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# Implications of Globalization for Poverty Reduction Efforts in Asia and the Pacific

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## I. Introduction

Poverty reduction is by itself complex and difficult enough without further complications from the impact of globalization. Broadly, globalization impinges on the poor as the more vulnerable group as employment and employability threaten in the competitive borderless world. We start in Section II with a discussion of globalization as used by academics, policymakers and activists and how the phenomenon gained attention in annual meetings of World Trade Organization (WTO), International Monetary Fund (IMF) and World Bank as protests against global capitalism. The issues are muddled along with controversial new trade issues on labor and environmental standards. These need to be reviewed and clarified in the context of aggravating poverty and efforts to reduce it.

Asia has been further routed by the financial crisis escalating to across the board socio-economic and even political crisis in both Northeast and Southeast Asia which sent even well-to-do, middle-class groups into the ranks of the new poor as will be noted in Section III. Whether the Asia crisis was itself symptomatic of globalization will be among the issues reviewed in Section IV, which draws together all the implications and effects of globalization on poverty. Some policy suggestions are tendered in Section V including how cooperation among Asia-Pacific economies to simultaneously tackle globalization and poverty reduction. The concluding section tries to visualize the prospects including how Asia may rise again on another growth trajectory.

## II. Etymology of Globalization

Turbo capitalism depicts liberalization, privatization and globalization (Lutwark, 1998). Globalization is expedited by new information communication technology (ICT) and together, have unleashed the knowledge-based economy (KBE) with intellectual capital as a new base of wealth creation. Globalization is a dynamic Schumpeterian evolutionary process on a global scale Capitalist wealth creation through Schumpeterian creative destruction advancing continuously to ever higher levels of productivity and technology sophistication requires the "old" to be destroyed before the "new" can take over, rewards winners, punishes losers.

Globalization is defined as an evolving pattern of crossborder activities of firms involving international investment, trade, collaboration for the purposes of product development, production, sourcing and marketing (OECD, 1996, p 9). In the same vein, globalization refers to the growing economic interdependencies of countries worldwide through the increasing volume and variety of

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crossborder transactions in goods and services and of international flows, and also through the rapid and widespread diffusion of technology (IMF, 1997, p 45).

Stressing connection and links, globalization is the process when communication between people of different nations increase, economic decisionmakers develop a wider orientation taking into account a larger group of nations and the constraints of geography on economics, political, social and cultural arrangements gradually become less important (Pryor, 2000, p1). Similarly, globalization refers to the web of linkages and interconnections between states, societies and organizations making up the present world economic system, creating new structures and new relationships with the result that business decisions and actions in one part of the world have significant consequences in other places (Acs and Yeung, eds, 1999, p 1). The process is reinforced by rapidly changing technologies, particularly in biotechnology, information processing and telecommunication, stimulating competition and forcing governments to adopt market oriented policies both domestically and internationally.

Globalization enables the basic assumption of free available information for perfect competition to be achieved. Previously segmented markets and localities separated by natural and artificial barriers hindering information and free flow of factors and products become seamless and integrated, creating a freer environment for trade and investment and massive economic restructuring and liberalization (Acs and Yeung, eds, 1999, p 164).

Globalization may render distinct national economies submerged and forms of supraterritoriality in economic organization emerge as it refers to a process which through national economies become more open and thus more subject to supranational economic influences and less amenable to national control (Mishra, 1999, pp 3-4). In a stronger vein, globalization refers to a situation where distinct national economies cease to exist in that they are subsumed and rearticulated into the system by international processes and transactions (Hirst and Thompson, 1996, p 10). Once politics steps in, globalization also refers broadly to the process whereby power is located in global social transformation and expressed through global networks rather than through territorially based states emphasizing the antimony between state and globalization (Thomas and Wilkin, eds, 1997, p 6).

A more explicit socio-spatial view sees globalization as an intensification of worldwide social relations, an intersection of presence and absence and interlacing of social events and social

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relations at a distance with "local contextualities distancing" (Kiely, et al, eds, 1998, pp 3-4). Distant localities are linked in a way that local happenings are shaped by events occurring miles away and vice versa. Time-space compression associated with the new dynamics of relocalization is distinguished from global-local nexus. It is both a compression of the world and an intensification of the consciousness of the world as a whole.

Growing economic interdependence through trade and technology (Hafiz, ed, 1999) or financial integration with transborder production and factor flows facilitated by communication networks as centripetal forces also has the global village driven by centrifugal forces which does not recognize boundaries (Svetlicic, et al, eds, 1996). The symptom of globalization is a growing sensitivity to the global context, growth of direct linkages among nominally separate societies and associated actors and growing exposure to competitive pressures from an increasingly open international trade system (Jones, 1995).

Globalization as an ideology means as the world economy grows by taking advantage of the territorial fragmentation of the international economy. The principal agents of economic development are multinational corporations (MNCs) and banks which choose production sites according to differences in labor costs, environmental regulations, fiscal incentives, political stability (Mittelman, ed, 1996, p 23). Globalization as the hegemony of American values is a contest between old multilateralism constituted by the interaction of states and new multilateralism. It attempts to reconstitute civil societies and political authorities on a global scale, building governance from the bottom up. It is a confluence of economic phenomena, an aggregation and acceleration of change across a range of modern economic life (Higgott, et al, eds, 2000, pp 3-4).

#### **A. Contrasting concepts: internationalization, multinationalization, and transnationalization**

Internationalization since the 17<sup>th</sup> century and multinationalization in the late 19<sup>th</sup> century are older than new globalization deemed only 10 years old (Friedman, 1999). Internationalization is premised on exchange, cross-national transfer of information, goods and services or production factors between economic agents or units which remain discrete, a process regulated by relative prices governed by supply and demand (Gordon, 1995, p 164). Multinationalization involves the organized direction and control of cross-national economic activities by multinational corporations

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(MNCs) that remain fundamentally anchored in the national economic system (Gordon, 1995, p 171).

If internationalization is constituted by flows between distinct economic units in different countries, multinationalization is demarcated by centrally coordinated activities of specific corporations extended to multiple countries. Both access to resources and inputs and markets stimulated MNCs based on their ability to marshal international resources to their domestic advantage. Globalization of industries does not destroy national differences at the level of strategies of MNCs, as nationality of MNCs still matters (Gummett, ed, 1996, p 7).

