GLOBALISATION

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«Global Markets Tremble» says the main headline in my newspaper over a report on a worldwide slump in share prices triggered by fears of a new round of currency devaluations in Asia. It used to be said that when the US economy sneezed, Europe would catch cold and the Third World go down with pneumonia. Times seem to have changed, and the traffic to have changed direction, with rich countries now vulnerable to infections from the poor.

There may be some truth in that, but by no means the whole truth. The East Asian crisis that started the latest wave of market tremors was more pneumonia than sneeze, and it is the vulnerability of several countries of that region —held up not long ago as models for their robust economic performance— that the crisis highlighted. Times have changed to the extent that what happens in Seoul and Jakarta and Kuala Lumpur now matters to Frankfurt and London and New York. But times have not changed in another vital aspect: it seems to be the poor who always catch pneumonia.

The predicament of the Asian tigers, battered to varying degrees in the economic storms of 1977-78 after a long spell of vigorous and even spectacular growth, underlined the presence of instability within the globalised financial system —and the heightened vulnerability of developing countries that globalisation seemed to have benefited. But it is clear that vulnerability does not end at the borders of the Third World. It would seem that the greater importance of developing countries within the world economy that has resulted from the closer integration brought about by globalisation makes other, more affluent parts of the world economy also

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susceptible to strains when economic turbulence hits developing countries. So «Global Markets Tremble».

The prolongation of the Asian crisis, doubts about the efficacy of the IMF's prescriptions for dealing with it, and continuing market jitters have drawn attention to the incapacity of the system not just to anticipate or prevent the crisis but even to manage it and stop the infection spreading. They have confirmed the need for more effective arrangements for governance of a globalised economy in which both opportunities and risks have increased. These arrangements should recognise the increased weight of developing countries within the global economy and their increased importance to global economic health. Global economic governance must address the greater instability that globalisation appears to have brought into the world system, in order not merely to prevent another crisis such as the Mexican or the East Asian —or at least moderate it if it occurred— but also to reduce the dangers to the world economy as a whole.

There is evidence that, besides producing a higher degree of volatility particularly in the international financial system, globalisation is having other, less dramatic but perhaps even more debilitating consequences that cannot be left to be taken care of by the market but clearly require political attention. It has, for instance, reinforced trends leading towards increased inequality in the world. Global and national disparities of income appear to have widened sharply as globalisation advanced. UNDP figures show that the share of global income that the poorest 20 per cent of the world's people receive declined from an already paltry 2.3 per cent in 1960 to 1.4 per cent in 1991, and then, with an acceleration in the rate of decline, to 1.1 per cent in 1994. Other figures show how the gap between the income of those at the top and bottom of the economic ladder has become wider and wider. The ratio of the income of the richest 20 per cent of people to that of the poorest 20 per cent, which is reckoned to have been 30 to 1 in 1960, rose to 61 to 1 in 1991 and jumped to 78 to 1 in 1994 —again confirming the inequalising pressure exerted by the forces of globalisation.

This phenomenon may be related to another observable aspect of globalisation: globalisation is not reaching all parts of the world economy and is consequently selective in allocating its benefits among countries. One of the main beneficial impulses of globalisation is believed to lie in its effect in stimulating world trade. External trade has provided many countries a reliable route to economic progress. World trade has been increasing briskly in the nineties and, in the first half of the decade, rose about three times as fast as world output. Countries participating in this expansion in trade have experienced an increase in the proportion of their gross domestic product contributed by trade —exports and imports. But not all countries have been able to share in the opportunities for trade growth created by globalisation.

According to the World Bank, in as many as 44 developing countries accounting for a billion people —nearly a fourth of the developing world— the contribution of trade to GDP had in fact fallen over the ten years up to 1995. In another 17 countries, out of a total 93 developing countries whose performance was studied, the increase in the trade to GDP ratio had been small. While the aggregate ratio had shown a substantial rise, it was found that three-quarters of this increase had accrued to just ten of the 93 countries.The least developed countries, which have 10 per cent of the world's people, account for a very meagre 0.3 per cent of world trade, roughly half the share they had two decades earlier. Globalisation has clearly not enabled many countries to take the trade route to economic progress; globalisation has bypassed them.

Market liberalisation is one of the key elements of globalisation. Recent progress on this front also reveals how lopsided the distribution of benefits can be. The last round of global trade negotiations —GATT's Uruguay Round— is expected to result in Africa, the poorest continent, being further impoverished. While China is expected to be among those making significant net gains, the cream of the benefits is due to flow to the European Union, expected to gain $80.7 billion by 2002, and to the United States, expected to be $18.8 billion better off. Rich countries have been able to wrest advantages for themselves by pushing trade liberalisation in areas in which they have an edge while maintaining stiff protectionist barriers in an area like agriculture in which the level of European and US subsidies remains scandalously high.

