economy is subjected to indicative or resource planning.²²

The option of exiting the world market that the dependency theorists advocated has almost never been espoused by governments. Perhaps the former socialist Albania was a partial exception, but cannot be regarded as a model for emulation. China itself, which inspired its political orientation, has progressively embraced the capitalist path of modernisation. Certainly, permanent economic isolation has no justification in Marx's philosophy of history and his analysis of the transformative role of capitalism. Socialist Cuba, which has suffered economic isolation because of its political estrangement from the US, its adjacent natural trading partner, would choose differently if it were possible. All sensible policy options for developing societies are located within a vector that intersects the world economy and its advanced elements. The need for imports of technology and investment finance as well as markets for exports to service the resulting debt lead back to it. Socio-economic transformation can, in principle, occur in complete isolation, but its cost would be prohibitive and impossible to sustain. Participation in international economic relations is therefore the starting point. The question is under what conditions and on what terms, since it can be agreed that both theory and practice offer a range of potential paths and outcomes. The conditions and terms lie along a spectrum bounded by pure markets on one side and high levels of intervention at the other.

The question for the opponents of globalisation would be to explain in what respects it differs from pre-existing international economic relations that makes it less attractive. There are obviously many similarities and, indeed, some critics dismiss its novelty for that very reason. Hirst and Thompson as well as other researchers have sought to demonstrate that it is an unremarkable phenomenon, which departs little from nineteenth century experience, except in the intensity of regional economic interaction in its contemporary incarnation.²³ However, there is undoubtedly something more to it than these critics are prepared to admit. At the very least, two phenomena in contemporary globalisation are sufficiently extensive in their quantitative manifestation to merit apprehension as qualitatively unique. The first is the growing internationalisation of production, otherwise described as vertical integration that leads to intra-firm trade and more durable inter-locking of different national economies. The second is the significance of private international finance as a factor in socio-economic outcomes.²⁴ Critics have not, so far, argued that these two features are sufficiently disadvantageous for developing countries to call into question the entire phenomenon of globalisation. The failure of growth in developing countries as a whole, though with the important exceptions of the China and India, during most

of the 1980s and 1990s was due to their indebtedness and the economic slowdown in the advanced countries.²⁵ The solution to it does not suggest less globalisation, since the slowdown was caused by a setback to economic interdependence, prompted by lower foreign demand, and indebtedness, which highlighted the need of better mechanisms for assessing credit-worthiness, monitoring and adjustment to illiquidity or insolvency.

Thus, globalised capitalism cannot be regarded, ipso facto, as any more problematic for socio-economic welfare than the less integrated international capitalism whose identity it has been transforming. If globalisation is to be rejected on welfare grounds consistency dictates so should international capitalism and the heritage of classical political economy that first highlighted its merits. The reason for welcoming it remains Smithian. Greater specialisation and diffusion through globalisation increases total global wealth and the situation of the vast majority absolutely, even if it worsens relative income distribution, although there are some important caveats to these inferences, as argued below. Exactly the same arguments about specialisation and market-size hold for a single country that is experiencing economic growth, although the extent of absolute improvement for the poorest and the associated extent of relative inequality varies between countries (e.g. Republic of Korea and Taiwan as compared to Brazil or South Africa).

However, it needs to be recognised that while globalisation is both a formal and substantive phenomenon it need only entail, as a matter of logic, the former. The existence of a legally constituted single global market place, comparable to a domestic market (via treaty and practice) does not mean that economic transformation will automatically spread across space and into the developing world, in particular. Just as it is possible for underdeveloped regions to survive indefinitely within countries it is feasible for them to do so across legally integrated national economies, comprising the global economy. Indeed, a wide variety of entry barriers within such a global market make underdevelopment more likely to persist. The empirical outcome, ultimately, depends on the relative strength of the disadvantage of a likely weakening of state sponsorship of industrial transformation in a global market versus the positive advantage of price and productivity convergence, when high capital mobility is combined with free trade in goods. The historical evidence, so far, has pointed to a slow change of underdeveloped conditions.