Transnationalization involves the reassertion of strong internal central coordination and articulated portfolio of facilities in sites determined by comparative locational advantage. The predominant concern is to eliminate duplication and other inefficiencies, reduce development, material and component costs by optimizing single sourcing capabilities and exploit economies of scale and time-to-market (Gordon, 1995, p 175). It need not involve export of financial capital, excludes portfolio investment so long as the transnational corporation (TNC) exerts control over its foreign operations through other means like technology, social and even political. The TNC emphasizes strategic decision making, coordinating production, controlling operations from more than one country, even if it does not own them (Yeung, 1998, p 7-9). It is a strategic center for control and coordination of economic activities including distribution, marketing and servicing. Insofar as strategic decision-making remains within the TNC, it does not matter if there are market (like subcontracting) or non-market (like internal transfer) exchanges.

Manifested in the consolidation of a worldwide intrafirm division of labor, transnationalization may reverse relations between MNCs and host governments. States have industrial policies to nurture national champions and multilateral interdependence but transnationalization strengthens the autonomy of TNCs that make critical decisions with respect to technology. Transnational capital gains legitimacy over the state, placing it increasingly on the defensive. Through fusion of strategic trade and industrial policy, the state wants to create national mastery of new technological trajectories, promote national welfare by ensuring a larger national share of returns to innovation and establish positions in international markets trade. To extent possible, the state wants to mediate and deflect the tendency of transnationalization to bypass its intervention.

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Production becomes truly global if “stateless” TNCs without national identity, footloose with international management replace MNCs. TNCs defy national governments’ regulation and control, strive for a worldwide intrafirm division of labor while MNCs attempt to replicate production within a number of regions in order to avoid the risks of trade blocs (Higgott, et al, eds, 2000, p 1).

There are inherent limits in a world of intensified oligopolistic competition for MNCs and TNCs. The new logic of innovation invalidates vertical integration as market forces intensify competition on a global scale, diversify demand and increase speed of economic transactions. The tradeoff between the coordination of space and organization of production tends to be resolved in favor of higher levels of standardization as transnationalization is about reducing if not eliminating forms of differentiation or a homogenization of space. Locations are in principle substitutable with routinization and standardization of products and processes, widening locational choices and corporate determination of internal needs.

Following these contrasting concepts, a global economy as a borderless context leads to radical changes in economic structures. Distinct economic entities become subsumed and rearticulated into the global system by international processes and transactions. National economies can no longer determine processes and outcomes affected and transformed by globalization, systemic interdependence, international political economy factors and hyper competition. Hyper rapid escalating competition based on price-quality positioning pushes race to create new know-how, establish first-mover and such competition for markets, affect domestic policies. Governance becomes a problem in a globalized world economy existing autonomously above national economies and agents. It is articulated downward, bears down upon national economies, stamps them with a particular globalized character and form, enfolds them within global dynamics and determines what cannot be determined at the national level.

An international economy has international trade and investment tethered to definite territorial spaces even with increasing integration and enmeshment between them and operates with national economies as the principal entities. Trade and investment proceed based on national specialization and international division of labor. Interdependence between nations is of a strategic kind. Deep historical roots of internationalization range from location and product cycle to strategic alliances in high technology (Oxley, et al, eds, 1998, Dobson, 1998, Yeung, ed 1999, Henderson,

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1989). An internationalized world economy would be articulated upward from national actors to international level (Thompson, 1999, pp 59-60). International processes and interactions are of a “billiard ball” type, where international events do not directly or necessarily penetrate or permeate the domestic economy. They are refracted through essentially national frameworks and national policies and processes.

The contrast between internationalization and globalization is whether the national economy is respectively distinct or dormant (Hirst and Thompson, 1996 and 1999). Internationalization denotes levels of interconnection between separate and still distinct national economic entities while globalization outranks these. The confusion between them comes from the flawed manner interdependence and globalization are perceived. Interdependence is a natural outgrowth of state policies or the endogenous part of state activities. Globalization is a condition imposed autonomously by technology or dynamics of an economic system working on its own independent logic. An essentially internationalized world economy prevails rather than a globalized world economy even if it is heavily conditioned by a regionalized triad bloc structure (Thompson, 1999, pp 59-74 and Hirst, 1999, pp 139-78).

Regionalization signifies a process which draws and groups economies together on the basis of proximity, natural trading partners due to economic advantages such as transport and information cost economies, security or environmental issues with region wide impact. As pronounced institutional integration process accompanies regionalization to manage and regulate the local integrative processes, regionalism results just as globalization has globalism as parallel institution building (Thompson, 1999, pp 62-63).

## **B. Types of globalization**

Market globalization is the functional integration between internationally dispersed activities while direct globalization is international externalities facilitated and intensified by communication and nonmarket globalization palpably affects persons across borders (Vayrynen, ed, 1999, pp 3-4).

Economic globalization is either an economic activity due to technical advances in communication and transportation which reduces costs or harmonization of the regulatory or institutional context which reduces risks associated with market transactions. Economic globalization depicts an end to geography, differs from spatial locations around the globe as it is not

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homogeneous in a spatial sense but has a temporal sense. It is a social phenomenon requiring a wider embrace of international political economy and security of cultural identities, creates winners and losers with access to global networks and lifestyles.

Financial globalization erodes state authority claims based on territoriality (Helleiner, 1999) as high finance involves denationalization of national territory (Sassen, 1999). Financial globalization unravels territoriality three ways (Helleiner, 1999). One is in the emergence of offshore financial activities existing in extranational realm. Two is from extraterritorial regulatory practices such as the Basle accord requiring central banks to apply their domestic regulatory and supervisory practices to global operations of their national banks. Finally, monetary transformation challenges territorial currencies as in the euro and dollarization. With globalized financial markets, the central theme of “casino capitalism” and “mad money” is that the government has lost control in terms of central banking and some regulatory functions to instill stability (Strange, 1986 and 1998). International political interventions as urged by global Keynesians (like Grieder, 1997 and Martin and Schumann, 1997) as national reforms following globalization are insufficient to induce stability and reduce risks.

Corporate globalization strategies vary with global coordination and local adaptation as the main drivers (Table 1). Where a global firm is high on global coordination and low on local adaptation, the MNC is the reverse as depicted in the matrix below. The global firm achieves global efficiency, coordinates structure and processes of subsidiaries and aligns them with goals of the firm. The MNC involves special demand on management by the host environment, subsidiaries adapt to environment with little communication between subsidiaries. The international firm has centralized management, transfer successful structure and processes from parent to branches. The TNC has advantages from differentiation and coordination and standardization.

Table 1. **Variation of global strategies**

	Low global coordination	High global coordination
Low local adaptation	International	Global
High local adaptation	Multinational	Transnational

Source: Hafiz, ed, 1998, p 35.

The organization characteristics of these large firms in the whole spectrum of globalization, internationalization and transnationalization are depicted in Table 2.

