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Major Issues

Globalisation represents a lot of different things to a lot of people—journalists, academics, parliamentarians, business leaders and bureaucrats among them. It is welcomed widely and lamented widely. Either way it is hard to ignore. Most people seem to have a view on elements of it but still have many questions. Is it old or new? Is it good or bad? Is it really important or just the latest subject for hype? Who or what causes it and who gains and who loses? These are some of the questions addressed, from a variety of perspectives, in a now rapidly expanding literature.

This paper tries to bring out the essence of some of the important questions, with emphasis on Australia and its region. It does not attempt a formal definition. There are now many being proffered, yet few describe globalisation completely and effectively and they generally embrace a lot of technical language.

The paper begins by asking 'What is Globalisation?' and points out that the term itself is both imprecise and subject to contested definitions. Economic factors are central to globalisation, and many in the Asia-Pacific region would like to limit its effects to economics. However, the globalisation process also includes social, political and cultural links that—along with economic and technological links—tend increasingly to override territorial, legal and political barriers.

Is globalisation new? Mostly no but partly yes. Globalisation in an economic sense derives particularly from a progressive reduction in transaction costs, and since this has been occurring for a very long time globalisation can not be said to be new. However, the level and pace of global economic interactions is quantitatively much greater than in earlier phases of change (for example in the latter part of the 19th century). Globalisation today goes well beyond the economic dimensions and has spread through political, cultural, environmental and even security influences. Today's global integration is also qualitatively different because of the scale, intensity and rapidity of the processes involved.

Is globalisation westernising or American in character? In overall terms the answer is largely no, but in the Asia-Pacific widely yes. Many westernising influences have been accepted voluntarily in the Asia-Pacific and most states have actively participated in global markets. There have been strong reservations held about the extent of western influence, especially since the 1997 economic crisis, with concerns about the pressures exerted by western capital markets and about the major international economic institutions (such as the International Monetary Fund—IMF).

Does globalisation lead to convergence or divergence? Some see it as leading to convergence (including culturally) and this can be viewed either negatively or positively.

Many others however see globalisation as encouraging and supporting a healthy cultural diversity (with new technologies, for example, empowering minorities and helping maintain threatened identities).

Can globalisation be reversed? While in principle globalisation could be checked or reversed (as was the case in earlier phases by World War One and the Depression) reversal would now in most areas be impracticable (as even the most isolated Asia-Pacific states like North Korea and Burma are gradually recognising). Changes in technology, communications and global governance along with the associated spread of ideas, are not reversible.

Who gains and who loses? Most gain, lots lose and probably more lose for reasons other than globalisation and wrongly blame the process. Many countries have gained from export led growth and more open markets, particularly in the Asia-Pacific. There have also been losers, for example in sub-Saharan Africa. Careful assessment of the evidence on the effects of globalisation both within and between countries suggests that inequality has not increased between countries and that inequality within countries is often wrongly attributed to globalisation.

Security can be affected by globalisation in several ways. While economic inter-dependence has probably decreased military insecurity, human security has probably not decreased. Improved technologies have increased the global reach of any potential military threat, while the declining control over such conflict by states and the increasingly globalised economy has increased the power of terrorist groups and organised crime.

How does globalisation affect the environment? Probably adversely. Opponents of globalisation fear that liberal trade and economic growth will have severely adverse consequences and lack effective controls. Optimists, however, point to the positive effects of the raising of global awareness and cooperation, and given the material benefits of globalisation, more environmental protection is affordable.

Reactions to globalisation have, not surprisingly, varied widely. International institutions and most economists, politicians and business leaders consider globalisation as, on balance, contributing to economic growth and development worldwide. Opponents include groups seeing themselves or their interests affected adversely (such as some trade unions, businesses facing import competition and environmental groups). Opponents also include a wider group who see globalisation as causing most of the world's problems (including increasing economic insecurity and threats to the welfare state)—and the role of non-state actors has been highlighted in actions such as the protests during the Seattle World Trade Organization (WTO) meetings.

Does globalisation give rise to a 'democracy deficit'? This is increasingly possible. A number of Non-Government Organizations (NGOs) have criticised the lack of transparency and accountability in the decision-making of major international institutions. There are indeed problems and remedial steps are necessary to gain and maintain domestic support for these institutions. But the NGOs are representative mostly of the 'north', and Asia-Pacific interests are under-represented in their debates.

Will the Asia-Pacific seek to limit the impact of globalisation? Mostly no, but in some respects hopefully yes. The 1997 financial crisis demonstrated to Asian countries their vulnerability to global short-term capital flows and to the involvement of the IMF, whose policies have been seen as compromising national economic sovereignties. However there has also been convergence with western countries to improve aspects of financial management and to increase involvement with international institutions, as with China and the WTO.

Is the role of the state declining as a result of globalisation? It is changing but not declining. The state itself contributed substantially to globalisation through trade and financial liberalisation and encouragement of technological liberalisation. However state roles will change: while deregulation has been required, so are new regulations needed to respond to globalisation.

How should Australia and other regional countries respond to globalisation? Polices will be increasingly needed to address economic insecurity and to provide adequate social safety nets and other methods of assistance for those hurt by globalising processes. If governments underestimate economic insecurity, the problems do not disappear but simply return in the politics of extremism. There is also a need to sell more widely and effectively the benefits that come from globalisation and from the roles of international institutions which help manage them, such as the WTO. Australia can also assist regional states to frame measures to cope with economic volatility.

Introduction

> The world is in a rush, and is getting close to its end
> Archbishop Wulstan (1014)
>
> Worldwide coalition against globalisation
> Demonstrator's placard at Seattle (1999)
>
> Globalisation, more than anything else, means Westernisation and the acceptance of Western business standards and political systems around the world
> Mahathir Mohamad (1999)
>
> Economic globalisation is the natural outcome of world economic development as well as the external environment for the economic development of all countries in the future.
> Jiang Zemin (1999)

Few national or international commentators seem able to avoid the term globalisation today. Yet, not all of them have in mind the same thing when they talk about it or even a clear idea of what they themselves mean. In part, this is because it is an abstract, constructed concept that different people define and interpret differently, puzzle about and argue about. Consequently, it is often a basket into which goes a wide range of social, economic, political, security and other changes and problems, not all of which are necessarily globalising or consequences of globalising processes. It is often equated with liberalisation, interdependence, modernisation, westernisation, or Americanisation. To some it is simply the greater supremacy of liberal capitalism as an economic framework and as a basis for democracy, as in the American political philosopher, Francis Fukuyama's 'end of history'. To others it is the end of borders—the 'borderless world' of McKinsey's Kenichi Ohmae and the 'end of geography' of the British financial specialist, Richard O'Brien—or at least a world where national territories and borders have diminished meanings.

Given the ambiguity about the meaning of globalisation, and its different dimensions, it is difficult to deal with it as a single phenomenon. Consequently, this paper offers answers to a number of commonly asked questions about globalisation. Since, however, the issues are still being extensively debated and disputed, these 'answers' are mostly not aimed at resolving those disputes. Although the paper sees globalisation as broadly positive overall for Australia, it seeks to indicate the range of issues and the nature of the debate involved, and where the debate will be important for public policy in the future.

What aspects of globalisation are considered to be important commonly relate to where one sits geographically, economically, socially, culturally or ideologically. To governments in the Asia-Pacific, a particular focus of this paper, some of the issues high on the agendas in the west—labour standards, human rights and, often, the environment—do not have the same importance as in the West. Global warming and nuclear residues in particular, however, are critical concerns for the Pacific Islands. The region's special interest comes from two factors—the first arising from the economic crisis that emphasised the importance of international financial flows.[1] The rapid economic growth in Asia has been characterised by high levels of trade and large flows of capital and foreign direct investment. This, as the Asian economic crisis showed, involves risks and raises the question of what should be the response. Second, there is concern about globalisation's political and social impacts. In the Asia-Pacific, as well as distributional equity issues and concerns about the role of international financial institutions, cultural impacts are also important, although cultural concerns are not limited to regional states, as French activism on the issue illustrates.[2] In the Asia-Pacific, as elsewhere, anxieties exist over the power globalisation gives to multinational corporations. And many workers, in developing countries as well as developed, see its impacts as actually or potentially marginalising.

While giving special attention to the Asia-Pacific perspective, by definition we need to put those impacts into a global context. After asking what is globalisation, we ask whether it is new, can it be reversed, what are its distributional impacts (who gains and who loses) and what are its security consequences. We discuss the anti-globalisation pressures reflected at Seattle and elsewhere, and the concerns about the 'democratic deficit' (see Glossary) of international institutions? We ask how globalisation affects the Asia-Pacific region, specifically addressing the argument about a reduced role for the state, and what policy challenges it poses for regional governments. How do they manage the risks of economic globalisation? Does globalisation threaten distinctive national systems and jeopardise economic stability and social cohesion? And what does that mean for Australia?

