Globalization: A Paradoxical Result?

The title might instantaneously invoke skepticism in the reader's mind about the article's pro communist or anti capitalist nature but it is none. I have only tried to present the facts to the readers of this article, as I have so learned in my study of this subject. Globalization as defined is the integration of global cultures. It is the phenemenon where the west meets the east and collaborates to make this world more cohesive. But in strict economic sense it refers to the process of economic integration of the world economies marked by open up their economies (i.e: trade liberalisation, capital account liberalisation, etc).

We may fundamentally question ourselves that why did globalisation evolve at all, if everything was hunky dory in the first quarter of the 20th century, during when most of the world economies were closed and had a fixed exchange rate regime. The reasons can be presented in a nutshell as:

- Firstly the most of the third world countries became debt ridden by the 1970's. Their inward oriented growth strategies marked by import substitution, channeling of scarce resources for infrastructral developments and towards various other important sectors of the economy had been unsuccessfull. Their magnitude of loans taken from the capitalist nations kept rising and finally they were in a recessionary whirlpool.
- Secondly and most importantly the stagnancy in the developed economies made the argument for globalization stronger. By the end of the 20th century stagnation hit the countries like the U.S, U.K, Japan and other European nations. These countries were already endowed with capital and with the establishment of profit driven multinational corporations who were unable to find the channels to direct their resources since capital if not invested is good for nothing. Hence came globalisation.

Now I will cite the paradoxical nature of globalisation paired with the hipocrisy of its parent bodies like the International Monetary Fund (IMF) and the World Bank (WB) which are controlled by a handfull of wealthy nations with the United States only possessing the veto power. Both these institutions were inducted during with second world as a result of the UN Monetary and Financial Conference at Bretton Woods in New Hampshire with the aim of avoiding any further global crisis such as the dreaded Great Depression of 1930's but as I will go on to cite that they not only failed in this objective of theirs but also in most situations made globalisation the prime source of crisis. Further more the paradoxical nature of these parent bodies can be seen from the fact that though the IMF started with a Keynesian orientation of imperfect market behavior, it made a marked change in propagating market supremacy. The institution that once talked about increasing government expenditure, reducing taxes and decreasing interest rates to stimulate the economy, today it typically povides funds only if countries increase taxes, cut deficits or raise interest rates causing a contractionary effect on the economy.

As explained earlier the setting of globalisation came at a time when the third world coutries including countries like India were in a huge crisis and hence came forth the IMF and WB , who typically started arm twisting. They introduced their Structural Adjustment Programme famously known as "SAP" under which the third world countries would be given Structural Adjustment Loans (SAL). Only if they did massive restructuring of their economies and abided by the following conditions:

- Making the economy export oriented, liberalising imports and providing export subsidies.
- Liberalisation of capital account and opening up the economy to foreign investments.
- Devaluing the local currency.
- Removal of government tarrifs on imported goods and elimination of subsidies given to the domestic industries.
- Decrease in government intervention in markets.

In my attempt of explaining the dreaded effects of unmanaged and ill directed globalization I will explain the above conditions in view of India and the East Asian countries (East Asian crisis).

Viewing the above points even a layman can understand the harm of them and being a student of economics these facts are all the more shocking to me. Clearly these conditions unveil the hypocritical nature of the developed nations who are constantly pursuing the developing countries to open up their economies while they themselves have protected their industries in which they have a comparative disadvantage by imposition of huge import tariffs and by providing domestic subsidies to the agricultural sector. Hence though they want to maximise their profits by disrupting the growth of the indigenious industries of the third world but they won't let cheaper third world goods enter their market and thereby capture their markets. We can explain this fact further by certain examples such as the U.S.A in 1996 under President Clinton pressurised Mexico into an agreement to end the shipment of low priced tomatoes. It also pressurised steel exporters from Brazil to Japan to 'voluntarily' cut exports of cheaper steel into the States since it was hurting the local industries.