A distinctive insight about the pre-conditions for successful economic development suggests that political stability resulting from the security and self-confidence of a ruling order is a pre-requisite for such socio-economic transformation. The objective is to lengthen the shadow of the future and affect the self-interested calculations of local elites, in order to make them less shortsighted. It downgrades the significance of global factors and economic variables as the crucial explanation for economic growth. It should also be noted that the analytic division between an advanced core and a less advanced periphery is arbitrary in some important respects. It is not clear on what socio-economic basis the disadvantaged within advanced countries should be ignored in analysing the impact of globalisation.²⁶ This qualification needs to be borne in

mind, although the main interest is the relationship between rich and poor countries that globalisation is believed to encapsulate.

Economic analysis and globalisation

Ultimately, there is no coherent alternative economic analysis for the international division of labour that might be counterposed to the classical political economy tradition that reaches back to Adam Smith and culminates with the modern neo classical economists like, Eli Hecksher, Bertil Ohlin and Paul Samuelson.²⁷ The infant industry argument and more recent departures, deriving from the issue of market imperfections, arising from technology gaps and highlighting increasing returns, do not either completely controvert or reject the older tradition, but seek to account for anomalies in the patterns of international specialisation.²⁸ The functioning of the globalising economy can therefore be judged theoretically in relation to a spectrum that ranges from an idealised free market model rooted in classical political economy, of which Milton Friedman is one of its purest modern adherents, and an interventionist one associated with both List and Keynes.²⁹ The characterisation is itself idealised because prescriptions for economic policy can contain disparate elements that belong to alternative ideological traditions. Thus, the phenomenon of globalisation, which represents the expansion of capitalism, albeit a distinctive variant dependent on contingent circumstances, needs to be judged in relation to a set of goals that are both economic and philosophical, concerning notions about what is the 'good life'.³⁰

The idealised market of general equilibrium belongs to the realm of logical possibilities, but the alternative of routine economic intervention also largely occurs within a context of markets and private property. The analysis of socio-economic transformation therefore pertains to the functioning of markets. However, it might be argued that markets may tend towards equilibrium, but remain imperfect at any given point time. More specifically, factor rewards are not always at marginal cost and, indeed, innovation and growth in modern economies, according to new theoretical insights, require important departures like monopolistic competition that prevent pure profit from being competed away.³¹ A crucial related issue for judging the impact of globalisation is the extent to which political intervention alters economic outcomes, i.e. income redistribution (not necessarily in a progressive direction) and/or institutional features that create privileges like rent.

The economic consequences of globalisation for the disadvantaged, the key ethical question, can be evaluated according to three criteria. The first is its association with reductions in absolute poverty, the second, its relationship with inequality, the issue of relative deprivation and third, its impact on political systems, which either gain greater autonomy or remain excessively vulnerable to events beyond their own boundaries that effect the poor. Subsumed under these specific questions are issues like economic growth and the socio-political transformation of individual and community life, including their cultural identity and autonomy. But clearly, being left out of the globalised economy is worse than the failure to get a larger share of the fruits of world economic growth, as Africans have been discovering for more than two decades.³² As a first approximation, the relevant unit of analysis remains the international system and therefore the fate of

its component units, states, although some judgements require the isolation of subjects at lower levels of socio-political aggregation.

A further set of socio-political issues arises in relation to the economics of globalisation. These are questions that economists have tended to ignore because much of modern economic theory is based on abstractions that require heroic assumptions about individual behaviour and the institutional framework within which it takes place, e.g. the need for labour markets to clear speedily in response to market signals. The issue might be approached at a high level of generality in order to highlight the problem. One of the consequences of the globalisation of markets is to alter the nature of the changes that society and governments have to deal with. To the extent that markets are global, citizens of the individual countries that comprise it are subject to a variety of forces of change that originate outside their own borders and impact more frequently. Governments also need to respond to external forces that potentially limit their ability to cater to the needs and demand of its own citizens. Thus, poorer citizens with limited political salience are likely losers when governments respond to capital market volatility in order to placate very much wealthier foreigners.