What is Globalisation?

While fashionable, the term 'globalisation' is imprecise and contested. For those emphasising economic globalisation, the main part of the package is increasing integration of the global economy through product and factor markets (see Glossary) by way of trade, direct investment and financial flows, greatly aided by deregulation of markets and the liberalisation of trade and capital movements. Many in the Asia-Pacific region would like to limit globalisation's effects to economics, as the quote from China's President implies, but while associated impacts can be limited they cannot be totally controlled.[3] While economic aspects remain central, globalisation embraces more, if less precise, transformations through the associated spread of information, perceptions and ideas.

These latter influences, in particular, have themselves provided the organisational flexibility that leads to various characteristics of economic globalisation. These transformations include the geographic dispersal of production and other economic activities. They include the trend to the centralisation of many operations that benefit from scales of operation, as in research and development and in financial markets. They also include, however, transformations through the rapid spread of information and ideas on political, social, cultural, environmental and security processes and practices.

Discussions of the implications of globalisation are equally imprecise, in part because it combines different processes. That these different processes are incomplete is illustrated by the argument that we should speak of a 'globalising process' rather than 'globalisation'.[4] Although the international market has become global with the end of the Cold War, it is not fully integrated. In a fully integrated global market, the 'law of one price' would apply, meaning that any commodity has the same price throughout the world (allowing for transport costs, local taxes, etc.). This seems to hold for basic commodities such as wheat but the evidence is less clear for non-standard products such as motor vehicles that, even within the European Union, have different wholesale and retail markups. Moreover, the market for investment funds seems similarly substantially local. Capital still does not flow completely to the most profitable investment sites; most savings are still invested in the saving country.

Nevertheless, globalising changes are occurring and, together with other processes of modernisation, such as the spread of capitalistic productive processes, have been facilitated by technological changes in information, communications and transport technologies. The Internet, global communication networks, such as CNN, and global money, from credit cards to derivatives (see Glossary), have been major influences. In addition, global and regional institutions, such as the United Nations and the Asia Pacific Economic Cooperation (APEC) forum, have helped by bringing much of the international community together, sharing information, understandings and more especially, ideas.

Clearly, as already noted, there is much more to globalisation than economic changes. The international connections include as well as economics and technologies, social, political and cultural links that, as with the economic and technology links, increasingly tend to override territorial, legal and political barriers and change the nature of political and social governance.

Glossary: The Globalisation Debates—Some Key Terms

Product and Factor Markets: Product markets are simply the markets for end products; factor markets are the markets for land, labour, capital and technology. For some purposes, it would also include entrepreneurship, reflecting the geographically spreading markets for business leadership.

Financial Derivatives: swaps, forwards, futures, calls, options, hedges and the like are financial instruments that derive their values from an underlying asset, reference rate (of interest) or index. They are used to hedge or manage risk and at the same time they provide a mechanism for speculation.

Peaceful Evolution: a proposition propagated by the US (particularly by then Secretary of State John Foster Dulles) that social, political and cultural changes, associated with economic development in China, could be further encouraged by the West, to weaken and eventually undermine China's communist leadership. Not surprisingly, the Chinese do not see it the same way—or perhaps do see it that way and oppose it.

Neo-liberal Agenda: a widely held consensual world view on the key parameters of global economic management; specific components include the importance of markets, financial (and other) deregulation, liberalisation and privatisation. Supporters see globalised market relations as creating, in the long-term, economic health and human betterment. There are those who disagree with that. Most controversy stems, on the one hand, from those who interpret it as implying close to total removal of market 'fetters' and, on the other, those who see it facilitating the dominance of corporate capitalism with inadequate concern for victims of market pressures.

Global Governance: the sum of the many ways that individuals and institutions, public and private, manage, through ordered rule and collective action, their common international affairs. States are important but so are the many international institutions, large-scale private enterprises or multinational corporations and, increasingly, participation of global non-governmental organisations and global social movements.

Democratic Deficits: in this context, the perception (or reality) of gaps between the global forces that affect the lives of the citizens of nation-states and the transparency and accountability of the elite movements associated with global governance outside of those nation-states where effectiveness rather than accountability is the prime concern. The latter include national public leaders, officials and, at times, business leaders associated, for example, with the IMF, the World Bank and the OECD.

Is Globalisation New?

Unsurprisingly the answer is mostly no but partly yes. Certainly, if regarded as a mainly economic phenomenon, it is a result of a progressive reduction of transaction costs—in financial costs, time and convenience. Since these have been diminishing for a very long time, globalisation can hardly be said to be new. Does that matter? Perhaps only marginally, but it puts into a better perspective debates about whether globalisation creates additional injustices in class, race and gender contexts or whether it has simply exacerbated existing injustices. Historical experience also tells us something about how the role of government was affected in the past—a subject to which we return later. What is not new is that globalisation raises, although in a different form, the old debates about social policy, including the trade-off between efficiency and equity. Yet although the issues will be old ones, the influences will include the new ones that globalisation introduces.

More generally, to those for whom globalisation constitutes rapid and potentially disturbing change across a range of human activities, the quote from Archbishop Wulstan[5] suggests concerns at the rapidity of change more than a millennium ago. Some scholars track forms of globalisation back to pre-modern times, with the gradual spread of human populations across the world. Subsequently, the spread of empires, religions and migratory groups fitted some perceptions of globalisation, subject to the constraints of transport and communication technologies that, until the 20th century, limited it largely to Eurasia.[6]

Some elements of what were earlier termed economic liberalisation and interdependence are now included within the term globalisation. There are those who not only argue that globalisation is not new and doubt its distinctive character but believe it to be an ideologically based view being pressed by corporate management worldwide. They argue that the openness of the global system has not gone beyond that experienced in the 19th century and early 20th century;[7] that there has existed before a period when markets were as international as they are today.

Even those who accept that the scale of some elements has increased, notably international financial movements, do not always see globalisation as new. The American political economist, Robert Gilpin, referring to the 'second great age of global capitalism' argues that many of the presumed consequences of globalisation are in fact consequences of technological and domestic policy changes and that the world is less integrated now than it was in the 19th and early 20th centuries. He acknowledges that integration of the global economy has been increasing but sees this as a return to the pre-World War I era of globalisation.[8] He argues that international migration was much greater before World War I than today, although the figures are not easily compared. Despite, however, the large post-World War II movements of people, the intensity of international migration over the latter part of the 19th century and the early part of the 20th century—from Europe to the US, Australia and other lands, and the Chinese and Indian diasporas—was greater than in the latter half of the 20th century.[9]

Long-term capital movements were also larger. Yet, foreign direct investment, the link to greater mobility of production, not only grew in each year in the 1990s to a record level ($US865 billion) but also grew more rapidly than world trade or output. This was both a cause and a consequence of globalisation. And, best known of all, short-term capital transactions approaching $US 2 trillion a day, much of it speculative, swamp trade flows and more than match the levels of global financial reserves.

Within the narrower economic context, comparisons of trade and investment a century ago with today show that trade then was a considerably smaller proportion of national production.[10] Moreover, international trade has grown much more rapidly than during the period from before WWI to the mid-1940s and faster than global production. World exports grew from 7 per cent of global Gross National Product (GNP) in 1948 to nearly 25 per cent in 1998; the Asia-Pacific has shown greater growth with exports now representing 39 per cent of GNP. Moreover, trade and direct investment now include many services, such as retail trade and public utilities, then considered as non-tradeable items.

While short-term financial flows, the centre of much of Asia-Pacific's recent concerns in relation to globalisation, were quite small a century ago (in the millions of dollars daily), sceptics argue that long-term capital flows were proportionately larger. That is true. Like trade, however, they were limited to much narrower sectors of the economy and reflected a lower level of economic integration than today, with little impact on Asian countries. Moreover, there is a sense in which the history needs careful interpretation. The role of government and the expectations about how it will play that role are vastly different today than before WWI in terms of economic management and protection of the economic welfare of its citizens.

Although these general debates continue, they are not now major issues. For the Asia-Pacific in particular, much of the argument is esoteric. They were mostly not part of the global economic environment a century ago except as an outpost of imperial outreach. They were, of course, inevitably responsive to external forces; in Thailand, for example, marketisation and sensitivity to world market prices was largely complete in the late 19th century—as one way of staving off formal colonisation.[11]

If we move beyond the purely economic aspect of globalisation, most in the debate accept that there are new elements in the global system that do pose particular challenges. It is useful to elaborate on the issues raised, however, since they bring out some important aspects of what has changed over the last century.