Table 2. **Organizational characteristics of large firms**

	Assets, capabilities	Overseas operations	R&D, transfer
Multinational	Nationally self-sufficient, independence, Naturalized	Discerning, exploit local opportunities	Knowledge developed, retained at national unit
Global	Globally scaled, centralized	Implement parent's strategies	Knowledge developed, HQ retained
International	Source of core competencies centralized, others are decentralized	Adapt, leverage parent's competencies	Knowledge developed at HQ transferred
Transnational	Specialized capabilities, interdependent and dispersed	Differentiated contributions by national units to integrated worldwide operations	Knowledge developed at national unit, best features shared worldwide

Source: Adapted from Bartlett and Ghoshal, 1989, Table 4.2, p 65.

### C. Globalization hypothesis, paradox, myth

Some globalization myths have surfaced as the end of the nation state, accentuation of Western imperialism and capitalism, economic laws no longer work or must change and more losers than winners as globalization is without a human face. The human effects seem awesome as mass multimedia has demonized globalization, mired by non-transparent government and corporate bureaucracies and deepening the globalization backlash. Added to the failure of Bretton Woods, end of cold war and US hegemony and incipient Asianization, the global trading system is more insecure, the monetary system, unstable and global finance, vulnerable (Gilpin, 2000).

The globalization hypothesis is that economic integration creates national policy constraints which together drive political interdependence or international cooperation, in turn further reducing the scope for national governance (Weiss, 1999, p 66). The state is forced to stand aside by the two

forces of economic integration and political interdependence or enmeshment in international organizations. However, economic interdependence does not destroy the state or its capacity to act especially in developed countries where the bulk of production is carried out and consumed locally. Most large companies still situate most of their production and strategic assets in their home countries. For developing economies, the enhanced mobility of TNCs in the world economy confers structural power upon them, resulting in globalization as a convergence hypothesis. The process of convergence of national policy regimes upon TNC preferences suggests TNCs arbitrage policy regimes, compel states to compete for footloose capital with liberalization and globalization (Higgott, et al, eds, 2000, p 51).

The globalization paradox is the spread of commodification and market forces with socially polarizing consequences as apparently linked to the spread of democratization that implies greater political equity throughout the world. Simultaneously, dispersive revolution (de la Mothe and Paquet, eds, 1996), new rules for wealth building (Thurow, 1999), the great disruption and reconstruction of social order (Fukuyama, 1999) or clash of civilization (Huntington, 1996) are experienced by political economies confounded with globalization. Put another way, the globalization paradox alters the social political economy status quo; as the world gets bigger spatially and shrinks in connectivity, the more important are the smaller players, from small states to micro entrepreneurs (Naisbitt, 1994).

Commodification or commodities linked in commodity chains in the capitalist world economy with endless accumulation of capital are efficient as a method that minimizes costs in terms of output. But they are also opaque. The opacity of distribution of surplus value in a long commodity chain is the most effective way to minimize political opposition because it obscures reality and causes of acute polarization of distribution which is the consequence of endless accumulation capital (Wallerstein, 1999).

Three other paradoxes reflect the discontents of globalization (Burbach, et al, 1997). One is the destabilizing impact of late capitalism at the very time capitalism has conquered the world. Two is the ideological impasse of liberal democracy even as it has become ascendant. Finally, the failure of socialism as the universal platform of struggle is precisely when desperation and upheaval are as widespread and globalized as ever. Unsurprisingly, those afflicted by these paradoxes are the developing and transition economies.

These hypotheses and paradoxes are encapsulated in five areas of contestations of the globalization process (Shaw, ed, 1999) and there appears no consensus as shown in Table 3. The hyperglobalists are the new epoch for denationalization while the skeptics think globalization is old wine, not historically unprecedented and the transformationists think otherwise, evoking new patterns of inclusion, exclusion and states having to adapt, reengineer their power.

Table 3. **Three tendencies reconceptualizing globalization**

	Hyperglobalists	Skeptics	Transformationists
What's new	A global age	Back to future	Historically unprecedented
Dominant features	Global capitalism, governance	Less interdependent world	Thick (intensive, extensive)
Power of governments	Decline, erode	Enhance	Redefine, reconstitute
Driving forces	Capitalism, ICT	States, markets	Forces of modernity
Pattern of global stratification	Erode North-South hierarchy	Increase South marginalization	Social not geographical division
Global solidarity	Enhanced	Worsening	Ambiguous
Conceptualization	Reorder framework of human action	Internationalization or regionalization	Reorder interregional actions at a distance
Summary arguments	End of nation state	Internationalization depends on state auth	Globalization transforming world pol
Ideological roots	Neoliberal, radical left	Conservative, social democratic, left	Social democracy, left
Future scenario	Global civilization vs maniac global capitalism	Regional blocs, clash of civilizations	Global integration and fragmentation
Typical representatives (see bibliography)	Ohmae, Grieder, Permuter	Hirst, Thompson, Weiss, Gilpin, Krasner	Giddens, Castells, Held, Rosenau

Source: McGrew, 1998, pp 25.

One contestation is how different is globalization from universalization, internationalization, liberalization or deterritorialization to warrant a paradigm shift. Two is how globalization has affected the nation state, how the national economy is being reconstituted and the significance of regional integration. Three is how globalization involves a reconceptualizing of power, from social movement to institutions and processes including the European Union (EU) as a new form of international polity which is without precedent or peer. Four is globalization and a reconceptualization of ethics and politics as a new ethical "antipolitics" of civil society incorporating market-led globalizing processes. Finally, on agency and globality, the tension is not just with the politics of Western elites but also with

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many different kinds of collective action worldwide. Both political and economic agents are laying claims to emancipate the world from poor labor standards and environmental degradation.

The rift between economics and politics, depoliticization of markets, delineation of choice between commerce (by the trading state) and conquest extended to technology as in the virtual state (Rosecrance, 1999) may suggest a bifurcation of the world economy and its politics (Mueller, ed, 1999, pp 4-5). The economists may politically incorrect preaching market and efficiency or getting the basics right. But their advice is rejected by politicians and administrators who disagree with values or goals advocated by the economists, or if they find the advice unconvincing or politically painful to implement (Mueller, ed, 1999, pp 54-57). Globalization makes it increasingly hard to implement even basic propositions including growth of economic wellbeing as a dominant goal, wealth best achieved through exchange and free international trade and economies are efficient when governments leave them substantially free.

Politicians and policy makers may rather hide behind myths of globalization like big size of firms matter, triumph of universal products, economics need to be rewritten, globalization is a zero sum game and equals disappearance of geography (Micklethwaite and Wooldridge, 2000, pp 100-117). But the enemy is from within, namely, nationalism and threat to the state, not globalization per se (Micklethwaite and Wooldridge, 2000, pp 271-292). Accordingly, principles of global management, governance as in transparency and accountability are tendered. What defines good national management defines international management. It pays to behave ethically, husband human capital, especially knowledge and leadership.