Political power in the global economy: international trade and structural adjustment

Economists spend a great deal of time demonstrating the existence of efficient outcomes and the conditions necessary for their achievement. The issue of market failures leads to policy prescriptions designed to minimise welfare losses. Yet the governance of the world economy has never occurred on the basis of efficiency criteria alone and certainly not according to its implied teleology of global welfare.³³ The reasons for government policies that fail to optimise global welfare have been subjected to analytical scrutiny, as have the possibility of trade-offs between global and national welfare.³⁴ The rules and regulations that govern the operations of the globalised market do not issue immaculately out of economic models designed to maximise global welfare. They are intimately connected to the politics of national interest and the parochial aspirations of constituents within them. As far as the analysis of globalisation and its consequences are concerned, the main interest is in actual outcomes and their causes rather than the demonstration of the technical possibility of maximising long-run global welfare, by adopting appropriate policies. It is this nexus that explains the pay-off for developing societies as well as the disadvantaged of affluent countries in the context of globalisation.

International trade

The impact of the global economy on developing countries is substantially a product of politicised markets, excluding the significance of the initial distribution of national and private assets. Domestic labour in advanced countries resists and curtails market access for their exports. Contemporary environmental and human rights lobbies, despite tenuous economic justification for their demands, are reinforcing this resistance. In fact, both sources of resistance to exports from developing countries ultimately stem from the desire to protect employment. The history of protectionist policies need not be recounted in detail here, except to note that developing countries only have circumscribed access to the markets of advanced economies in sectors especially crucial for their economic development.

The export of labour-intensive goods like clothing, shoes and light consumer goods, critical for the livelihood of surplus labour, released by rising agricultural productivity or demographic change, has been subject to detailed regulation and persistent barriers in the form of quotas and tariff peaks.³⁵ Protectionist practices, as noted below, are institutionalised in the agricultural sector of the principal advanced economies and cause great harm to the prospects of a large number of Asian, African and Latin American developing countries, especially large economies like Indonesia and Argentina that enjoy a singular comparative advantage in agriculture. Genuine markets, the perceived expression of globalisation, would require the end of political intervention and free trade in these products, which are sold at marginal cost since developing countries do not wield market power in them.

The oligopolistic structure of retail markets in advanced countries also militates against a fair distribution of the final prices of mass-produced, non-branded products originating in poor countries. Intermediaries resident in advanced countries capture the largest share of the final selling price. Competition policies that place poor countries at less of a disadvantage in dealings with oligopolistic agents in advanced countries would therefore be justifiable on welfare grounds. However, the blatant interference by the governments of advanced countries in favour of their own citizens highlights clear conflicts of interest with producers in poor countries that asymmetrical political power and regulatory practices are intended to perpetuate.

The history of international trade negotiations during the post-WWII period under the aegis of the GATT reflects these political imperatives. Politically weak countries usually fail to achieve their objectives and often depend on the calculated goodwill of powerful countries, which recognise that unbridled ruthlessness in translating their power capabilities into the norms and operating procedures of the regime would be counterproductive because the disenfranchised might revolt, despite costs to them. A further unhappy perversity arises because liberalisation can impose prolonged adjustment costs on the most vulnerable countries, since increased competition often eliminates their existing opportunities, for example, the loss of export quotas under the multi-fibre arrangement.³⁶

The two sectors of particular interest to developing countries, clothing and agriculture remained outside the purview of the GATT trade order until the recent Uruguay Round, although their future is not yet unambiguously clear. Paradoxically, their inclusion within the multilateral framework of international trade may be attributed to the success of globalisation, since the growing prominence of developing countries made some concessions to them unavoidable. In order to secure their agreement on other issues like the General Agreement on Trade in Services (GATS), trade-related intellectual property services (TRIPS) and trade-related investment measures (TRIMs) a negotiated quid pro quo was thought necessary. By contrast, during earlier rounds of GATT advanced countries were indifferent to tariff reductions in sectors that would have benefited developing countries, since the latter were exempted from offering reciprocity and the principal supplier rule disqualified them from taking the

initiative, because of their modest shares in the relevant sectors. Once again, asymmetric influence rather than economic criteria explain the result.