There are two kinds of counter arguments to the view that globalisation is not new. One is that even on the narrowly economic arguments, there are quantitative (and most probably qualitative) differences. The second is that globalisation today goes well beyond the economic dimensions and has spread through political, cultural, environmental and even security influences unconfined to territorial boundaries, and that this is what is really the globalising influence and which is new. As Held and his co-authors note, the Silk Road from China (and Japan) to Europe was an example of early global connections but it was a 'thin' or extensive link affecting only a few people rather than a 'thick' or intensive link more characteristic of today.[12]

On grounds that we elaborate later, this paper accepts that today's global integration is qualitatively different for reasons of the scale, intensity and rapidity of the processes involved. There are now new elements in the global interconnections that move beyond the boundaries of social and political space set by the borders of the nation-state. While not the end of geography, there are important consequences of the Internet, telecommunications and satellite TV that are qualitatively different. There are now also issues, such as the environmental issues of the ozone layer and greenhouse gases essentially not bound by territorial barriers, that were not around only decades ago.

Some analysts would limit the definition of globalisation to these 'supraterritorial' developments.[13] For present purposes, we take a wider view given the new challenges that quantitative changes, such as in money markets, pose for government policies. Although elements of globalisation reflect merely changes in scale, as Friedrich Engels once observed, an accumulation of quantitative changes eventually amounts to a qualitative change. That globalisation is not as new as frequently argued, and is still quite limited in many respects, does not mean that it does not pose new and important challenges.

Is Globalisation Westernising? Or American?

In this case, the answer overall is largely no but in Asia-Pacific, widely yes. The belief that globalisation is western modernisation spread globally is extensively held. It is often represented, however, by commonplace symbols such as McDonalds and CNN, and seen as positive by globalists but by many in Asia-Pacific as a form of neo-colonialism.

Yet, voluntarily accepted western influences, although frequently European as much as American, are by no means new in the region. The concept of the nation-state adopted in Asia was a western construct: in China, Sun Yat Sen wore a frock coat; Marxism, even with Chinese characteristics, was one form of western modernisation; and Japan consciously absorbed western influences of various kinds following the Meiji restoration. The movement towards global markets in Asia-Pacific in one sense reflects an embracing of capitalist ideas. It differed from western models to a degree, however, if that means it was based on individualist values; Japan's economic development was not purely western in form and much of the developmentalism in Asia generally differed to a degree. Moreover, western influences are competing with those from other Asian cultures, notably from China, Japan and Hong Kong.

Domestic factors were often a determinant of governmental responses in the region and hence to their variability, and changes have occurred within some countries in the light of the 1997 crisis. Yet President Jiang Zemin (in the quote at the beginning of this paper) views globalisation as an objective economic reality, not labelling it as particularly western, and something that seems separate from the political 'peaceful evolution' (see

Glossary) that China resists from the west. Conservative hardliners in China do argue, however, that globalisation is a device of US hegemonism to weaken China.[14] South Korea continues to embrace globalisation as a necessity, despite its difficulties, in part as a symbol of its entry into the developed, largely western world. Due to its economic recession, Japan has become more cautious and less enthusiastic about globalisation, indeed now considering it as something of a threat. Taiwan faces the dilemma that it is more capably responsive than most to globalising influences but that has made it more economically convergent with mainland China while political divergence—and its sense of threat from China—remains strong.

Nevertheless, as the quote from Prime Minister Mahathir at the beginning of this paper indicates, some in the Asia-Pacific would argue against the influences of globalisation—and Malaysia would be joined at the popular level by many Indonesians, Thais and others. For them, globalisation's influences are westernising (and, for many, Americanising).[15] Yet like others in the region, Dr Mahathir (while always suspicious of US and British—and Australian—influence) until the Asian economic crisis, pursued economic globalising policies enthusiastically—committing Malaysia to the private sector, market forces and integration into the global economy. Since the Asian economic crisis, for Asia as a whole, opinion has increasingly considered globalisation as western, laying bare, as that experience did, the gap between their aspirations and the dominantly western or American economic and financial interests.[16] Asia's prime concerns are with pressures from the basically western capital markets, and with the international economic institutions with which they deal, the IMF, World Bank and the WTO. Since the West, and particularly the US, largely dominates these, the view that globalisation is either western or American is not hard to understand.

Asia-Pacific countries are not the only ones concerned about the pressure from external, largely American, influences. As noted earlier, the French have long had this concern but it is also a wider European concern. John Gray, a noted British conservative political philosopher, in his polemic against globalisation, is concerned that a universal civilisation coming from globalisation will take as a model the US, which he judges to be an unhappy and unsuccessful society as a result of the breaking of traditional social bonds.[17]

So? Does Globalisation Lead to Convergence or Divergence?

Again the debate is complex because there is a range of different perspectives. Many who see globalisation as westernisation or modernisation see it as leading to such convergence—leading to homogeneity among consumers and the replacement of existing cultures through the western mass media, Hollywood and the English language. Some critics also see it as leading to convergence, resulting in a 'race to the bottom', in regulatory standards. This argument we take up later along with the role of the state. Interest here is on 'cultural' convergence where there are also differences about whether convergence is probable and, in this case, whether cultural convergence is a positive or negative development.

The increasing integration of global markets means that interactions among cultures have increased and will do so increasingly in the future, and many in the west claim universal applicability for western ideas. There is, consequently, a wide assumption that there is a tendency to impose uniformity. Gray argues that convergence is being sought by the globalisers, is based on the free market and is pushed politically by the US through the World Bank, IMF and WTO. He believes, however, that what he terms the liberal utopianism of the free market is both impracticable and undesirable and will lead to economic and political instability.

Many, although not all, of those supporting the neo-liberal agenda (see Glossary) of those institutions doubt that there can be a universal set of values. Rather than seeking a uniform way of life and institutions, many argue that what is needed is the tolerance of differences. Yet Korean President Kim Dae Jung, for example, sees globalisation as 'universal globalism' resting on universal values.[18]

Many others, however, see globalisation rather as enhancing cultural diversity through various manifestations of localisation, and with new technologies, video, radio, TV and particularly the cyber-world, helping to empower minorities and maintain threatened identities. The increased Thai links with the related Tai-lue communities in Laos, Burma, Vietnam and southern China are one example.[19] In Hong Kong a response to globalisation has been a reemergence of interest in its culture.[20] More generally, immigrant communities generally tend to be stimulated to retain much that is important in their cultural inheritance.

A different perspective from some that accept a loss of community identities and cultures as a result of intercultural communication, is that this is a positive factor, engendering a greater sense of global community. Within the Asia-Pacific context, potential convergence is either seen negatively as neo-colonialism or positively as cosmopolitanism. Two particular concerns are those of the conservative nationalists anxious about their nation's cultures, such as the Hindu nationalists in India; and those of religious leaders (Buddhists in Thailand, Muslims in Indonesia) concerned, like their equivalents elsewhere, about the survival of their form of spiritual values under the influence of materialism and secularism. In many respects these concerns are not necessarily a response to globalisation as such but to the rapidity of economic growth and technological change.

Can Globalisation be Reversed?

In principle, much of it can. In practice, even that is not easy. The earlier processes from much of the 19th century to 1914 were reversed or held largely unchanged by WWI and its aftermath including the economic disarray of the 1930s. That it was the outbreak of WWI and the subsequent great depression that stopped or slowed the process would suggest that it would need a major influence to do the same today. Specific elements can be held back without necessarily incurring significant costs; some ways of regulating short-term speculative capital flows might be among such measures. Other measures may be available, but involve a large and increasing cost, such as agricultural or industrial protection measures. And, while among many Asia-Pacific countries, there is now a reduced enthusiasm in embracing liberalising measures, countries such as North Korea and Burma, hitherto highly isolationist, are gradually moving towards accepting, or acknowledging, some globalising pressures.

In practice, however, globalisation cannot be reversed except in some areas and then at considerable cost. China and Taiwan have presumably drawn this conclusion in their decision to join the WTO. Technological change will continue to be rapid and this will stimulate further the interconnecting process of global communication and global governance. That, and the associated spread of ideas, is not reversible nor are other aspects of globalisation such as the global dimensions of environmental issues such as global warming. Globalisation will continue to affect the other than economic dimensions of globalisation and some of those other dimensions—the spread of information, perceptions and ideas—are the most globalising of the interconnections involved, since they are harder to counteract and less likely to be reversed.

Who Gains and Who Loses From Globalisation?

Most gain, lots lose and probably more lose for other reasons and wrongly blame globalisation. Export-led growth and the opening of domestic markets to competition have facilitated rapid growth and economic development globally. This is particularly true for the Asia-Pacific but, for developing countries as a whole, international trade has been growing more quickly than the world economy in recent years. This has enabled them to gain from globalisation, aided by the liberalisation of product and capital markets.

That there are losers from globalising processes is also evident. Losers at the country level include those countries with weak institutions unable to handle the structural adjustment and social change that benefiting from globalisation requires. Indeed, globalisation redefines what constitutes an effective and efficient government system in an increasingly interdependent and interconnected world. In Asia—for example, Singapore, Malaysia and probably South Korea—the economic growth associated with globalisation has probably strengthened governmental institutions. An inability to respond positively and sufficiently rapidly to increased global competition and to changing technologies, however, is widely present in sub-Saharan Africa, much of the Islamic world and some parts of Eastern Europe.