A synthesis is suggested for social, political and economic activities stretched across-national frontiers to embody action at a distance and widen the geographical reach of global interconnectedness (McGrew, 1998). An intensification or increasing density in flows and patterns of interaction or interconnectedness transcends states and societies with ICT facilitating real time interaction. But the process of synthesis is not reducible to a single condition, logic, product of social, political, technological and economic change. The growing extensity and intensity of global interactions and deepening enmeshment blur the distinction of what is internal and external to the state. The state has to be alert, aware and seize the opportunity to embody its own systemic logic and governance. As territorial boundaries are eroded, territorial space and socio-economic space

are no longer coterminous. The synthesis deterritorializes and reterritorializes political and economic power.

#### **D. Old and new globalization**

Old globalization is internationalization dealing with trade of goods and services, international flows of labor and capital which has waxed and waned over the millennium. New globalization has emerged either since the 1970s embodying two oil shocks or the 1990s with the dismantling of controls over international capital flow brought up to speed by ICT. This increased vertical specialization or disintegration of production chain, changed location of trade transactions and shifted direction of trade, flows of labor and capital. Old globalization was built around falling transaction costs. Today, falling telecommunication costs, micro chips, satellites, fiber optics and Internet allow not only nations but individuals to reach farther, faster, cheaper and deeper.

Defined as a process instead of an end result of total economic integration, new globalization is manifested by increased international communication, flow of money, number and diversity of nations. It deals more directly with changing orientation of economic decision making by governments, productive units and individuals. The shift in orientation of decision making is toward international rather than domestic environment even when MNCs remain tied to territorial bases. New globalization is not a convergence of structure or policies but is a potential for global monopolization of certain industries. Whereas MNCs with over 10,000 workers have been on the decline in the US despite mega mergers in the early 1990s, firms like AT&T and Lucent Technology are spinning off into core competencies as bigger firms and concentration of production emerge.

Two additional forms of globalizing activities of MNCs are witnessed as crossborder mergers and strategic alliances. Despite transport and communication costs falling, remaining tariffs and nontariff barriers (NTBs) enable arbitrage, not the law of one price for a particular product across nations as market integration is complicated by floating exchange rates, sticky prices and business practices like "pricing to market". The microeconomic impact of globalization is in increased competition and the macroeconomic impact, in raising the marginal propensity to import and decreasing effectiveness of fiscal policy.

Financial globalization is doing the same to monetary policy in turn affecting exchange rate, leading to speculative flows, declining sovereignty and greater economic instability. Electronic herds

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in global financial markets are distinguished into "short-horn cattle" as people buying, selling stock, bonds, currencies and "long-horn cattle" as MNCs driving direct foreign investment (DFI) (Friedman, 1999). Financial supermarkets in New York, London, Tokyo, Frankfurt, Paris, Zurich, Hong Kong, Singapore and others among 25 as a group controlled 83% of world equities and 50% global market capitalization in 1997. Credit agencies like Moody's and Standard & Poor's are the bloodhounds of the electronic herd driving contagion, market sentiments and panic herd instinct across structurally weak, not necessarily innocent "victims". Irregular, improper banking practices and supervision and "captured liberalization" with poorly designed reforms and weakly regulated liberalization increased both vulnerability and culpability (Haggard, 2000).

Globalization has come with the democratization of technology, finance and information (Friedman, 1999). Perceiving globalization ills as increased inequality, higher unemployment, lower wages and radical changes in socio-political and cultural values and systems, they may confuse throwing the baby out with the bath water or shooting the messenger. After Marxism has been challenged by neoliberalism and post-Marxism, cyber Marx takes to cycles and circuits of struggle in high technology capitalism posed by "circuit of capital", "circulation of cycles" as "the other globalization" with conflicts of class composition and struggles, labor and capital in a digital era (Dyer-Witherford, 1999).

On the other hand, much of humanity belonging to family, tribe, community, nation or religion is still striving for the olive tree. While the Middle East is quarrelling over who owns the olive tree or the right of Palestinians to return to Israel, the Lexus is the drive for sustenance, improvement, prosperity, modernization as 300 Lexus are produced by only 66 humans (for quality control) and 310 robots. India's nuclear testing in 1998 is an olive tree impulse but it is met by Moody's downgrading, depicting the Lexus. Balancing the Lexus and olive tree against disparate levels and needs of markets, individuals and communities is knotty.

Driven by computerization, digitization, miniaturization, satellite, fiber optics and Internet, new globalization deemed culturally Americanization, moving from the cold war symbol of "the treaty" to "the deal", from weight of missiles to speed of commerce, travel, communication, innovation. Einstein's mass energy equation had shifted to Moore's law where the computing power of silicon chips doubles every 18-24 months (The Economist, 23 September, 2000). Innovation replaces

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tradition and the age of revolution is about a nonlinear world, nonlinear ideas and thinking to create new wealth (Hamel, 2000, pp 11-14).

#### **E. Good, bad or ugly globalization**

Globalization, good or bad (Rodrik 1997 and 1998) is irreversible. With growing transparency expedited by ICT, the electronic herd punishes bad lenders and borrowers, bad drivers and roads in both the domestic and international financial architecture (The Economist, 30 January 1999). It has inadvertently spawned the emergence of "dangerous classes" of international nongovernmental organizations (INGOs) distinct from traditional militant industrial working class. These NGOs with diverse agendas and others branded as anticapital globalists gathered in Seattle in 1999 and joint meetings of IMF and World Bank at Prague in 2000 (The Economist, 23 September 2000). The postmodern urbanism paradigm is an attempt to construct and locate globalization through transnational urbanism as the formation of crossborder political coalition of international unions, NGOs and transnational grassroots activities (Smith, 2001). Neoliberal global governance by international financial institutions (IFIs) is demanded by these movements which see transnational social space as a contested terrain rather than exclusive right of multinational capital.

Globalization affects the ways and capability people and societies organize themselves. The state is perceived impotent in the grips of new globalization which reduces state transformative capability and governance with transnational integration from crossborder trade, investment creating production and value added chains driven by the market (Prakash and Hart, eds, 1999). The state is threatened by global governance shifting the loci of governance to transnational control mechanisms, long term spatial trend and emergence of informational globalism and governance in a knowledge-based political economy (Hewson and Sinclair, eds, 1999). Old world governance, institutionalization and political control are challenged by borderless economics and dynamic ICT (Rosenau, 1997, p 40, pp 149-156). The massive devolution in old governance is because of the search for speed of adjustment, variety, flexibility and innovation generated with globalization, privatization and reinvention of state power.

