

COMMENTS ON ECONOMIC GLOBALIZATION: ECHOES OF HISTORY AND CURRENT THREATS

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In 1989 Francis Fukuyama published his well known article “The End of History.” As the communist system was crumbling down in the Soviet Union and its Eastern European periphery, Fukuyama argued that the ideas of democracy and free markets had finally been recognized as the universal paradigm for the organization of nations. Therefore, the world was bound to continue on a trajectory that held very little scope for innovation in the political and economic spheres. Ironically, one could have predicted the same world future in the eve of the Great War in 1914.

Over the long reign of Queen Victoria, under the aegis of the British Imperium, the world had moved towards unprecedented economic integration, where the flow of goods, capital and people was sometimes more uninhibited than we know it to be in our time. What followed that fateful year of 1914 was enough, however, to throw national economies back into segregation from each other and to bring about an economic system that would challenge free market capitalism for seventy long years before Fukuyama could proclaim the end of history.

It was after the end of World War II, and especially in the 1970's and 1980's, that the long and arduous process of reintegrating the world into one global marketplace was put back in motion and gathered force. The need of underdeveloped countries for capital, the desire of developed economies for higher rates of return, technological innovations in the transmission and processing of information, better designed and enforced legal and regulatory systems provided the motives and the wheels that seemed to bring markets together. The opening up of the Chinese economy to free market practices and most importantly the collapse of communism in Eastern Europe in the years around 1989 gave the globalization process additional momentum and opportunities. What followed in the 1990's reached and surpassed the glorious days of pre-1914 laissez-faire capitalism. Western investment bankers in Moscow and Peking; Chinese IPOs in the NYSE; stock exchange linkages; multinational corporations from diverse countries expanding everywhere became the order of the day in a globe that was becoming

both a huge market and a small world to navigate thanks to technology.

Are we ready then to declare that Fukuyama was right? Or do we have reasons to worry about the future of globalization and hence any celebration would sound premature? As in 1914, events have happened in the opening years of this century that might pose serious threats to the globalization process.

The threats are three-fold. First, there is growing dissatisfaction with the consequences of economic globalization among sizable masses of people in both developed and under-developed countries. Concerns about the environment, loss of jobs, work safety conditions and labor wages, fiscal and monetary disturbances are the main factors that fuel opposition to and skepticism about the benefits of globalization. The second threat is the slow economic growth experienced in most of the developed economies, including the US, the European Union and Japan. As long as the world economic pie does not grow fast enough other problems and frictions associated with globalization start to look even more ominous and intractable than they really are. The third and most serious threat to globalization is the combination of terrorist acts, fear of terrorism, the current war in Iraq, and very importantly, the emerging frictions among important states as to what the rules of the game ought to be in this new 21st century.

These threats have resonated in books and recent articles published in the business press. In a new book titled "Saving Capitalism from the Capitalists" two academics, R. G. Rajan and Luigi Zingales argue that political and economic elites in developing countries are often against globalization because it threatens the institutions that enable them to earn abnormal profits and perks. A *Wall Street Journal* (3/17/03) article by David Wessel expressed the fear that the world may turn away from globalization today as it did in 1914. Similar concerns were expressed in an editorial in the *BusinessWeek* issue of March 24, 2003 by Bruce Nussbaum. The common concerns in these articles are that international disagreements and frictions about the handling of international crises; the potential irrelevance of such institutions like the UN; as well as resentment and antagonism toward a unilateral United States could sour the climate of economic and political cooperation that has been so conducive to the growing

integration of national economies. An article in the February 12, 2003 issue of *Financial Times* went as far as to report concerns by the intelligence agencies of the US that any decline in living standards that is attributed to globalization forces could turn people abroad against the US which is considered the prime engine of the world economy and the drive toward its integration.

In his 1998 book “From Plato to NATO” David Gress writes that according to the macro-historians the future of the world history is poised to move along an economic trajectory. Commerce not war will be the means to grow national wealth. The current crises, disillusionment with globalization, fear of terrorism, unraveling of historical cultural and economic alliances, and military confrontations could push us easily off the trajectory of economic growth through global market integration and competition. And this would be a colossal failure. Because despite all its faults, economic integration has reduced the ranks of the poor worldwide, has brought two huge masses of people from China and India into the global economy and holds the only hope to tie people together in the common pursuit of prosperity and freedom from want.

We often tend to identify economic and financial globalization with developments in international markets, instruments, and business practices and forget that the real forces behind globalization are not merely economic, they are most importantly political, social and cultural. History teaches us that the tremendous growth in globalization we have recently witnessed is not necessarily a self-propelled engine and its perpetual thrust forward should not be taken for granted. Keeping a wary eye on these other forces is necessary to our understanding of how the future may unfold and to our ability to steer it toward the right direction.

In line with this overview, tonight’s presentations have the purpose to give us informative perspectives about globalization from various regions of the world.