A widely articulated argument, however, is that globalisation leads to increased inequality between and within countries. The Pope, the head of the World Bank and other notables say it does, and that would be widely accepted wisdom. So it is, as well, to many NGOs in their criticisms, at Seattle and in other contexts, of the WTO, the IMF, the OECD, the World Bank and, in Asia, the Asian Development Bank. If their statements are taken to imply increased poverty levels then they are at least partially, and perhaps largely wrong, and may also be misleading. A common source of the misunderstanding has been the

United Nations Development Programme's (UNDP's) Human Development Reports (HDRs), although criticisms of them by one time Australian Statistician, Ian Castles,[21] and increasingly others,[22] have now been largely accepted by UNDP.

Two questions are involved here. Have we seen greater inequality between and within countries during the decades when globalisation pressures have intensified? And was this due to globalisation? In a detailed report to the Norwegian foreign ministry, an expert group concluded in October 2000 that, contrary to the widely accepted views, during the last decades of the 20th century international inequality has in fact been reduced. Its empirical analysis also concludes that economic growth generally has also benefited the poor,[23] a view emerging from other detailed empirical studies.[24]

Alleviation of poverty is more critical than reducing inequality, and although there may have been some increase in absolute poverty in some regional areas during the worst of the Asian economic crisis, in most of the affected countries the situation has since improved. It is also relevant that other measures support these general conclusions of long-term improvement in income and the reduction of regional poverty—even with rapid population growth. Thus life expectancy and secondary school enrolment levels have increased steadily over several decades.

This does not deny, as the Australian Treasury notes, that the problem of extreme poverty is still 'the main international economic challenge for the 21st century'.[25] This remains true although the majority of the world's poor have achieved income growth faster than that in developed countries. (There are exceptions, as in much of Sub-Saharan Africa). That there is still a debate over whether inequality has increased or decreased overall has depended in part upon different measures of inequality,[26] and different interpretations of the arithmetic.

The importance of the arithmetic can be illustrated by considering an example of the rapid economic growth of a developing country, like China, with rates of economic growth (and of incomes per head) far ahead of those in developed countries. A 6 per cent annual growth on a per head income of $3000 adds $180; a 2 per cent annual growth on a developed country income per head of $20,000 adds $400. While the developing country's income growth per head is proportionately greater, in absolute terms inequality has increased.

Almost two-thirds of the lower income populations in the world are in the Asia-Pacific: China, India, Pakistan, Bangladesh, Indonesia and the other lower income Asian countries. In all these countries, per head growth has been substantial in recent decades despite, mostly, the 1997 crisis. Some of the debate, then, is over what is more important—their relative position or that incomes per head in developing countries as a whole are growing relatively rapidly.

The Norwegian report used the more sophisticated but standard statistical technique for measuring inequality (the Gini coefficient), including some 115 countries in its analysis.[27] The report concludes that inequality between countries has diminished since the mid-

1960s. In the early part of that period the growth of the Asian NIEs (newly industrialising economies) was an important factor in reducing inequality. In the latter part of that period it appears that income growth in China and India was important, as was the fact that the US and Japan were growing less rapidly and accounting for a smaller proportion of global population.[28]

How far these more positive results for the last three decades are due to globalisation is not clear given the varied influences involved. Moreover, particular influences may work in different directions. Export led growth may have increased the relative incomes of Asian states but contributed to greater inequality within developed countries. A further problem of interpretation is that, as with inequality between countries, inequality within countries can increase even though all incomes are rising as, until recently, in China. Moreover, domestic institutions and political processes affect within-country distributive patterns more. Consequently, movements in inequality within countries have varied—increased in some and decreased in others but probably overall are thought, in the judgement of the Norwegian experts, to have diminished.[29] Moreover, for developed countries, the role of welfare payments becomes important. These are mostly lacking in the Asia-Pacific. Nevertheless, estimates of Asia-Pacific within-country income distribution from 1960 to 1990 show a distribution less uneven than most regions and with little change over the period. Wide differences exist, however, within the region with much greater inequality in Thailand, for example, than in Taiwan.[30]

In looking at within-country inequality, it is commonly argued that among the losers from globalisation are the unskilled, particularly in developed countries. These workers in developed countries are displaced from their jobs by products produced in developing countries by cheaper unskilled workers, and it is argued that this accounts for increased income inequality in developed countries.

Low labour-cost import competition has certainly been important in particular industries such as textiles, or in simple processing in developed countries. Some perspective is important, however, when looking at inequality as a whole and its relationship to globalisation. As American economist Paul Krugman has observed, the relatively small proportion of increased imports into the US from developing countries could not explain the rising income inequality in the US.[31]

On average, this argument applies more generally. Imports of goods and services made up 22 per cent of the overall gross domestic product of developed (high-income) countries in 1998. The value of total exports of low and medium income countries is only one third of that of developed country imports.[32] In other words, most developed country imports came from other developed countries themselves. When allowance is made for exports from low and medium income countries that are not competitive in labour cost terms—such as oil, natural resources and raw materials, and for trade with other low and medium income countries, it seems reasonable to assume that perhaps only half of the one third of developed country imports that come from low and medium income countries are likely to be competitive low labour-cost products.[33] In Australia's case, for example, its ten largest import items are medium to high tech. items plus crude oil and gold.

Consequently, globalisation, as we noted earlier, may be a factor in displacing unskilled workers in developed countries but this does not explain more than a small part of the problem. Probably a more important reason for rising inequality, where this occurs, is the impact of technological change in various forms within the domestic labour market, increasing the relative demand for skilled labour. Moreover, a large part of domestic labour is employed in the almost 80 per cent of developed country economies that produce non-tradeable items (retail and wholesale trade, restaurants, public utilities) or in sectors competing with imports from developed countries.

While attention to the problem of the growing gap between skilled and unskilled workers is usually directed to developed countries, it is becoming increasingly important for the countries of the Asia-Pacific, notably in China and India. Again it will be only partially a problem of globalisation.

How is Security Affected by Globalisation?

Military insecurity appears to have diminished as a result of economic interdependence; the world is shaped less by military power and more by economic and political power. But human insecurity has probably not decreased. A number of different aspects are relevant. Indeed, the debates about globalisation have given rise to an enlarged security agenda. For those who focus their attention on the continuing liberalisation of markets and the development of economic and other interdependencies, this is seen as reducing the likelihood of military conflict between states. International cooperation and peaceful resolution of disputes, they argue, will increasingly replace this.[34] Globalisation can work in the other direction, however, leading to ultra-nationalism, racism, religious fundamentalism and, as the events of September 11 indicate, terrorism.

The technical ability to project power accurately to any part of the world reflects the most commonly noted aspect; the development of computers, satellites and the spread of intercontinental missile technology has extended the global reach of any potential military threat. In addition, production tends to have been most geographically dispersed in those industries with high levels of R&D costs and significant economies of scale such as machinery, computers, electronic components and transportation. There is also a wider spread of dual use technologies, with military as well as civilian applications so that military technologies are more readily accessible globally.

The declining control of military conflict by states and the increasing power of organised crime, including that of terrorist organisations, are developments aided by an increasingly globalised economy. Globalised organised crime, international terrorism and an unregulated world market in the technologies of war are among the negatives of globalisation.

The growth of economic power as a means of persuasion short of military conflict became important with increased use of sanctions. The manipulation of economic power in this way is increasingly constrained by the decentralisation of production that globalisation makes possible. A decade ago, Robert Reich noted that a car produced in the US by General Motors would have parts or services (e.g. design services from Britain) imported from up to ten countries and the cost of those inputs would represent over half the final product cost.[35]

Globalisation has raised other issues of human security—notably economic security. While many see globalisation as offering great opportunities, others experience a sense of vulnerability to influences they or their governments cannot control. The spread of diseases such as AIDS poses a further intensifying human security problem.

That the role of the global social movements can be important in the security as in other fields is illustrated by the successful organised campaigns against the use of land mines. Moreover, the activities of computer hackers and the development of computer crime illustrate the vulnerability of nations to globe-wide disruptive activities of individuals.

And How Does Globalisation Affect the Environment?

In the absence of enhanced global cooperation, probably adversely. The fears of environmental opponents of globalisation are that liberal trade and economic growth within a globalising world will have severely adverse environmental consequences and will lack effective controls. They point to a range of environmental problems. Not all are global, but problems of greenhouse gases and ozone depletion are globally caused, species extinction reflects an intense global concern, while concerns about AIDS, BSE and other diseases are increasingly global. The optimists point to the positive effect of the raising of global awareness and global cooperation, including international agreements on ways of dealing with such problems. Moreover, given the material benefits of globalisation, more protection is affordable.