The scope and time horizon for intellectual property protection embodied in the TRIPS regime are also the product of the political power wielded by advanced economies rather than a balance between the interests of producers of intellectual property and the generality of users. The rationale for the rigidity of the regime is justified by the analytical insight that it is in the national interest of producing countries to limit the diffusion of technology beyond their own borders.³⁷ Once again, the economics of globalisation don a national mask. The major defeat for developing countries at the Uruguay round was to be deprived, on weak intellectual grounds, of the critical policy tool of infant industry protection, which remains a thorny issue that has not been disavowed by either compelling economic logic or policy experience. A considerable body of economic analysis continues to highlight the disadvantages of being a latecomer country, owing to the relevance of learning by doing, market size, etc.³⁸ These arguments are evident in the advocacy of strategic trade policies and the arbitrary nature of specialisation due to temporary technological leads rather than relative national factor endowment. But this debate was largely conceded by developing countries during the Uruguay round on the anvil of insistent assertion by powerful national interests rather than reasoned persuasion.

The importance of the dynamics of relative power, including the preferences of influential national constituents, as opposed to the calculus of global welfare, has thus been in sustained evidence in the outcomes of the Uruguay round negotiations. The precise contours of various agreements on most issues reflects the scope for discretion in moulding market outcomes and the historic salience of transnational corporations in guiding much of the agenda; for example, on the GATS, TRIPS and TRIMs. The most blatant was the reaffirmation of national autonomy in determining anti-dumping and countervailing actions, which most observers acknowledge to be capricious.³⁹ Their misuse against the exports of developing countries has less to do with maximising welfare than national and parochial interests. Significantly, protestors against globalisation from the advanced countries, frequently associated with trade unions, wish to strengthen such malpractice in the name of international brotherhood and justice. Many of them were present at the demonstrations against the WTO Ministerial meeting at Seattle. The importance of power politics, as opposed to the cogency of welfare arguments and notions of sovereign equality, was underlined by the exclusion of developing countries from the Green Room discussions at Seattle in December 1999. It was this miscalculation rather than the protesters outside in the streets that precipitated the Seattle debacle, because the debarred countries consequently decided to oppose any private understanding, as a matter of principle.⁴⁰

Structural adjustment

Structural adjustment programmes (SAPs) have been another important issue for the critics of globalisation and do indeed constitute a specific and important historic crossover point for developing countries. They embody policies that are dictated by external agencies and enforce a form of globalisation on them. Quite clearly, many, if not most, developing countries would have been unlikely to adopt the retrenchment and liberalisation required by SAPs voluntarily, if only

because the resulting domestic political fall-out is costly. At the same time, the harsh medicine of SAPs is administered in less potent doses to politically well-connected regimes and fuels resentment even further, since mitigated application is obviously not available to all. Recently, the most important adviser on development policy in Washington, the distinguished chief economist of the World Bank, Joseph Stiglitz, denounced SAPs as frequently ill-conceived and their architect, the IMF, as mediocre.⁴¹ It may well be, however, that the IMF is a prisoner of circumstances, seeking to square the circle and constrained by powerful private economic interests from rich countries who are in a position to press their preferences through the US Treasury. Their concern is to retrieve local currency assets before exchange rate depreciation makes them worthless, which prompts advocacy of orthodox macroeconomic measures under the aegis of the IMF.

SAPs highlight two distinctive issues that go to the heart of the difficulties posed by globalisation for developing countries, irrespective of its economic merits and historical inevitability. The first is the problem of financial volatility in global markets that arises from the intrinsic difficulty of exchange rate management, for which policy prescription remains uncertain. For example, the circumstances in which fixed or floating exchange rates are appropriate, given the degree of exposure to international trade, etc., are far from self-evident. These novel conditions were the permissive background for the widespread corruption and mismanagement highlighted by the crisis in financial liquidity in Southeast Asia during 1997.⁴²

A more intractable issue is the reality that the increase in objective global economic interdependence has not been accompanied by greater subjective societal integration that could underwrite the cost of volatility. Thus, the emerging global world economy lacks the corresponding social structures that cushion economic vicissitudes within domestic society.⁴³ The absence for indebted countries of the equivalent of Chapter 11 of US law, which protects agents facing bankruptcy, illustrates this dilemma. The failure of IMF SAPs to substantially mitigate their especially harsh impact on the poor adequately also reflects this inability, of wealthy governments, to protect citizens of other societies from the painful consequences of adjustment, required for participation in the world market. In fact, in recent decades the largesse of the richest countries has been diminishing, and, indeed, the US has withheld and, then, arranged for forgiveness of some of its UN dues.