Furthermore the condition of export subsidy is another point that hurts the domestic consumers. Since when a unit or advalorem subsidy is given by the government to the sector which originally has an excess supply, it actually ends up increasing the domestic prices. Since when a subsidy is given it encourages export and hence there is increased supply in the foreign country and hence price falls and demand increased which in turn results in a fall in supply in the domestic market there by raising domestic prices(assuming the exporter is large in sense of quantity of goods exported). Now coming to the Indian subcontinent has India since liberalisation really benefitted as it should have. The question invites a lot of argument but the facts are unrelenting. After its transition from import substitution regime to export promotion how much has our economy benifitted? The data as it goes says that since liberalisation India still has remained a prime exporter of labour intensive commodities and in a survey done during 1995 shows that still 70% of our exports is labour intensive. Though this might not be that worrying but the fact that our export growth after touching a high of 21.1% in 1995-96 slowed down dramatically and exports grew by just 5.2% in 1996-97 and went down further to 1.6% in 1997-98 and finally hitting the rock bottom at -5.16% in 1998-99,thereby increasing the current account deficit since imports did not fall to balance out our trade deficit. Still this doesn't worries as much as the next sector which I am to discuss, it is the agricultural sector which according to me has been hit worse. We self invited the trouble when in 1960's Jawaharlal Nehru decided about Green Revolution we imported high yielding variety seeds (HYV) to increase productivity from the U.S , which also brought with them the implicit need of chemical fertilisers which too were provided by the multi national corporations(MNC) at exorbitant prices and also the need for machinised harvesting led to the demand of high end machines also provided by these MNCs hence we paved the way for corporate farming which has taken over in this era of globalisation. MNCs like Monsanto have set up seed corporations which are driven by profit earning motives only, have through their well tested means of joint ventures, mergers or acquisitions of domestic small firms have set up "seed monopolies". Hence now seed is no more an easy means of resource rather it is the "intellectual property" of these MNCs which tend to charge limitless profits thrugh royalty payments. Also seeds from being a regenerative and multiplicative resource have been transformed to a non-renewable commodity there by making it scarce resulting in high prices and increased debts for farmers. The most alarming bit of information is that a new variety of "terminator seeds" are being developed like the BT- cotton which are engineered for sterility. Hence the farmers will be forced to buy seeds every season since these are designed to be non-renewable varieties only!!

Another factor of globalisation which has hurt most is the fact of capital account liberalisation. This means opening up your market to volatile capital inflows which brings with them the destructive weapon of "speculative attack". It leads to "capital flight" since investors both domestic and foreign are interested in returns only hence they will invest in the market which has better prospects thus leading to the creation of an economic crisis. This is what India is facing in this current scenario where in addition to a huge current account deficit there has been a remarkable capital flight from the country in view of a reviving American economy and plummeting Indian economy there by leading to a fall in the value of the ruppee by more than 10% since March 2013.

This is exactly what happened when the Thai bhat collapsed on July 2, 1997. This was the advent of the East Asian crisis which consisted of countries like South Korea, Thailand, Indonesia, Honk-Kong and Taiwan which were upheld by the IMF as the benefactors of their policies and as economies with huge economic growth. But the truth was far from what they had propagated. It was rather their dangereous policies of capital account liberalisation and limited government intervention that brought in this crisis. The IMF's theories about these nations were flawed since they only developed through a co ordinated government intervention in field of education, R&D

and by designing appropriate investment policies which was rather against the Washington Consensus. In early December the crisis hit South Korea, which had previously succumbed under the pressure exerted by U.S and hence allowed its firms to borrow from abroad hence exposing themselves to the vageries of the international markets. Hence when rumours hit the Wall Street that Korea was in trouble and its firms would not be able to pay back the loans taken. The rollover of loans was stopped was stopped by the foreign banks and thus the rumours became true. In case of such a crisis speculators start betting against the domestic currency and the currency starts plummeting at this moment the only way out is an intervention by the central bank which sells dollars and tries to stabilise the currency by buying it. However this exit strategy was being blocked by the IMF itself and hence came the devastating effects of this crisis. As the crisis continued unemployment rate in Korea was up by four times, three times in Thailand and was tenfold in Indonesia. In Indonesia about 15% of males working in 1997 had lost their jobs by August 1998. In South Korea poverty almost tripled with allmost a quarter of the population falling under its grip and GDP fell by 6.7%. Where as in Indonesia poverty was doubled and GDP fell by a whooping 13.1% .Thailand's GDP also fell by 10.8%.

Hence in conclusion the prescription of globalisation as prescribed by the international instituitions in most cases as we see caused the disease. Thus globalisation in this form can be superficially beneficial only , according to my observations in order to make this policies render long term benefits in addition to globalisation there is the need of good and strong governance a striking example of which is China. It is a leading economy though it too was freed from collonial rule at the same time as India but its FDI inflow has been allmost eighteen times greater than that of India at a staggering $40.8 billion in the year 2000, as expressed in theWorld Investment Report 2001. Though India inherently has many advantages such as greater skilled labour, cheaper wages, etc but it is china which has achieved these milestones backed by good and efficient governance alone. Hence even India can achieve the same, such as inviting FDI in retail but only with the explicit conditions like 100% re-export, infrastructural development, etc. Thus it should be us and not the IMF or WB setting the terms of our liberalization policies.

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