Apart from the broader global environmental influences, ecological impacts have grown with increased openness to economic and other international movements—as the rapid transmission of foot and mouth disease in Europe has indicated. Within the Asia-Pacific region, external problems of acid rain, dust storms and forest haze, as well as potential problems of global warming, have become important issues. While the environment is still widely seen in Asia as a 'northern' issue, the region nevertheless has been sensitised to the cross-border nature of environmental problems.

The issues of greenhouse gases and the ozone layer bring home most readily the global environmental issues related to intensifying human activity that cannot be handled by individual states alone. In the Asia-Pacific there is now a greater understanding of the significance of such problems. There is a concern, however, that 'northern' criticisms of

World Bank projects on environmental grounds affects adversely projects providing much-needed water and power in developing areas.

What About Reactions to Globalisation?

Since globalisation means so many different things, not surprisingly reactions to it are similarly wide ranging. Nevertheless, they mostly fall into traditional categories of 'in favour', 'opposed' and widely divergent 'in-betweens'.

Those for whom globalisation is inescapable and irreversible, even if not new, include those who see it as good and those that do not. Those who see it as reversible may also include those, such as Gilpin, who favour it and want to avoid its reversal; many in that group, nevertheless, see the optimism of hyperglobalists such as Ohmae and the New York Times' Tom Friedman,[36] with their expectations of global convergence, as excessive utopianism. More evident are those who, believing globalisation reversible, oppose it as a project of the powerful that, given sufficient effort, can be countered.

International institutions, most economists generally, most politicians and business leaders consider globalisation as, on balance, positive, contributing to economic growth and development world wide.[37] Those opposing globalisation include special interest groups seeing themselves or their interests adversely affected—trade unionists in traditional industries, businesses facing tough import competition from developing countries, environmentalists and some development interests. Opponents also include a wider group who see globalisation as causing most of the problems of the world—increasing economic insecurity and inequality, threats to the welfare state, homogenising consumer tastes, damage to the global environment, increased power of exploitative multinationals, and the undermining of sovereignty, national independence, identity and democratic processes.

Another division in the debate is between those who see globalisation as self-generating and those who see it as a result of deliberate collective human action. While some see it as being driven by the activities of dominant international actors, others see it as anarchic and haphazard—a 'runaway world' as it was termed by Anthony Giddens, originator of Tony Blair's 'Third Way'. And then there are those reacting just to the pace and extent of change, in the cultural as well as economic scene for which they blame globalisation. For many, economically and culturally, globalisation broadens their options; for others it simply bewilders.

Giddens argues that the sceptics are mainly on the left of the political spectrum who see globalisation as an ideology to support unfettered markets and to remove the ability of governments to shape economic developments.[38] There is certainly strong criticism from the radical left. They argue that it adds to the strength of capital at the expense of labour and its neo-liberal ideology is pushed by an association of modern financial entrepreneurs, with the help of the faceless officials of international organisations such as the IMF and WTO. They also believe it enables transnational corporations to exploit developing countries. Gilpin, hardly of the left, acknowledges that capitalism tends to concentrate wealth, power and economic activity.[39] And anti-globalisation advocates include representatives of the right, such as Pat Buchanan, Ross Perot and George Soros in the US and Pauline Hanson in Australia. Moreover, some right wing think tanks in the US, such as the Cato Institute, have called for the abolition of the IMF.

One manifestation of opposition to globalisation that has received considerable publicity has been the anti-globalisation demonstrations at the WTO meeting in Seattle (in December 1999) and at other meetings of the main international economic institutions.[40] Less well publicised were anti-IMF riots and demonstrations in countries subject to IMF programs that have occurred since the 1980s against particular IMF policies.[41] These continue, as recent PNG demonstrations indicate. There were also anti-globalisation demonstrations well before Seattle. It was perhaps the success of the internet-based organisation of opposition to the proposed Multilateral Agreement on Investment (MAI) in 1997 and 1998, however, that illustrated the major potential of globally organised social movements.[42]

Yet, it was not just the rioters that caused the failure of the WTO meeting in Seattle. Trade ministers from developing countries, among them some from Asia, were strongly critical of the priorities being set by western leaders and of the WTO decision-making processes, which they saw as discriminating against them.

Since Seattle, however, anti-globalisation demonstrations have, if anything, intensified. They have different characteristics to the IMF riots and the global social movements involved have broadened their activities and agendas. The protests have been generalised to question the policies of these organisations, usually their neo-liberal agendas, and to criticise the processes of decision-making in the institutions which they argue demonstrate a 'democratic deficit' in that they are not transparent and accountable. The activists in these demonstrations have also become much more centred in the developed countries rather than primarily in developing countries. There are now both common and conflicting interests between the anti-globalisation social movements and Asian countries. Asian exporters of agricultural products note, for example, that among the demonstrators are those criticising the WTO's efforts to reduce European and US agricultural protection that blocks exports from Asia-Pacific countries.

Most publicity, however, goes to the demonstrations because of the effective public relations tactics of some NGOs and the violent activities of 'recreational' demonstrators. Not only has the number of international NGOs grown rapidly to now number over 26 000—but activists have been able to develop worldwide coalitions of labour, cultural, environmental, developmental, feminist and nationalist and other interests and to exploit a globally connected media. As the second quotation in the heading to this paper suggests, activists now use the characteristics of globalisation—cheaper air travel, the Internet and global telecommunications—to make possible the vastly increased participation in global networks.

Yet there are perhaps more important political aspects of global governance (as distinct from government—see Glossary) processes than publicised demonstrations. A wide-ranging effort by global civil society seeks to influence the shape of global governance and particularly the activities of the economic organisations, notably the IMF, the World Bank and the WTO in other ways. These three organisations are important and can be seen as having substantial effect on the daily lives of large numbers of people as indeed do the more recent targets, the EU and the G8. They are, however, only a small part of a wide range of actors that provide a substantial level of global governance in various fields, such as finance, health, the environment, international shipping and civil aviation, posts and telecommunications and arms control.[43]

The processes of global governance include many actors—as well as states and international non-governmental organisations, multinational corporations also contribute to global governance. It is now widely accepted that global governance mechanisms have increased in overall importance relative to that of states. The many NGOs and other bodies that make up global civil society are concerned to influence global governance institutions, particularly in the economic field, in terms both of the processes of decision-making pursued and the policies followed.[44] Most of the actors in these movements, however, are reformist rather than radical and, to pursue their objectives, have been increasingly involved in direct discussions with the main economic institutions.

Even so, developing countries are wary about this. The Third World Network is a well-established NGO based in Malaysia with a particular interest in trade. It is concerned that well funded lobbyists from developed countries could have undue influence prejudicial to developing country interests.[45]

Scholte argues that civic activity can no longer be understood with a territorial conception of state-society relations.[46] For states, as well as recognising the greater role of global civil society, the problems include a growing legitimacy gap for globalisation, although not all in global civil society are critics of the market or the neo-liberal agenda. Thus, we see demonstrations against one global social actor, the World Economic Forum, which supports the neo-liberal agenda, by other global social actors questioning the legitimacy of markets. In part the 'legitimacy gap' argument can be addressed by ensuring that international institutions respond effectively to the valid concerns of those falling behind, but action among member states may also be necessary.

There are also democracy deficits among members of the global civil society. NGOs are commonly not fully transparent and accountable, especially not to those whom their policies affect. More complex is the role of other components of global governance. For example, in this respect, the external effects of the pronouncements of private institutions such as credit agencies can, as they did in the Asian economic crisis, have a major, often adverse, impact. Yet they too suffer from an 'accountability' deficit, in that they lack adequate transparency and accountability.[47]

So, Does Globalisation Give Rise to a 'Democracy Deficit'?

Not necessarily, but it is increasingly possible. We noted earlier that the processes of globalisation—falling costs of travel and falling costs and increased speed of communication—made possible the rapid expansion of international NGOs claiming to represent global civil society. A major plank in their platform is what they term the democratic deficit in the global economy or in the instruments of governance, notably of economic governance.[48] Their criticisms are aimed at both what they regard as the undemocratic gap in transparency and accountability, at the decision-making processes of these organisations and at the neo-liberal policies they pursue. To a degree, their arguments could be interpreted as saying that if the institutions are not accountable to the NGOs, they are not accountable. Nevertheless, their complaints have some substance. Former World Bank chief economist, Joseph Stiglitz has noted that 'The IMF likes to go about its business without outsiders asking too many questions'.[49]

American political scientist Joseph Nye argues, however, that unlike self-appointed NGOs, international institutions tend to be highly responsive to national governments and can thus claim some real, if indirect, democratic legitimacy.[50] A problem is that those links are likely to be attenuated, with long lines of delegation. Moreover, member-state representatives do not always represent more than a particular interest area within the state since a 'whole of government' approach is commonly absent. For their part, the international institutions have been moving to improve the transparency of their operations —reflecting the fact that there are gaps. Their legitimacy, based as it is on being accountable to member states, is substantial but the public recognition of that legitimacy may be deficient. The pressures to introduce in the Australian Parliament a Treaties Committee to review Australia's participation in international treaties illustrated the belief that a 'democratic deficit' could emerge even within national systems.