Besides opportunities for trade, private capital movements have been the other source of the dynamism associated with globalisation. But these have proved to be even more selective than opportunities for trade, and bypassed the large majority of developing countries. Private capital flows have indeed come to dominate financial flows to developing countries. Developed country portfolio investors —insurance companies, pension funds, mutual funds, unit and investment trusts— putting their money into bonds and shares in what are called emerging markets, have become steadily more important as sources of capital during the nineties, and have become more important than aid agencies or foreign commercial banks, for some developing countries. Portfolio investments, from a modest level at the start of the decade, rose to be almost as significant as foreign direct investment, which also registered a strong uptrend as globalisation progressed.

In 1996, the peak year for private flows with a five-fold increase since 1990, private capital provided nearly over 85 per cent of the total net long-term financial flows to the developing world, as compared with 44 per cent in 1990.One problem with these private flows is that their distribution shows a high concentration on a few countries. Though there has been some improvement in recent years, the fact remains that nearly two-thirds of the total goes to a top group of just seven countries.

China has received the largest share for any country, but it is the only low-income country in this group, all the others being middle-income countries. At the other end, just 5 per cent of the flows was shared among 140 countries in 1996, which means that most developing countries were bypassed and had no access to private capital.

Another problem, which some would consider to be even more serious than the concentration on a small set of countries, is that private capital flows have proved to be fickle in their favours. Those providing private funds, particularly portfolio managers, have shown themselves to be ready to pull out of countries faster than they come in, causing stock markets to collapse and currencies to nosedive, and leaving countries in the lurch. This was the unfortunate predicament of such Asian countries as Thailand, Indonesia and Malaysia, and a few years earlier of Mexico. What is further disturbing is that when fund managers decide to pull out of one market because of their concern about what may be happening there, they tend to pull out of other emerging markets as well. The flow of money to the developing world in 1998 is expected to turn out to have been far below the peak level of 1966.

The behaviour of currency markets has been one of the most disturbing aspects of globalisation. They seem to have become steadily more powerful, and the volume of currency transactions has kept on increasing, without any relationship to the volume of merchandise that is traded and powered largely by speculative interest. The amount of funds sloshing around the currency markets has become so large that exchange rate stability is liable to be disturbed by their abrupt movement, and all changes in rates tend to be sharpened and exaggerated. The growth in currency transactions has stimulated, and been in turn reinforced by, the invention of new types of financial instruments which have made it easier to engage in speculative dealings in foreign currency markets; this was very pointedly illustrated when one young currency trader in Singapore caused the collapse of the old-established merchant banking house in London which employed him.

Imprudent or careless banks have only themselves to blame if they take heavy losses in the currency casino in which they allow their dealers to play. But it is countries —and their people— who are the main and generally defenceless victims when speculative fever provokes unwarrantedly huge downswings in currency values. One does not have to be an advocate of fixed exchange rates to be critical of the behaviour of currency markets. It is certainly questionable if the very sharp falls in the exchange rates of several developing countries recorded in the recent past have been justified by a reading of economic fundamentals. I believe Malaysian Prime Minister Mohamed Mahathir was right to ask, with reference to the collapse of the Indonesian rupiah within the space of a few months, «Can it be that all the assets of that huge country with 220 million hardworking people are suddenly worth only one-sixth of their previous value?»

Globalisation has undoubtedly injected dynamism into the world economy and many countries, including developing countries, have been able to make vigorous advances through increasing integration into the world market. China's remarkable progress provides a very good example, but in the wake of the East Asian meltdown and Japan's continuing problems, there seems —at the time of writing— to be gathering apprehension about the prospects even for China. Up until 1977 such countries as Indonesia, Malaysia, South Korea and Thailand also provided what were considered to be powerful advertisements for open markets and liberalisation. They were touted as model exhibits in globalisation's shop window. But from the very countries that lauded them as the new exemplars of freemarket capitalism came the forces that served to humble them —and drag them several rungs down prosperity's ladder.

At the national level, such matters as the stability and effective functioning of the monetary and banking systems and levels of savings and investment are legitimate and priority concerns of the state as they have a crucial bearing on national wellbeing. Governments have set up up central banks and other regulatory mechanisms whose responsibility it is to protect the public interest. Similarly it is universally accepted that the state should concern itself with the healthy functioning of the economy as a whole so as to ensure that universally accepted social goals —growth and development, equitable distribution of their benefits, higher employment, reduction of poverty— are realised. Governments everywhere engage in macroeconomic management even if they are completely convinced of the superiority of free markets because it is clear that the responsibility for achieving public goals cannot just be left to markets.

At the global level, however, we have only rudimentary arrangements to oversee how the economic and financial systems function and to endeavour to realise shared goals on behalf of the world's people. Global developments can often be of greater consequence than what happens locally in their impact on how national economies perform, especially in developing countries as these are more vulnerable to external shocks than developed economies. Furthermore, the need for global oversight has increased with the deeper integration of the world economy and the increased interdependence that globalisation has brought about. Rich countries may find it possible to be complacent in these circumstances, being less vulnerable and better able to withstand the occasional buffeting; moreover, whatever governance arrangements that exist are all under their control and serve their interests.

