

Globalisation, the past in our present

The enthusiasts of globalisation need to acknowledge that the state has a strategic, economic and political role to perform. If the state defaults, then history would repeat itself and globalisation would only reproduce uneven development, says **Deepak Nayyar**.

GLOBALISATION gives rise to confusion or controversy, because it provides a fascinating intersection of economics and history. It is also a subject that is centre-stage in the contemporary world economy.

The word globalisation is used in two ways, which is the source of confusion and the cause of controversy. It is used in a positive sense to describe a process of increasing integration into the world economy: the characterisation of this process is by no means uniform. It is used in a normative sense to prescribe a strategy of development based on a rapid integration with the world economy: some see this as salvation, while others see it as damnation.

The world economy has experienced a progressive international economic integration since 1950. However, there has been a marked acceleration in this process of globalisation during the last quarter of the twentieth century. It is seldom recognised that there was a similar phase of globalisation which began a century earlier, *circa* 1870, and gathered momentum until 1914 when it came to an abrupt end with the outbreak of the First World War. But this recognition is essential for an understanding.

The fundamental attribute of globalisation, then and now, is the increasing degree of openness in most countries. There are three dimensions of this phenomenon: international trade, international investment and international finance. It needs to be said that openness is not simply confined to trade flows, investment flows and financial flows. It also extends to flows of services, technology, information, ideas and persons across national boundaries. There can be no doubt, however, that trade, investment and finance constitute the cutting edge of globalisation. This emerges clearly from a comparison of the late twentieth century with the late nineteenth century.

It is clear that the internationalisation of trade, investment and finance during the last quarter of the twentieth century is not new. There was such an internationalisation of trade, investment and finance in the last quarter of the nineteenth century which continued until the onset of the First World War. There are both similarities and differences between these two phases of globalisation in the world economy. The similarities are in underlying factors which made globalisation possible then and now. The differences are in the form, the nature and the depth of globalisation during these two years.

There are four similarities that I would like to highlight: the absence or the dismantling of barriers to international economic transactions; the development of industrial organisation; political hegemony or dominance.

There are, also, important differences between the two phases of globalisation. I would like to highlight four such differences:

in trade flows, in investment flows, in financial flows and, most important perhaps, in labour flows, across national boundaries.

A comparison of globalisation in the late twentieth century with globalisation in the late nineteenth century suggests that the game is similar though not quite the same. But the players of the game are new. And the rules of the game are very different.

The process of globalisation then was dominated by imperial nation states not only in the realm of politics but also in the sphere of economics. There can be no doubt that these imperial nation states were the key players in the game. The process of globalisation now has placed new players centre-stage.

There are two main sets of players in this game: transnational corporations which dominate investment, production and trade in the world economy, and international banks or financial intermediaries which control the world of finance. It would seem that the present conjuncture represents the final frontier in the global reach of capitalism to organise production, trade, investment and finance on a world scale without any fetters except, of course, for tight controls on labour mobility.

It should be obvious that the process of globalisation will not reproduce or replicate the United States everywhere, just as it did not reproduce or replicate Britain everywhere a century earlier. It was associated with an uneven development then. It is bound to produce uneven development now, not only between countries but also within countries.

This is a lesson that emerges from history. The economic consequences of globalisation in the late nineteenth century were, to say the least, asymmetrical. Most of the gains from the international economic integration of this era accrued to the imperial countries which exported capital and imported commodities. There were a few countries such as the United States, Canada and Australia — new lands with temperate climates and white settlers — which also derived some benefits. In these countries, the pre-conditions for industrialisation were already being created and international economic integration strengthened this process. Direct foreign investment in manufacturing activities stimulated by rising tariff barriers, combined with technological and managerial flows, reinforced the process.

The process of globalisation has been uneven over time and across space. The inequalities and the asymmetries implicit in the process which led to uneven development in the late nineteenth century, mostly for political reasons, are bound to create uneven development in the late twentieth century, mostly for economic reasons.

The nation states in the developing world cannot wish away these problems. The enthusiasts of globalisation must recognise that we have reached neither the end of history nor the end of geography. We have not reached the end of history, for the market has met its match in Eastern Europe where it did not improve the living condition of the people, and the electoral process is returning reformed communist parties to power in country after country. We have not reached the end of geography, for nation states cannot exist in a political vacuum and must strive to improve the economic conditions of their people. There is, then, a strategic economic and political role for the state which must be recognised and performed. If it is not, history would repeat itself and globalisation would only reproduce uneven development.

(Excerpted from the author's presidential address at the 78th Annual Conference of Indian Economic Association, at Chandigarh).