There are arguments that there should be some direct international processes to ensure more open and transparent decision-making processes at the global level and, as Duncan Kerr argued, for democratising the international sphere.[51] The question, however, is whether it is possible to contemplate a global democratic process without the existence of a global political community. Until that emerges, action would seem to be most appropriate at the national level with pressure being brought through domestic governments. In practice, members of global civil society already go around national governments and deal directly with major international bodies.

The issue for public policy goes beyond this however. It could be argued that any such global political community as currently exists is based largely on the multilateral institutions being criticised by the global social movements. Yet, if we accept that there will be a requirement to cooperate globally more in the future than now, we need to direct attention to the points that global civil society has raised in order to gain greater domestic support for both the objectives and the institutions themselves. In many respects, global civil society gives a voice to those underrepresented in the global political community. Yet that global civil society it is itself still largely from the 'north'—and those in the Asia-Pacific are still under represented. There is a democratic deficit in that context as well.

Will the Asia-Pacific Seek to Limit the Impacts of Globalisation?

Mostly no, but in some respects, hopefully yes. Even more than in other respects, however, generalisation is difficult. Globalisation is still uneven in geographic coverage, but although the economic benefits and costs are felt more intensively in the major industrialised countries, it has had major impacts in the Asia-Pacific associated with the rapid regional economic growth. While there is also a widely held concern, as articulated perhaps most in Indonesia, that globalisation will marginalise developing countries, this seems not so far to have been reflected in specific policies.

According to one measure of globalisation, Singapore heads the list of some 50 countries classified in order of their degree of globalisation. Malaysia is number 20, Japan 29, South Korea, 31, with China and India 48 and 49 respectively.[52] For comparison, the UK is 8th, the US 12th and Australia is 23rd. The table at Appendix I lists the top 25, but given the discussion earlier in this paper about the mix of processes and mechanisms involved in globalisation these rankings, while indicative, need to be regarded with caution.

In terms of economic globalisation, however, Asian countries have been relatively open in trade and capital flow terms and, until the Asian economic crisis, were gradually relaxing their controls on monetary flows. The contribution of globalisation might seem to be evidenced by the extent that Asia trades more outside the region than within. Yet, although trade in absolute terms has increased more substantially with countries outside the region, trade within the region has also grown in importance. There has consequently been a concurrent growth of globalisation and of regionalisation.

Economic liberalisation and increased trade integration contributed substantially to successful economic growth in the Asia-Pacific, among other things, reducing income inequality relative to the West. Globalisation is now also associated with the 1997 crisis, or at least with its intensity. Globalising trends certainly made it possible; as did the new forms of financial instrument—hedge funds, derivatives—that globalisation helped to facilitate.

The crisis demonstrated to countries in the region their vulnerability to the global flows of short-term finance, and to the major involvement of the IMF. The IMF's conditions included financial deregulation, banking reform with extensive banking closures, abolition of monopolies and large scale privatisation programs. These are widely seen as compromising Asia-Pacific countries' national economic sovereignties,[53] a particularly sensitive issue given the region's recent colonial or semi-colonial past. Yet it was not only the short-term capital flows that created the crisis. State involvement in allocative functions, whatever the initial benefits, led to structural problems, while the state's regulatory functions were either neglected or compromised. The appropriateness of a state's regulatory processes will become even more critical as global processes intensify.

This will require a considerable degree of convergence with western practices to fill what is currently an institutional deficit. It is common in Asia-Pacific to blame the external effects of globalisation for the 1997 crisis, but to a degree convergence with the globalised—western—economic system continues in the regulatory field. Some of this was involuntary, under the pressure of the IMF, including opening existing controls to allow the entry of foreign, mainly American, firms. Nevertheless, there will be greater caution in liberalising in the monetary arena. China is likely to be cautious in relaxing its foreign exchange controls but it remained keen to enter WTO, as was Taiwan. Korea has sought, not very successfully, to move away from its support for the chaebol (large conglomerate) business enterprise system, but like a number of other Asian countries has moved to introduce financial regulatory processes more consistent with a globalised monetary system and freer exchange rates.

Confidence in the international financial institutions was damaged by the crisis. The lesson taken from the economic crisis, that individual countries were unable to deal with it on their own, has led to calls for regional cooperation to cope more effectively with any future crisis. Whether that is an appropriate lesson is an open question, given the role of domestic policies in managing global pressures. The mix of impacts and the actual political and social consequences, as distinct from how much was inevitable under globalising pressures, makes conclusions difficult.

The moves to greater regionalisation seem designed more to deal with future problems than to erect barricades against them—although this may be only partially true of the capital controls operated by Malaysia and Vietnam.

We noted earlier that social welfare payments have been important in developed countries in limiting the growing inequality in the face of globalisation and technological change. There has been some interest in Asia-Pacific countries, and notably in China, in developing better social safety nets. Pressures of this kind are likely to increase as globalisation and other economic impacts intensify.

For the most part, however, Asia-Pacific countries have seen the regional financial and trade activities as needing to be consistent with the global rules and norms of the international institutions. Yet they want a bigger say within the global institutions, particularly in the IMF, and in this there has been some, if limited, progress.

Is the Role of the State Declining as a Result of Globalisation?

Although still widely debated, the answer is no; the role of the state may be changing but not that quickly. Governments certainly face various new challenges but, in many cases, they simply face old challenges of social governance but in a different framework. The state itself contributed substantially to the process of globalisation notably through trade and financial liberalisation and the encouragement of technological innovation. Some enthusiastic supporters of globalisation argue that globalisation implies the end of the state as we have known it or that its role is simply to help adjust the domestic economy to the requirements of the global economy. It is not only the sceptics, however, that argue that in effect 'sovereignty still rules: OK?' The mainstream argues that states survive but governance is different, the link between foreign and domestic policy becomes more blurred and the appropriate policy mix changes.

Globalisation offers a challenge to national governments in the Asia-Pacific in several respects. Among them, the developing countries are mostly postcolonial societies; together with societies like Thailand, they have only recently gained full control of their borders and resources, and are keen to maintain their sovereignty, to retain the position of national governments as the primary source of authority, and to resist extraterritorial influences. There are, however, real consequences of globalisation to which national governments have had to respond; and the ever-present debate about what constitutes appropriate government policy will in the future be couched increasingly in a global framework.

Not every country starts from the same point. Thus, in China, with increased marketisation of the economy through its increased participation in the global economy, state power is diminishing relative to power elsewhere in its society, as resources gradually move out of the state's direct control to the market and to an incipient civil society. Vietnam will ultimately go in the same direction. For others, such as South Korea, Singapore, Malaysia, Thailand and the Philippines, this process has been underway for much longer.

To gain the benefits of globalisation and to attract mobile factors of production such as financial capital and foreign direct investment, countries in the region have had to move to a market oriented economy but also to follow other forms of economic management to make their economy competitive. As well, various multilateral global and regional institutions have established rules and norms designed to curtail governmental freedom to pursue autonomous action, and to play a more active, if different, role than in the past. Those institutions want governments to ensure effective prudential and transparent regulation of their capital markets. In both contexts, the national governmental role in critical. So, while deregulation has been necessary so are new regulations to respond to globalisation pressures. These rules and norms are often seen as diminishing national sovereignty but in reality it is a voluntary act of sovereignty that can, if necessary, be withdrawn.

The growing need to follow the basic rules of the globalised international system has led to Thomas Friedman's proposition that market pressure puts governments in a 'golden straight jacket' that limits, for the good, actions that governments can take in a globalising world.[54] An opposing view is that rather than the 'straight jacket' being golden, it will involve a 'race to the bottom' for regulatory standards. Both imply lowest common denominator convergence of government actions. Both imply reduced capacity to act autonomously on fiscal and monetary policy and on welfare policies and also in other areas such as labour, safety and health standards. Among other things, there are fears that downwards pressures on taxes on mobile factors of production, notably capital and skilled labour, reduces the capacity of governments to maintain or develop welfare programs just when greater political pressures for such programs result from the pressures of globalisation.

The history of the first great age of globalisation in the 19th and early 20th century showed that while the elements of globalisation increased, the role of government also grew, with increased regulatory standards, protective measures such as tariffs, immigration barriers and increased international cooperation. At least for developed countries, welfare state systems gradually emerged from that experience. It would be ironic if welfare systems now were to diminish as a result of the second great age of globalisation. Yet the relationship between globalisation and welfare programs—whether globalisation (notably open product and capital markets) increases political demands for welfare expenditures or reduces the capacity to meet those demands—is now widely debated.