The issue of good governance highlights complex problems that cannot be comprehended by slogans about the exploitative character of globalisation. It cannot be automatically assumed that the reason for the failure of socio-economic transformation in much of the developing world, and its painfully slow progress in yet other parts, is primarily economic as well as external in origin, i.e. globalisation. A passing acquaintance with the functioning of governments and bureaucracies in many Asian, African and Latin American countries cannot fail to underline the deep indigenous roots of corruption and mismanagement, independent of any external fortification.⁴⁴ The phenomenon of state capture and the theft of investment funds - which therefore ends up in consumption - as well as transfer payments intended for the poor is routine and involves many at the

highest levels of government. However, blaming globalisation for the consequences diverts attention from such criminal misdeeds and also misdirects analysis of their underlying causes. The absence of good governance in a significant number of countries can undoubtedly be blamed on external factors, but these reasons were essentially political in character rather than economic.

The prolonged survival of kleptocracies in countries like Zaire, the Philippines, Indonesia and much of Latin American can be blamed on the Cold War rather than the imperatives of the global market place. The fact that Western economic interests often benefited through association with such regimes is more a consequence rather than cause of their being in power, a by-product of narrow Cold War imperatives to maintain friendly regimes in power regardless of the wider consequences for the countries concerned. It is no coincidence that most of these kleptocratic regimes are now out of power in the aftermath of the Cold War. However, globalisation is altering the context of state action by imposing powerful constraints of external origin that can crowd out responses to local needs. The capacity for exit of external agents and its severe and immediate disruptive impact on the functioning of economies results in neglect of local constituents, especially those without a voice.⁴⁵ This is the reason for the failure to cater adequately to the needs of the poor during economic crises that impose budgetary cuts.

Globalisation and poverty

The causes of poverty are complex and require both careful conceptual analysis and empirical examination.⁴⁶ However, the obvious questions that can be posed are, does globalisation cause, intensify, or relieve poverty? There is little evidence that globalisation, per se, causes poverty or intensifies it, unless population growth, capital market volatility and SAPs, which are usually the immediate causes of increased poverty, are primarily attributed to globalisation rather than policy failure. On the contrary, globalisation does indeed relieve poverty, albeit only slowly and, according to conventional wisdom, it worsens inequality, though these are dissimilar phenomena, because growth is associated with greater income differentials. However, recent studies challenge the inference that adjustment and globalisation either worsen poverty or increase inequality.⁴⁷ A major reason for the prevalence of poverty in the first place, as opposed to periodic variations owing to the impact of globalisation, is the absence of political will to re-distribute income and assets and no amount of theorising about epistemology can obscure this stark reality.⁴⁸

Three general issues need to be borne in mind before rushing to judgement. The first is how economic benefits can accrue to the poor. Second, the fact that although globalisation has historical antecedents, it is a phenomenon that is still at an early stage of evolution. An assessment of its eventual consequences therefore justifies some caution, for the present. Third, economic growth is a pre-condition for the alleviation of poverty, although whether or not globalisation inhibits development, as compared to inward development strategies, remains a separate question.

The situation of the poor improves through employment, re-distributive measures or increases in the value of any assets they possess. The latter cannot be regarded

as significant because subsistence at the margin for the very poor (under \$ 1 per day) implies that such assets are liquidated quickly to ensure physical survival. Re-distributive measures in regions like South Asia and especially Latin America, where a numerical majority of the world's poor live, are not significant, except during crises, though there are notable exceptions within them. Meaningful re-distributive measures would first need to address the problem of unequal land ownership, which persists because the dominant elites are the landed minority. The paucity of land availability should also be borne in mind (e.g. Bangladesh), although the salience of the issue of political power is the principal explanation for skewed ownership and landlessness. The only realistic long-term solution to poverty is therefore improved employment opportunities, generated by economic growth. Such growth needs to be labour-intensive and may possess other re-distributive spin-offs, but cannot be sustained in isolation from the global economy.