A new socio-economic economy is marked by a balkanization of existing national economies and a concurrent massive devolution in the governance system of both private and public organizations (Acs, et al, 2000, pp 38-39). The balkanization is due first to global competitiveness

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with specialization of subnational geographical agglomerations and regional product-based technological learning systems. A second factor is tribalism reinforced in nation states as a source of entrepreneurial culture and competitive advantage. Conversely, dysfunctionality of the nation state leads to the rise of region states. Finally, these region states may evolve to provide support for subnational development blocs. They nurture complementarities, interdependencies and externalities via infrastructures, networking of economic and business competence, business and cultural idiosyncracies to dynamise the transformation process at a meso level.

Views are either pessimistic about the nation state with globalization or realistic about its scope and limits, setting transnational developments against the continuing robustness of nation state and resurgence of ethnicity (Holton, 1998). Political and economic interdependence at the world level homogenizes social life, universal standards, products and culture as global governance assumes importance (Prakash and Hart, eds, 1999). The complexity and scale of globalization seems so formidable the state should maybe just stand back and allow MNCs, TNCs and globalization take over (Hood and Young, eds, 2000).

On the other hand, many arguments remain for the nation state. One is it remains pivotal to initiate international governance and reregulation. But rather than govern and impose outcome, it becomes a locus of governance centralized by its territory and population in a complex system of power straddling world and local levels (Hirst and Thompson, 1999, p 275). National and regional networks can remain vibrant in an internationalized world (Weiss, 1998, p 187). Globalization at the corporate level is influenced and facilitated by the trend toward liberalization of government's policies on DFI through deregulation, privatization and market reform.

Two is as politics becomes more polycentric, the nation state is one level in a complex system of overlapping and competitive agencies. But the issue of control of economic activity in integrated internationalized economy is one of governance, not government (Hirst and Thompson, 1999, p 269). Economic globalization as governance is argued as political genealogy concepts of autonomy, freedom, representation, participation, equity and democratization and overlaps with economics in affecting human efforts to secure welfare and wellbeing (Douglas, 1999). The state is not merely the institution of government in the global governance. The diffused and extended socio-political and

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economic space needs an extension or state ordered power and institutions beyond territorial confines and authority of the modern state.

Finally, economic globalization can be a political basis for new kinds of state intervention or rearticulation of the state as in strategic pragmatism (Schein, 1997). Conventionally, strategic trade, investment policies and industrial policies argue for state intervention to protect economic welfare. Targeted industries generate sizeable positive externalities, demonstrate increasing returns to scale and are embedded in imperfect national and global markets rather than perfect competition. With more market nonstate actors, the state has to initiate and include private-to-private into government-to-government governance.

Viewed positively, globalization creates the opportunity for growth and development by reinventing the state with market and corporate governance taking many business models and strategic state-market alliances. It is less of a quarrel between the state and market as an ideological anachronism. Political institutions, organizations and processes in new institutionalism which influence policy outcomes and implementation is affected by regime type, business-government relations and efficient design of regulatory institutions (Haggard, 1999). Nations states and developmental states need to change with the fluidity of industrial policy and globalization. The traditional Keynesian and welfare state with state-centric, collective decisions may be threatened. The resilient state may withstand globalization or at most be rearticulated by modifying institutions and policies. States have incentives for such reconfiguration as globalization comes with "technologisation" of trade and investment. The increasing salience of high technology products and production goes beyond competition and welfare to security and survival.

The consensus on globalization impinging on national sovereignty, altering international relations or benefiting the larger cause of humanity is that only parts of the Western world have done rather well (Cox, et al, eds, 1999, p 5). The generalized discontent with the "Washington consensus" as conventional wisdom for free markets and sound money is political. Deterritorialization of economic and political affairs epitomized in the ascendance of highly mobile, globalized financial markets and global networks advances at the expense of national ones (Weiss, 1998 and 1999). The era of "state denial" raise identities of the state as broker state, embedded state, globalized state, sovereign state, competition state, security state, normative state or democratic state (Clark,

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1999). There is no reason to accord primacy to either side of the great divide of globalization. Only pure politics and unequal state capacity and power make it simpler to demonize globalization.

Globalization is beneficial in general but it depends on specifics of timing, sequencing and quality of domestic policies (Cable, 1999, p 30). Losers include sectors previously insulated from competition, organized unskilled labor in industrial countries threatened by migration of footloose capital to low wage countries, indigenous, protected capitalists facing competition and local communities facing any form of disruptive upheaval if globalization threatens networks and increases visibility of strangers. Beneficiaries include numerous consumers but they are less aware of diffuse benefits and not as organized to give support as those organized for dissent. Gains and losses in the globalization equation have more to do with the particularities of a specific market structure than global integration. The "enemies" of globalization include nationalists, mercantilists, regionalists, dependency theorists and "deep greens" (Cable, 1999).

The case against globalization or market is precisely the exclusion of these losers left behind, unprepared to new competition and lack social safety nets to cushion them. The weak and excluded suffer income and job loss as MNCs and TNCs functioning on real time and world networks ignore national disruptions they leave behind as they cross boundaries in search of competitive production costs and returns. Even as the developing world is struggling with the old economy and poverty, they are pushed into the knowledge-based new economy based on intellectual capital and ICT. The Asian crisis have hit simultaneously just as the excesses and abuses of the "miracle" years also began to surface.

#### **F. Globalization backlash**

The third world seems to prove that economic marginalization, economic insecurity and poverty have not died but just got extended due to globalization (Thomas, 1999). The backlash movement sees inequality as due in no small measure to the global financial architecture, the IMF as its lynchpin, the Washington consensus shaping economic agenda, coordinating policies and setting rules in global capitalism. Staked as state against market, corporate-led globalization responding to competition and technology is equated with jobs crisis, rising inequalities and ecological imbalances in a globalization backlash spanning countries, classes, ideologies and religions (Broad and Cavanagh, 2000).

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The global wave of resistance is labelled as globalization from below while corporate-led globalization is from above (Falk, 1999). Globalization from below is premised on worldwide shared values of minimizing violence, maximizing economic, realizing social and political justice, upholding environmental quality. A consensus of a normative democracy of globalization from below includes consent of citizenry, rule of law, human rights, participation, accountability, public goods, transparency, nonviolence (Falk, 1999, pp 148-9). Rightly or wrongly, what appears righteous may be hijacked by not so well meaning NGOs.