In practice, the empirical evidence of recent decades gives only limited support so far to either golden straight jacket or race to the bottom propositions. In part this may be because of the still far from complete nature of economic globalisation. The policies commonly proposed for governments to ameliorate the effects of globalisation are, internationally, increased cooperation to ensure more effective international governance, and domestically, cooperative relations with those adversely affected and adequate redistributive policies under social safety nets. The globalisation process may have affected the taxation system: company income taxes have fallen and tend to converge across countries. But these are relatively small items of revenue. Concerns about taxation capabilities that would make social support systems difficult to maintain have as yet little basis in the actual outcomes of the budgets of OECD countries at least.

These empirical studies are basically limited to OECD countries since in much of the Asia-Pacific area, welfare mechanisms are just starting to be developed in response, in part at least, to globalisation. They show that the incomes of OECD governments had been maintained and only limited, if any, constraint has emerged upon governmental ability to conduct independent fiscal policies.[55] Consequently, arguments that globalisation pressures on the state must compromise a state's responsiveness to political demands arising from the effects of globalisation do not seem to be supported by empirical analyses.[56] Certainly, there seems to have been little retrenchment of the welfare state in developed countries that can be linked to globalisation pressures rather than to party ideologies.

These studies do indicate complex relationships, however, depending upon the kind of opening experienced (trade or capital and if so what kind e.g. with developing or developed countries). They also note different emphases within welfare systems. Scandinavian and Anglo-Saxon countries appear to give greater emphasis to productivity related welfare services (including education and labour adjustment programs) than other OECD countries.[57] Consequently, one possibility is that welfare programs may shift further in this direction under the pressures of globalisation.

There is also little evidence to support the belief that there is a race to the bottom in regulatory standards as a result of globalisation. Any basic changes are more likely to have come from other causes, such as changes in political beliefs.

On the other hand, other trends potentially strengthen the role of government. Globalisation increases the need for international cooperation, whether in responding to global environmental change, for example, such as the greenhouse gases, or in cooperative action on economic issues, such as the management of international money flows.

We noted earlier that debate continues on many aspects of globalisation, including its importance and the extent of gainers and losers. Opinions will continue to vary; what is critical is that for governments, it will be difficult to ignore those issues both because of the reality and because of the perceptions. If true, however, as John Gray argues, that ideologies have largely gone as ways of legitimising governments, and that no government today can claim legitimacy without that legitimacy coming from meeting their citizens' economic needs, then economic competency remains central.[58]

Constraints do exist for governments in pursuing their macroeconomic policies under globalisation to maintain domestic stability. But just as instability in the international system is not new, neither is the inability of governments to pursue autonomous policies. This is so despite the important contribution of the Bretton Woods institutions, whose objectives were to reduce international instability and facilitate domestic economic policy autonomy. Without increased global cooperation, however, globalisation can potentially frustrate these objectives even further, with increased potential intensity. For Asian countries this is a particularly sensitive development.

How Should Australia and Other Regional Countries Respond to Globalisation?

By considering responses and adjustments in three areas: policy responses; distributional responses; and structural responses, increasingly factoring globalisation pressures into decisions on a wider range of economic, political and social policies.

The line between foreign and domestic issues will become even more blurred than today, but it is still useful to distinguish policy adjustments according to their domestic or international targets. Domestically, the costs and benefits of particular policies are changing. Clear examples are policies that affect incentives or disincentives to foreign investment and foreign entrepreneurship with major issues of economic power and control to be addressed. Also important are policies dealing with the overall problems of economic insecurity and how they affect the ability to achieve the gains from the neo-liberal agenda, through gaining acceptance of liberalising policies, by adjusting or providing social safety nets and other ameliorating measures for those substantially hurt.

From Adam Smith on, economic justice has been seen as critical not just for a stable society but also to enable economic progress to continue without disruptive reactions. Karl Polanyi's famous study of the development of market economies, *The Great*

Transformation, is now often alluded to as observing that end-of-19th century globalisation led to utopian, but eventually oppressive, ideologies of both left and right.[59] If governments underestimate economic security problems, the problems ignored do not disappear from politics; they simply return in the politics of extremism.

Internationally, for countries in the region, including Australia, multilateral international systems and the processes of global governance, already matter; for Australia, they have been central to its view of the world. With globalisation, they will matter more. The examples of the expanded role of the WTO, the development of the Montreal Protocol, and tightened bank reserve requirements set by the Swiss-based Bank for International Settlements already reflect responsive institutional changes. More will be needed. To maintain the effectiveness of state power will likely require more cooperation with other states to manage the processes of globalisation, take advantage of its opportunities and minimise its disadvantages.

There is also a need to sell effectively the wider benefits that come from those policies. Moreover, regional governments will need to defend, and encourage others to defend, the international institutions while responding constructively to valid criticisms of their policy implementation and their accountability and transparency. Few outside the institutions are positioned to defend them at present and the public relations battle is being lost, despite the line-up of additional countries wanting to join those institutions. In the past, Australia has been active, globally and regionally, in arguing for the continued effectiveness of these institutions, and has the advantage of the English language, the language of globalisation. In the case of the WTO, a recent Australian parliamentary committee report has argued a compelling need for the government to promote the benefits of WTO membership and of participation in the global trading system.[60] This is important regionally as well as nationally.

At least until there is more of an international political community, popular concerns about any democratic deficits will need to be responded to through national governments rather than internationally. The public relations battle has to be fought nationally. An example of what is needed was the recent speech by the Treasurer, Peter Costello to the Sydney Institute on globalisation.[61] It would seem desirable, however, to take the message to a wider public and to do so repeatedly.

Meanwhile, the countries in Asia could benefit from Australia's help and experience in framing measures to cope with economic volatility through better management of capital flows, regulatory procedures for the private sector, protection of consumers and investors and in social insurance.

Structurally, each country in the region will need to ensure that its domestic institutions and structural policies in place respond effectively to the challenge of the globalisation and the other pressures normally seen as associated with globalisation. Since the role of economic management has changed, greater effort has now to be put into ensuring the economy is effectively integrated with the increasingly influential and competitive global financial and productive structures through its education, research and economic management policies.

However, while governments have to take into account the influences of globalisation, they will also have to deal with new players representing global civil society. These will include the gradually expanding number of international organisations but will also include the more powerful transnational corporations and the growing number of 'global' NGOs.

Other policy approaches will need to be considered. Much more systematic research is being undertaken in Europe than in Australia or regionally on what globalisation does or will mean for states and governments. The required structural and other adjustments will not be limited, moreover, to the economy but will include the political, social, technological, educational, demographic and cultural aspects of concern to the Australian community and to the communities of the countries of Australia's region. Given the substantial differences between the region and Europe and North America, the gap in the information base in the region compared with the US and Europe is both large and potentially damaging.[62]

Endnotes

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1. The origins and impact of the Asian Finahncial Crisis are analysed by Ross Garnaut and Ross McLeod, eds, *East Asia in Crisis: From being a miracle to needing one?*, Routledge, London, 1998.
2. See Hubert Vedrine with Dominique Moisi, *France in an Age of Globalisation*, D. C. Brookings Institution Press, Washington, 2001.
3. Stuart Harris, 'China and the Pursuit of State Interests in a Globalising World', *Pacifica Review*, vol. 13, no. 1, February 2001, pp. 15–29.
4. Robert Keohane and Joseph Nye, 'Globalization: What's New? What's Not? (And So What?), *Foreign Policy*, Spring 2000, pp. 105–119.
5. Cited by *Anthony Giddens, Runaway World: How Globalisation is Reshaping Our Lives*, The 1999 Reith Lectures, Routledge, New York 1999.
6. Held and his co-authors distinguish four periods of globalisation—pre-modern, early modern, modern and contemporary. David Held, Andrew McGrew, David Goldblatt and Jonathan Perraton, *Global Transformation: Politics, Economics and Culture*, Stanford University Press, Sanford, 1999.
7. The time periods variously range from 1820, 1840 and, the start of the classic gold standard period, 1870.
8. Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century*, Princeton University Press, Princeton, New Jersey, 2000, pp. 18–19.

9. ibid., p. 295; Held and others, op. cit., particularly pp. 311–14; it is generally held that migration from Europe alone in the 19th and early 20th century was of the order of 60 million.

10. For discussion of these issues see Michael Bordo, Barry Eichengreen and Douglas Irwin, 'Is Globalization Today Really Different Than Globalization a Hundred Years Ago?', National Bureau of Economic Research (NBER), Working Paper 7195, June 1999; Richard Baldwin and Philippe Martin, 'Two Waves of Globalization: Superficial Similarities, Fundamental Differences', NBER, Working Paper 6904, January 1999; and Gilpin, op.cit.

11. Natasha Hamilton-Hart, 'Thailand and Globalization', in Samuel Kim, ed, *East Asia and Globalization*, Rowen and Littlefield, Lanham, 2000, pp. 187–208.