Recent changes in poverty indices, in the context of the increased globalisation of national economies, are ambiguous. They suggest that the largest single geographical concentration of the poor, located in the South Asian region, has experienced little or no improvement in their living standards.⁴⁹ The debate as to whether or not their numbers have grown slightly, as one recent survey seems to suggest, does not refute the main inference that the poor have benefited little from liberalisation, the precursor of globalisation, in the recent past. However, it needs to be borne in mind that the period under purview is relatively short and an enduring resolution to the long-standing historical problem of poverty is unlikely to be speedy. The relief of dire poverty, which is the outcome of the vulnerability of the very poor to economic volatility, requires periodic public intervention that depends on political will and humanitarian endeavour. Experience also shows that economic growth and the greatest recent historical successes in combating poverty have taken place in economies, like the Republic of Korea, Taiwan, and now evident in the rapid socio-economic transformation of China, that have internationalised.⁵⁰ In the case of the Republic of Korea and Taiwan, substantial economic development had occurred in the first half of the twentieth century during colonial rule and the subsequent redistribution of land under US occupation ensured a critical condition for the alleviation of poverty.⁵¹

Thus, although globalisation, the contemporary manifestation of engagement with the international economy, may not be the ultimate catalyst of economic advance, it accompanies economic growth, as the association of rises in per capita incomes with successive increments to international trade and foreign investment demonstrates. However, the first necessary step for economic advance is political stability, the protection of property rights and the rule of law. They may be inimical for the sharpening of contradictions, as a prelude to the revolutionary seizure of power by a vanguard on behalf of the masses, labouring under false consciousness, but it is essential for capitalist development. These conditions are absent in large swathes of Africa and only weakly enforced in much of South Asia and Latin America and are a powerful reason for faltering economic performance, as potential investors, both domestic and foreign, shy away and urgent infrastructure remains undeveloped or is misapplied.

Conclusion

The rejectionist critics of globalisation have sought to locate it historically by engaging in metaphysical socio-political speculation at high levels of abstraction. Their preoccupation with the apocalyptic, meta-historical implications of globalisation as well as proneness for opportunistic critiques of it on behalf of displaced labour in advanced countries has deflected a more pragmatic assessment. It might account for their failure to give adequate attention to some of its serious negative consequences for the most vulnerable. For example, one of the meta-historical characteristics of globalisation has been the communications revolution, transporting ideas, goods and people in large volumes across space and instituting unprecedented integration of the global economy and society. Even its critics regard this phenomenon as largely positive because it has empowered them by allowing the NGOs, through which they operate, to organise opposition over the Internet. The latter is the quintessential expression of globalisation and increasingly defining its economic scope in the phenomenon of e-commerce.⁵² However, it has also ensured rapid transmission of diseases like Aids that many politically incoherent and weak administrative systems cannot cope with, as its dramatic incidence in Africa and Asia shows. This is surely a more urgent issue for those affected, requiring international intervention, than the bemoaned indignity of economic dependence or cultural homogeneity? Climate change, whose causes are still imperfectly understood, also requires global endeavour to mitigate its negative impact on poor societies that do not possess the resources to overcome recurrent floods or droughts, for example. In fact, the world is now undergoing a historic transformation that is simultaneously a centripetal economic force and a centrifugal political one. It is the source of negative feedback that needs considered attention.

The rejection of globalisation for being supposedly inimical to the emancipation of the poor implies a paradoxical consequent espousal of a nationalist and territorial basis for addressing their situation, the unavoidable historical alternative to it. The affirmation of such a normative outlook might be regarded as incongruous from an ideological perspective that implicitly rejects capitalism as well. Instead, it might have been expected that the privileged place of the state might also be counterposed to a potentially more radical, however weakly articulated, and cosmopolitan alternative. A further irony of the politics of rejection is the simultaneous affirmation of interests that are clearly in conflict. The protest against so-called 'social dumping' (i.e. cheap imports) to protect jobs in the advanced countries cannot serve the interests of those in the third world whose livelihoods depend on it, both purported victims of a globalised market, integrated by footloose multinationals. However, one of the key complaints against globalisation that turn out to possess serious normative implications, perhaps inadvertently, is the criticism of the social cost of economic adjustment in general and its structural variety in particular. In effect, such a critique asserts the cosmopolitan character of the political right to be protected against adjustment, for all affected. The policy implication, from which its protagonists may well recoil when its true costs are known, would, in fact, entail international redistribution, depriving their own fellow citizens, who are creditors, to benefit debtors who are not.