Globalization from above leaves six broad problems in terms of growing inequalities, eroding jobs, wages and working conditions, increasing vulnerability of "casino" economies, plunder of natural resources, destruction of communities and deterioration of democracy (Broad and Cavanagh, 2000, pp 193-5). To get globalization more securely rooted, these concerns have to be addressed, that is, the global side as much as domestic economies readying themselves. Globalization from above exerts a strong downward pressure on public good expenditure (Falk, 1999), the regulatory deficit argument, globalized capitalism and relentless market logic versus antigovernment societal mood, business focus orientation of government. The regulatory deficit is perceived as an under provision of international public goods resulting higher systemic risk as in financial instability, international debt and bankruptcy, requiring institutional financial reform, rules for competition, global infrastructure and networks and protection of the commons (Cable, 1999, pp 72-96).

Globalization is "out there" and "in here", pulls power or influence upwards, away from local communities into global arena, pushes downward in creating new pressure for local autonomy and squeezes sideways in creating new economic and cultural zones within and across nations as in Silicon Valley (Giddens, 2000). The new frontier is ethics and globalization (Cable, 1999, pp 110-120). But objections to universal ethics include them emanating from the West and running counter to cultural particularism, attempting to impose domestic value extraterritorially on domestic subjects or companies in overseas location or constituting an lip service to conceal the real conflict of interest. Universal rules of ethical behavior for corruption, environmental and labor standards, human rights and international equity are some areas identified, embroiling traders and investors, acted out on the

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streets in Seattle and Prague as international financial institutions are perceived as aiding and abetting these capitalists.

Citizen backlash is complex and varied, part rooted in cultural beliefs and traditions, part protectionist in cross sectoral, at times, transnational coalitions to fight corporate-oriented rules by workers, farmers and environmentalists and part, a third way. Unlike backlash politics which closes off borders and identities, substantive democracy seeks a politics of reconciliation. It maintains much of the openness and dynamism of globalization from above while countering privatization and marketization of public goods to establish a social equilibrium to deal with nonlevel playing fields. The state needs to be reinstrumentalized to mediate between the logic of global capitalism and priorities of people, respectively, short and long termism.

Backlash politics represents a new type of labor militancy, not a strike against corporate management or state but against the world economy, that is, a globalization backlash. There may well be reinvigorated rightwing populism and opportunistic politicians building on grassroots discontent, fostering chauvinistic and xenophobic types of nationalism which are essentially intolerant of difference, radically inconsistent with juridical nationalism which is the taproot of a secular modern state (Falk, 1999, p 161). A backlash by national and social groups excluded from globalization benefits but threatened by the risks of financial globalization implies inaction would mean political and not just financial costs. Innovation, ICT and current and capital account liberalization which have globalized financial markets do make managing "mad money" difficult. Two good reasons for regulating the behavior of international financial dealers and the conduct of international financial markets remain. One is to moderate and restrain greed, the other, to moderate and restrain fear (Strange, 1998, p 139).

Globalization increases mobility of capital and market bias undermines Keynesian statist solutions. Globalized market for commodities depends less on the purchasing power of workers in countries where firms are located, implying DFI may use globalization more for sourcing for competitive production bases than market penetration. But high technology, flexible specialization, diversified production and post Fordism have enlarged the scope for productivity gains. The new international division of labor incorporates skill enhancement, multi-skilling, team work, flexibility, flat hierarchies, trust, empowerment coupled with higher accountability, networking, flexible technology

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and organizational learning (Littek and Charles, 1995, p 2). It is time to put together the two "IRs", international relations and industrial relations or the impact of globalization on the international division of labor (Harrod, 1997).

The new division of labor overstates the significance of cheap labor as a propellant of capital around globe (Mittelman, 1997 and Mittelman, ed, 1996, pp 16-17. What is new is the domestic political economy of regionalism and globalism, respectively, inner versus outer globalization, interregional versus intraregional labor migration as in Asian regional division of labor. High capacity for learning by workers to enable a "high road" of capitalism and technologically innovative system of production and skill. This sustains a relatively large proportion of high wage labor force is the best assurance for reasonable job security (Wright, 2000, pp 96-97).

Global labor displacement is as virulent for unskilled labor in advanced industrial countries becoming more easily substitutable through trade or investment flows across borders. A downward shift in the demand curve for low skilled is identified but not sufficient attention is paid to the increase in elasticity of this demand to account for change in labor markets. Globalization is about change in (actual or perceived) elasticity of demand for unskilled workers, not reduction in demand per se (Rodrik, 1999, p 119).

A second issue involves labor standards with expanding trade and investment networks bringing in societies with different standards for working conditions, reflecting income differentials and varying values. Large discrepancies between developed and developing economies undermine the legitimacy of free trade, making it harder to sustain the domestic consensus on trade policy in advanced industrial countries raising issues on "social dumping" and "race to the bottom". Increased international mobility by firms weakens the rent sharing bargain. Globalization results in both a deterioration of income distribution and aggregate income loss (Rodrik, 1999). Low standard countries have low labor costs controlled for productivity and a stronger revealed preference for labor intensive manufacturing.

Trade economists and advocates on labor standards concur insofar as the globalization outcome is an enlargement of labor supply in the south. With comparative advantage of southern exports in labor intensive products, increasing northern imports of these via a fall in relative price leads to fall in real wages of unskilled in north. Viewpoints diverge from here. Trade economists see

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trade creation gains and improvement in terms of trade (TOT) for the north as it is net importer of such goods. International trade can be an added technology in a production function with exports thought of as inputs to earn foreign exchange or be transformed into imports as outputs. As northern TOT improve (with lower labor standard in the south) this technology act as a technical advance to lower input-output coefficient. While unskilled labor loses, governments could compensate them if so desired and still come out ahead as a whole. Labor advocates note gains to workers and consumers, see unskilled in the north displaced from jobs, income lowered because of unconscionable employment practices (to north) in south and compensation unlikely.

At issue is the legitimacy of the process in which net gains are created and distributed across-the-board in the north. Without rights to organize to fight back, the dark side of global labor is abysmal pay and working conditions. Some MNCs like Levi (Schoenberger, 2000), try to do the right ethical thing and at the same time maintain profitability. Levi is ahead of time with progressive policies from desegregating factories in South America to support education in acquired immuno deficiency syndrome (AIDS). Its global code of conduct issued in 1992 makes Levi bear responsibility of action of foreign partners running its factories. It stepped back from Myanmar and its ruthless military regime and China in 1993 because of human rights violation. But it is difficult to practice social responsibility without genuine commitment to transparency. While seemingly exhausted by its ethics and touchy management style which has bogged down decision making and sales are falling, Levi remains as good a model MNC as any.

Globalization needs more responsible states, economic management, more effective solidarity and renewed international institutions to keep democracy and market in step (Camdessus, 1997, p 18). Globalization detraditionalizes with the emergence of a global cosmopolitan society, clashing with fundamentalism which is a child of globalization, not its antithesis. Fundamentalism poses questions as the globalized world affects personal lives, in sexuality, relationships, marriage and family. The runaway world needs more not less government, democracy needs to be democratized as in devolving power and fostering civic culture (Giddens, 2000).