At one level there are the Bretton Woods institutions. These have global membership, of course, but all members are not equal, the rich having more votes in their governing bodies than the poor. According to one study, industrial countries command over 60 per cent of the votes in the International Monetary Fund and

World Bank, as compared with 17 per cent in the United Nations.There is little reason to question the widely prevalent impression that these organisations play to the tune called by industrial countries led by the United States. Another body of some significance in financial and monetary matters but functions away from the limelight is the Bank for International Settlements, based in the Swiss town of Basel. This links Central Banks but its membership is limited to the top ten industrial countries and is therefore even less representative than the Bretton Woods bodies.

The UN's Economic and Social Council (ECOSOC) fills the bill in terms of its representative character and democratic legitimacy but it has sadly been drained of authority and become little more than a debating chamber. Industrial powers seem to have preferred it that way, so that discussions of any consequence would take place elsewhere —in forums they control. Among these, the Group of 7 —recently verging on becoming a Group of 8— holds pride of place. In the absence of a democratically constituted apex body for economic governance and policy leadership, the G7 has appropriated functions that should properly belong to such a body and, with its now regular annual summits, gives the impression of being a directorate for the world economy. This is not a healthy development as the G7 is no more than a private club of the rich, a self-constituted body accountable to no one but themselves and therefore totally without democratic legitimacy.

In April this year (1998), G7 finance ministers invited finance ministers from fifteen transition and developing countries to join them in discussing ways to strengthen the world financial system so as to prevent crises such as those that hammered East Asia in 1997-98 and Mexico three years earlier. But the G7 was not signalling a transformation into a G22. Far from it, this was merely a momentary relaxation of an elite club's rules. The poor cousins were not even asked to the regular session of G7 finance ministers, only to a special session with a strictly limited agenda. But even this temporary departure from G7 protocol was an acknowledgement of the G7's limitations as an organ of world economic governance.

It is, of course, eminently desirable that the world community should consider how the world financial system can be made more stable, how countries can be made less vulnerable to shocks, how crises can be prevented or managed. It is also desirable that the world community should subject to continuing review other aspects of globalisation —such as its tendency to deepen inequality— that bear on the wellbeing of large numbers of people. But the G7 hardly offers the right auspices for considering these matters on behalf of the world as a whole. It is too narrow a grouping; its members constitute just about an eighth of the world population. Both in population and even more in economic weight, the G7 countries also account for a declining share of global aggregates. The world's economic centre of gravity has been shifting away from its traditional location. When GDP is reckoned in purchasing power parity terms —as the World Bank has started doing— the G7 are no longer even the world's seven leading economies. Condescending occasionally to ask some developing countries to a special meeting —or even co-opting one or two larger developing countries— would not entitle the G7 to claim legitimacy as a representative body.

The G7 should be free to go its own way as a caucus of rich nations. But the world community should develop its own machinery for improved global economic governance. There is a strong case for an Economic Security Council within the United Nations, acknowledging that for most people in the world economic security is no less important than protection against war —the responsibility of the Security Council. An Economic Security Council would not be able to offer quick remedies to the problems thrown up by globalisation but it would ensure not only that important economic issues and trends, including those associated with globalisation, received attention but also that they were considered not just from the perspectives of rich countries but by a representative body that can bring all perspectives to bear and respond to the widest global interest.

Strongly recommended by the Commission on Global Governance in its report *Our Global Neighbourhood,* an Economic Security Council was also suggested by UNDP's *Human Development Report.* In the Commission on Global Governance, the proposal had the enthusiastic backing of such figures as Barber Conable, a former head of the World Bank, Jacques Delors who, as President of the European Commission, had an insider's knowledge of the G7, and I G Patel, the Indian economist who was head of the London School of Economics. Other public figures who have registered their disquiet with existing arrangements include Peter Sutherland, the first head of the WTO and now chairman of Goldman Sachs, who has repeatedly drawn public attention to what he sees as a structural deficit in the world's governance. The downside to globalisation that has become more apparent in the last few years —the greater instability evidenced by the battering suffered by the Asian tigers, the deepening inequality, marginalisation of the poorest— has reinforced the case for a high-level representative body to exercise oversight and give policy leadership on global economic issues.

It is through such a body as an Economic Security Council, established at an appropriately high level to command political credibility, that the world community can hope to exert some influence over the course of globalisation in the broadest interest. It would be irresponsible to leave everything to markets; and it would not be truly in the global interest to leave the management of globalisation entirely to those countries that benefit most from it. Such a body would not usurp the functions of existing institutions of economic governance. Such bodies as the IMF, the World Bank and the WTO have their distinctive roles, and more could be achieved through these to make globalisation more conformable to the widest human interest. But these specialised agencies could benefit from the political impulses that could be generated through a new world forum for economic governance with a mandate to promote human security.

The call for an Economic Security Council has been made in the context of the movement for reform of the United Nations, established in 1945, to make it more relevant to contemporary circumstances. That reform must also encompass an enlargement and structural change in the Security Council, to make it less reflective of the disposition of power at the end of the last war and more representative of the world as it is today. The world community missed the opportunity offered by the UN's 50th anniversary in 1995 to undertake a reform of the organisation. We must now hope that the start of a new millennium will prompt it to engage in the radical refurbishment of our structures of governance that global changes, including the advance of globalisation, demand.