Markets are inherently political because agents deploy their differential access to political and military resources to influence economic outcomes. In slave societies and during the feudal-mercantilist period such politicisation was unambiguous because forced labour and physical control were self-evident in determining economic outcomes. In capitalist markets, prices play a critical role in integrating the economic system as well as the distribution of income and political interference to influence economic outcomes is pervasive, but not universal. It almost certainly serves the less well off better than previous historical alternatives as well as socialist central economic planning. 'Exploiting classes', in Marxist terms, extract relative rather than absolute surplus because competition between capitalists makes it unavoidable. But there is more direct political intervention in the globalised economy than within the domestic economic sphere. The advocates of greater international economic integration systematically underrate its durability, while the critics of globalisation seek more of it without reflecting on the likelihood that it will be captured by the powerful. The political nature of such neo mercantilist interference would merely add to the disadvantage of participation in markets without adequate human or physical assets. However, globalisation cannot provide the conditions for its own efficient operation by providing public goods like good governance and installing infrastructure.

Thus, the greatest enemies of the poor are those who wish to politicise the world economy further because the resulting policies will be captured by dominant groups, however lofty the motives for their promulgation. The immediate alleviation of poverty requires significant redistribution of income and assets, particularly land. In the long run international economic integration constitutes the unavoidable basis for the alleviation of poverty, although globalisation can instigate negative political feedback, by privileging the voices of the newer global factors in the calculations of governments in developing countries. Such an outcome is likely to weaken the relative political salience of existing policies that benefit the poor. However, if it can be agreed that the worst drawbacks of globalisation stem from its politicisation the appropriate response to it cannot be the halting of capitalist development, but the curbing of politicisation, because it favours the powerful. The economics of the marketplace may not reduce poverty quickly, but unlike the marketplace for political activity it is not inherently biased against the poor.

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² See for example, Serif Hetata, 'Dollarization, Fragmentation and God' in Frederic Jameson and Masao Miyoshi, Eds., 1998 *ibid.* pp. 273-290.

³ Jorge Larrain, *Marxism and Ideology*, London and Basingstoke, The Macmillan Press Ltd., 1983, pp. 1-45, esp.

⁴ For a brief summary see Antonio Gramsci, 'Culture and Ideological Hegemony', in Jeffrey C. Alexander and Steven Seidman Eds., *Culture and Society: Contemporary Debates*, Cambridge, UK Cambridge University Press, 1990, pp. 47-54.

⁵ Paul Hirst and Grahame Thompson, *Globalisation in Question: The International Economy and the Possibilities of Governance*, Oxford, Polity Press, 1995. Robert Boyer and Daniel Drache Eds. *States Against Markets: The Limits of Globalisation*, London, Routledge, 1996.

⁶ World export of services grew by 25% between 1994-1997 'Entering the 21st Century', World Development Report, *The World Bank*, Oxford, Oxford University Press, 2000, p. 64.

⁷ *The World Bank*, 2000, *ibid.* And *UNDP Human Development Report*, UNDP, Oxford, Oxford University Press, 1997, p. 83.

⁸ Overview World Investment Report 1999, *UNCTAD*, New York, UN 1999, pp. XXI-XXXIV. Human Development Report 1997 and UNDP, *ibid.*

⁹ Samuel Hollander, *Classical Economics*, Oxford, Basil Blackwell, 1987, pp. 166-170. Douglas A. Irwin, *Against the Tide*, An Intellectual History of Free Trade, Princeton, New Jersey, Princeton University Press, 1996, pp. 75-98.