Globalization need an integrationist distribution strategy regarding social safety nets and democratization in contrast to the capitalist "winner takes all" backlash. An integrationist-social safety net is where politics, social democracy, geopolitics, geoeconomics of the global financial system still

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culminate in sustainable globalization if jobs and income generated and standards of living are maintained. It is easy for have-nots and those left behind to distort, demonize globalization and the state can be on the right of economics, lose control of politics. Losers know who they are and are easy to mobilize. Beneficiaries cannot directly connect gains with globalization and are difficult to mobilize to counter dissenters. New globalization is technology-driven, not trade-driven but it is the micro chip which took the jobs, not Mexicans or Asians.

Reformists in Table 3 want to improve the system not change it fundamentally but skeptics reject the norms of the global market, favoring national and local control over development policies. The discontents are new antagonists as in radical environmental groups, militant feminists, indigenous societies and human rights organizations, defiants in fundamentalist religious movements, urban underclass, all challenging sources of domination and are antisystemic in the broadest sense. The antisystemic include an underclass linked to crime and violence, ethnic movements based on race and nationality, Islamic fundamentalist movements (Muslims form one-fifth of humanity) and urban rebellions exploited by nationalists and fundamentalists (Burbach, et al, 1997). A defining characteristic of globalization discontent is insecurity caused either by loss of economic, political and human rights whatever the ethical foundations or risk and uncertainty from externality or third party effects spilling over from systemic disorders. The magnitude, scale and complexity of crossborder mobilization of the backlash on the backs of ICT and media commensurate with its causes.

Globalization tends to shift the locus of class compromise toward the production sphere while technology enhances worker associational power and affects two other spheres of exchange and politics as well (Wright, 2000). Consumption enhancing macroeconomic Keynesian policy tends to spread benefits diffusely to workers. Social wage increases rather than simply wages of unionized workers and beneficial effects are contained within specific firms and sectors. Technology deepens labor market divisions and exclusions rather than spread the benefits of class compromise. Undermining labor bargaining power has contributed to a rise of new inequality in 1980s and 1990s.

A "false" choice exists between unfettered global capitalism on one hand and protectionism and autarky on the other (Lal, 2000). A third way in between these two extremes or capitalism with a human face is needed for a vibrant inclusive global economy. There is nothing automatic about

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globalization much as ICT, free markets and economic integration seem inevitable when they need not be. The fact that too many people continue to be left behind is both a sign not to be ignored and a tragedy. How to invoke true and genuine participation of many who are clueless to the real forces behind their difficulties blamed on globalization is a political task; therein lies the problem, ranging from policy mismanagement and misstep by governments to unprepared or lack of change agents.

The third tendency or third way has an array of citizen movements seeking not to roll back globalization, not necessarily slow it down but to rewrite the rules under which corporate-led globalization occurs. To render globalization more socially and/or environmentally responsible, enforceable corporate codes of conduct and growing alternative trade movement deliver products from cooperatives to consumers made under more humane and sustainable conditions. The third way faces many challenges including delineating a role for global governance while its work is based on north-south alliances. It must cross myriad sectors with different strategic goals, harness potential powers of various strands, crosscutting between environmental and labor groups and address growing corporate control of politics to demonstrate on-the-ground results for all.

The quest for humane governance emphasizes virtues of nonalignment and self determination by the south and globalization from below for local and transnational initiatives based on democratic ideas of participation and action (Falk, 2000). Globalization alters the substantive approach to humane governance particularly with respect to role of the state, rise of market, economic forces affecting state capacity. Globalization from below resituates the state to make it more responsive to people oriented priorities including financing global public goods. Yet, politics of indifference with a bankruptcy of conventional political alternatives has resulted in a kind of historical regression of changes in the context of political economy and constitutionalism (Gill, 1996).

### **III. Asia crisis as a consequence of globalization**

The optimistic view since mid-1980s, epitomized by the Asian miracle economies is that greater trade openness has increased efficiency and reduced inequality by boosting relative demand for unskilled workers, hence narrowing gap between them and skilled (Wood, 1999, pp 153-184 and World Bank, 2000). Asia Pacific appears to have broken from the chains of underdevelopment better than the rest of the third world. It represents not just a distinct geographical space but also a particular statist strategy designed to achieve rapid export-led economic growth.

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But the Asian development model may be overstated especially in political terms. Taken to an excess, ethnic flavored industrial strategy in some states of the Association of Southeast Asian Nations (ASEAN) designed to redistribute income, wealth and economic opportunities has created a backlash from political business and patronage as state-business relations got too intimate. Misguided government intervention and consequent moral hazard are "sins of commission or omission" as Asian states fall to "captured liberalization" with poorly designed reforms and weakly regulated liberalization inducing culpable self-serving rent-seeking and increased vulnerability (Haggard, 2000, pp 32-8).

Seduced by a "miracle" hubris, factor abundance, market potential and some basics set right initially, far too many short cuts befell Asian economies strapped by ethnicity and politics. The changing fortunes of the harbingers of the "Pacific century" blessed with family fusion, thrift and work ethics have been variously interpreted and analyzed (Robison, et al, eds, 2000, Castells, 2000, Segal, et al, eds, 2000, Dadush, et al, eds, 2000, Petri, ed, 2000, Richter, ed, 2000, Park, 2000 and Haggard, 2000). It was not a mere financial crisis be it of liquidity, structure or contagion even if it was the trigger. Neither can global capitalism be wholly blamed and serves only as a blinder to absolve the region and incriminate others.

Asia is not afflicted by globalization and world financial system but the wrong kind of government intervention and insufficient homework all round (Larsson, 2000, McGurn, 2000 and Business Week, 6 November 2000, pp 40-68). That the crisis was not uniform, more grievous and damaging for the laggard and lax in institutional and regulatory safety belts, vindicated consistent performers, Singapore and Taiwan, even the Philippines fortuitously. Singapore is about the most globalized of the Asian economies and while some cynics may cast doubt about its benign government intervention, it was neither a victim of globalization nor the Asia crisis as its fundamental macroeconomic management and governance have been better by far. Singapore is hostage to bad policies and outcome the neighborhood.