12. Held and others, op. cit.

13. Jan Aart Scholte, *Globalisation: A Critical Introduction*, St. Martin's Press, New York, 2000, chapter 2.

14. Stuart Harris, 'China and the Pursuit of State Interests in a Globalising World', op. cit.

15. Bridget Welch, 'Malaysia and Globalisation: Contradictory Currents', in Samuel Kim, ed., op. cit., p. 243.

16. Joseph Camilleri, *States, Markets and the Asia Pacific Region*, volume 1, Edward Elgar, Cheltenham, 2000, p. 393.

17. John Gray, *False Dawn: The Delusions of Global Capitalism*, New Press, New York, 1999.

18. Barry K. Gills and Dongsook S. Gills, 'South Korea and Globalization: The Rise of Globalization', in Samuel Kim ed, *East Asia and Globalization*, Rowen and Littlefield, Lanham, 2000.

19. Craig Reynolds, *National Identity and its Defenders: Thailand 1939–1989*, Silkworm Books, Chiangmai, 2001, chapter 13, 'Thai Identity in the Age of Globalisation'.

20. *Ackbar Abbas, Hong Kong: Culture and the Politics of Disappearances*, University of Minnesota Press, Minneapolis, 1997.

21. Ian Castles, 'The Mismeasurement of Nations: A Review Essay on the Human Development Report 1998', Population and Development Review, vol. 24, no. 4, pp. 831–845, 1998; see also Ian Castles, 'The Human Development Report 1999', Room document for the 2000 Meeting of the United Nations Statistical Commission, available as Annex 1, to Friends of the Chair of the UN Statistical Commission. (www.un.org/depts/unsd/statcom/2001docs/2001-18e/pdf) The use of purchasing power parity (PPP) figures, preferred for measuring inequality, accounts for only a small part of the difference at best. (UNDP uses them for its Human Development Index but not for inequality measures). PPP has been stated by the UN Statistical Commission to be the appropriate indicator for measuring inequality. Even using unadjusted US dollars, however, UNDP figures show a fall in inequality from 1993.

22. Treasury Department, 'Global poverty and inequality in the 20th century: turning the corner?, (http.www.treasury.gov.au/publications/Economic Publications/Economic Roundup/2001); Norwegian Institute for International Affairs (NUPI), Globalisation and Inequality: World

Income Distribution and Living Standards, 1960–1998, Oslo, October 2000, issued as a report by the Royal Norwegian Ministry of Foreign Affairs: Report 6B: 2000.

23. See, for example, David Dollar and Aart Kraay, 'Growth is Good for the Poor', Policy Research Working Paper 2587, World Bank, Washington, April 2001

24. Norwegian Institute, op. cit., see also Dollar and Kraay, op. cit.

25. Treasury Department, loc. cit.

26. A comparison limited to the top and bottom 10 per cent percentiles of world population, rather than the top and bottom 20 per cent used by the UNDP, does show increased inequality.

27 The Gini coefficient measures the extent to which the distribution of income differs from a perfectly equal distribution. Taken over a period of years, it shows how income distributions are changing. The Norwegian study weighted countries by population.

28. Norwegian Institute, op. cit. pp. 12–15.

29. ibid.

30. Norwegian Institute, ibid., p. 19.

31. Paul Krugman, *Peddling Prosperity: Economic Sense and Nonsense in the Age of Diminished Expectations*, W. W. Norton, New York, 1994, pp. 146–150.

32. World Bank, *Entering the 21st Century: World Development Report 1999/2000*, Oxford University Press, New York, 2000, Tables 1 and 15.

33. This appears consistent with Dollar and Kraay's conclusion that they could find little evidence of a systematic relationship between trade liberalisation and incomes of the poor.

34. For a detailed discussion of these arguments and the main counter arguments, see Stuart Harris and Andrew Mack eds, *Asia-Pacific Security: The Economics-Politics Nexus*, Allen and Unwin, 1997, St. Leonards, particularly chapter 1.

35. Robert Reich, *The Work of Nations: A Blueprint for the Future*, Simon and Schuster, Lanham, 1993, p. 113.

36. Kenichi Ohmae, *The Borderless World: Power and Strategy in the Global Marketplace*, Harper Business, New York, 1990. Tom Friedman's *The Lexus and the Olive Tree*, Farrar, Straus, Giroux, New York, 1999, is probably the best known statement of globalisation optimists.

37. Even the distinguished scholar and social critic, Amartya Sen, while decrying poverty, has said that 'Much of what we see as scientific, technical and economic progress in the world has really been connected with global expansion'. TV Program Transcript, ABC Lateline, 14 May, 2001.

38. Anthony Giddens, *Runaway World*, op. cit.

39. Gilpin, op. cit., p. 1.

40. See Robert O'Brien, Anne Marie Goertz, Jan Aart Scholte and Marc Williams, *Contesting Global Governance: Multilateral Economic Institutions and Global Social Movements,* Cambridge University Press, Cambridge, 2000.

41. ibid, chapter 5.
42. For a comparison of the MAI and WTO protests in Australia, see Ann Capling and Kim Richard Nossal, 'Death of Distance or the Tyranny of Distance? The Internet, Deterritorialisation and the Anti-Globalisation Movement in Australia', Working Paper 2000/3, Department of International Relations, Australian National University, October, 2000.
43. According to Scholte, there are over 250 multilateral regulatory institutions. See Scholte, *Globalisation*, op. cit., p. 58.
44. For more detail on this see Robert O'Brien, Anne Marie Goertz, Jan Aart Scholte and Marc Williams, *Contesting Global Governance*, Cambridge University Press, Cambridge, 2000, op. cit.
45. Ann Capling, *Australia and the Global Trade System: From Havana to Seattle*, Cambridge University Press, Melbourne, 2000, pp. 204–5.
46. Jan Aart Scholte, 'Global Civil Society: Changing the World?' CSGR Working Paper No 31/99, May 1999, p. 13.
47. Aseem Prakash, 'The East Asian crisis and the globalization discourse', *Review of International Political Economy*, vol. 8, no. 1, Spring, 2001, pp. 132–3.
48. See, for example, the argument of Lori Wallach, a major organiser of the Seattle demonstrations, that much of the success, for them, of the Seattle demonstrations was due to the democratic deficit. Quoted in 'The FP Interview: Lori's War', Foreign Policy, 118 Spring 2000, pp. 29–55.

49 Joseph Stiglitz, 'What I Learned at the World Economic Crisis', *The New Republic*, 17 April 2000.

50 Joseph Nye, 'Globalisation's Democratic Deficit: How to make International Institutions More Accountable', *Foreign Affairs*, vol. 80, no. 4, July/August 2001, p. 3.

51 Duncan Kerr, *Elect the Ambassador: Building Democracy in a Global World*, Sydney, Pluto Press, Annandale, 2001.

52 'Measuring Globalisation', Foreign Policy, January/February 2000, pp. 56–65. The index is constructed with a limited number of quantifiable factors, including use of the Internet, trade in goods and services, capital flows and personal contact (international travel, international phone calls, cross-border remittances etc).

53. The Jakarta Post, January 17, 1998, cited in Mark Beeson, 'APEC and the IMF in East Asia', *The Pacific Review*, vol. 12, no. 1, 1999, p. 17.
54. Friedman, *The Lexus and the Olive Tree*, op. cit., pp. 83–92.
55. Gunther Schultze and Heinrich Urpsprung, 'Globalisation of the Economy and the Nation State', *The World Economy*, vol. 22, no. 3, 1999, pp. 295–352.
56. ibid, p. 346–7, see also Daniel Drezner, 'Globalisation and Policy Convergence', *International Studies Review*, vol. 3, no. 1, Spring 2001, pp. 53–73.
57. Brian Burgoon, 'Globalization and Welfare Compensation: Disentangling the Ties that Bind', *International Organization*, vol. 55, no. 3, Summer 2001, pp. 501–551.

58. John Gray, *False Dawns: The Delusions of Global Capitalism*, op. cit.
59. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Beacon Press, Beacon Hill, Boston, 1957 (1944).
60. Parliament of the Commonwealth of Australia, Joint Standing Committee on Treaties, 'Who's Afraid of the WTO?' Australia and the World Trade Organisation, *Report* 42, September 2001, p. x.
61. Address by the Treasurer, Peter Costello, 'Challenges and Benefits of Globalisation', The Sydney Institute, 21 July 2001.

Appendix 1—Globalisation Rankings

1. Singapore
2. Netherlands
3. Sweden
4. Switzerland
5. Finland
6. Ireland
7. Austria
8. United Kingdom
9. Norway
10. Canada
11. Denmark
12. United States
13. Italy
14. Germany
15. Portugal
16. France
17. Hungary
18. Spain
19. Israel
20. Malaysia
21. New Zealand
22. Czech Republic
23. Australia
24. Greece
25. Poland

Source: A. T. Kearney, *Globalization ledger: Global Business Policy Council*, A. T. Kearney, Alexandria, VA, 2000.