¹⁰ For an incisive summary of Marx's relevant writings see Shlomo Avineri, 'Karl Marx on Colonialism and Modernization', in M.C. Howard and J.E. King, Eds., *The Economics of Marx*, Harmondsworth, Middlesex, 1976, pp. 235-257. For a trenchant critique of the implications of Marx's ontology cf. Ernest Gellner, 'Forward', in Brendan O'Leary, *The Asiatic Mode of Production*, Oxford, Basil Blackwell, 1987, pp. VII-XII.

¹¹ Immanuel Wallerstein, *The Politics of the World-Economy*, Cambridge: Cambridge University Press, 1984.

¹² Karl Marx, 'The British Rule in India' in *Selected Works* Volume One, Moscow, Progress Publishers, 1966, pp. 494-499.

¹³ For a robust reaffirmation of the original Marxist position, though it has been overstated in the draft edited by John Sender see, Bill Warren, *Imperialism, Pioneer of Capitalism*, London: NLB, Verso, 1980.

¹⁴ Lenin, *Imperialism, the Highest Stage of Capitalism*, Peking, Foreign Language Press, 1973.

¹⁵ Elhanan Helpman, 'The Structure of Foreign Trade', *Journal of Economic Perspectives*, Volume 13, Number 2, Spring 1999, pp. 121-144.

¹⁶ The question is analysed in Richard F. Salisbury and Elisabeth Tooker Eds., *Affluence and Cultural Survival*, 1981 Proceedings of the American Ethnological Society, Washington D.C., American Ethnological Society, 1984.

¹⁷ Enrique Dussel, 'Beyond Eurocentrism: The World -System and the Limits of Modernity' also Frederic Jameson, 'Preface', and 'Notes on Globalization as a Philosophical Issue' in Frederic Jameson and Masao Miyoshi, Eds., 1998, op. cit. pp. 3-31; XI-XVII; 54-77.

¹⁸ Ricardo's interesting caveat regarding the abolition of the Corn Laws is worth noting, Cf. Samuel Hollander, 1987, op. cit. pp. 334-335.

¹⁹ The complexity and multiplicity of the sources of economic growth are underlined by Robert J. Barro, *Determinants of Economic Growth A Cross-Country Empirical Study*, Cambridge, Mass., The MIT Press, 1997.

²⁰ Dani Rodrik, 'Globalisation and labour, or: if globalisation is a bowl of cherries, why are there so many glum faces around the table', in Richard E. Baldwin, et. al. eds. *Market Integration, Regionalism and the Global Economy*, Centre for Economic Policy Research, Cambridge, UK, Cambridge University Press, 1999, pp. 117-152.

²¹ Raul Prebisch, 'Five Stages in My Thinking' in Gerald M. Meier and Dudley Seers eds., *Pioneers in Development*, Oxford, Oxford University Press, 1984, pp.173-204. It is important to note that Prebisch was an advocate of infant industry protection rather than autarchy; cf. final paragraph in p. 179. Andre Gunder Frank, *Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil*, New York, Monthly Review Press, 1967.

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- ²⁴ 'Globalization Opportunities and Challenges', World Economic Outlook, *The IMF*, Washington D.C. May 1997, pp. 66-69 for a standard economic conceptualisation of globalisation.
- ²⁵ William Easterly, 'The Lost Decades: Explaining Developing Countries' Stagnation 1980-1998', *The World Bank*, January 2000, <http://www.worldbank.org/research/growth/wpauthor.htm>.
- ²⁶ For an account of the impact of globalisation on wages and employment in advanced countries see Gary Burtless, 'International Trade and the Rise in Economic Inequality', *Journal of Economic Literature*, June 1995, Volume XXXIII Number 2. pp. 800-816.
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- ³³ On the political constraints faced by governments in allowing unhindered market outcomes see James Mayall, *Nationalism and International Society*, Cambridge, UK: Cambridge University Press, 1990, pp. 108-110. Also see Strange Strange, *States and Markets*, London, Pinter Publishers, 2nd edition, 1994.
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- ³⁹ Anne O. Krueger, editor, 'Introduction' in *The WTO as an International Organization*, Chicago, Chicago University Press, 1998, pp.1-30.

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