Exuberance in investment with mega projects in real estate and property market fueling as much nationalism as speculative greed seems a matter of degree in almost all afflicted Asian state. A very telling characteristic of the Asian crisis is that a new class of urban poor came from the middle income who grew rich and fast based on such excessive exuberance of bubble economies as

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typified by speculation in the stock market and real estate (Birdsall and Haggard, 2000). This is emergent middle income "striving" class expect to command more political presence. In contrast, the rural poor were both blessed by relatively better agricultural prices and more flexible employment and income support from the land. In any case, the miracle growth favoring industries, urban areas and the better educated urbanites did not trickle down as much and as fast to the rural poor. As such they enjoyed neither the rapid income growth of the boom years nor suffered as much when they crashed with the Asian crisis.

Both the "strivers" and vulnerable rural poor also in informal sectors would press for a more explicit social contract, so far missing in Asia as states substitute economic growth and home, community and business based social safety networks for the Western social contract. The urban strivers are those with household heads in low productivity and low wage but steady jobs or thriving small businesses but relatively limited education and accumulated physical assets. Across Asia, the group is defined in absolute income and education terms. In purchasing power parity (PPP), households at and somewhat below \$5,000 in income per capita are likely to be in the new urban striver class (Birdsall and Haggard, 2000, p 20). This group is in the top 40% of distribution of households by absolute income in Indonesia, in Thailand, closer to the middle and in Korea, closer to the bottom though still below Korea's poverty line. In terms of education, those with no more than six years of schooling are among the 40% with the most education in Indonesia. They are in the middle of the distribution in Thailand and near the bottom in Korea.

At the heart of the Asian crisis and recovery is private-to-private transaction or microeconomic inefficiencies. Private debt workouts, in- or out-of-court have to happen after the excesses of moral hazard and political patronage in business leading to bailouts which penalize taxpayers. Financial and corporate reforms remain incomplete so long as the dirigiste culture and paternalistic style perpetuate in industrial and development policy, governance and ethnic or rent-seeking politics of distribution. Globalization becomes the convenient and ready scapegoat when that was never faulted when the Asian economies were in the initial stages of structural adjustment. Second order adjustment to globalization involving political economy choices (Morrison, et al, 1998) as in state-business relations were harder to make, hence the Asian crisis as an accident waiting to happen.

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The Asian crisis brought to bear the evolving relationship between globalization and the state. The social and political economy model of development to cope with ethnic and nationalistic concerns perceived as an Asian prerequisite is rudely told off by globalized market forces. The social logic of the developmental state pioneered by corporatist Japan Inc and articulated to near perfection in Singapore for both economic and nation building is checkmated by the globalization logic of aggressive, winner-takes-all hyper competition. In the information age and new economy, both technical skills and mindset must change to the context of the network society and power of identity (Castells, 1996 and 1997). Asia relied on economic growth to provide employment, self help and traditional family and community social safety networks not welfarism, adequate until the crisis (Haggard, 2000). Asia must seize the opportunity in all industrial restructuring, corporate and financial reforms to tackle these crosscutting issues in one fell swoop to be thorough and bring them up to speed.

Fighting instinctually whatever branded as imperialistic and bullying like IMF, World Bank conditionalities may have political and media appeal but it cannot create jobs and income. Investors, markets and technology are still in the Atlantic and until they are bested, Asia has to prioritize its needs. National debt restructuring and orderly workouts which are not just cosmetic as down payment for demand for reforms in the international financial architecture to take care of systemic risks as international public goods. The Asian crisis should have taught the region to be more astute and attentive to potential and possible cooperation when dealing with exogenous global forces. If they discard anachronistic, primordial instincts of nationalism, they should realize that concerted cooperation is indeed a louder voice. Instead of dissipative rivalry, demonstration effects should inspire, make them cognizant of crossborder global issues and tasks, learn to use regional politics to an inclusive advantage rather than as an excuse to be exclusively nationalistic.

### **Critical Asian choices in globalization**

Asian economies are at a crossroads, caught between globalization and the meltdown crisis which brought about political and regime changes after the legitimacy of growth and stability were eroded in one fell swoop. Despite the seismic crisis and changes in government and regimes, Indonesia, Thailand and Korea remain ineffective in cleaning cronyism (International Herald Tribune, 22 September 2000). Economic growth and apparent recovery may mask problems and put reform

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pressure off. But the seeds of the next crisis are incipient, more so in Southeast Asia with its ethnic politics than more homogeneous Northeast Asia.

What suited the old economy and old globalization in terms of the strong state and paternalistic industrial policies are less suitable for the KBE and new globalization based on liberalized competitive markets. Only a few Asian states like Singapore have used their transformative capacity to adapt to and even take advantage of globalization process. Still, any residual top-down mode may not suit the new economy dot.com culture. Political authoritarianism and economic growth had complemented each other so well in Southeast Asia that globalization has not led to democratization as in Eastern Europe and Mexico (Stubb, 1999, Mittelman, ed, 1996, Walters and McGee, eds, 1997 and Chen, ed, 1998).

This view lends itself to a Malthusian political trap which hypothesizes that sheer size and poverty of humanity in some Asian states in a hurry to catch up and ratchet up without sustainable income distribution will keep democracy down. Democracy is defined as participation in the new economy and globalization context, not ideological. Authoritarian governments may legitimize and prolong regime if they reinvent themselves sufficiently and deliver accordingly, not rule by unjust suppression. When push comes to shove, political electorate dissent may end up destroying investor confidence and credibility.

#### **IV. Issues and Implications of Globalization and Poverty Reduction**

Between 1987-98, poverty as in population living on less than \$1 has fallen in East Asia and Pacific from 280 million to 420 million despite the Asian crisis while those in Latin America, South Asia and SubSaharan Africa have risen (Table 4). What this implies is that Asia might have got it right in opening up their economies to trade, DFI and MNCs and nurtured the correct macroeconomic policies to gain efficiency and competitiveness. However, many Asian state did not do enough to ensure they took as much advantage of globalization as averting some of the backlash noted. The lack of emphasis on economic and social security as in how to manage risk, prevent, prepare for and respond to major shocks, of both the financial and natural kinds became patent with the Asian crisis.

Table 4. **Distribution of population living on less than \$1, 1998**

Region	% of 1.2 billion poor
East Asia and Pacific	23.2
Latin America and Caribbean	6.5
Europe and Central Asia	2.0
Middle East and North Africa	0.5
South Asia	43.5
SubSaharan Africa	24.3

Source: World Bank, 2000, p 4.

It is undeniable that implications of globalization on poverty reduction can be dire. The issues range from the loss of state sovereignty especially without institutional preparedness to global market and financial forces to being captive to international division of labor as MNCs and TNCs become footloose to maximize profits. The economy, society and polity become subject to constant flux and change. Greater interdependence may be mastered with greater global solidarity and cooperation. But poverty issues remain the concern and responsibility of national governments no matter how much they try to extract joint efforts across borders and with MNCs and TNCs.

Grasping with the good and bad of globalization requires a thorough understanding of a healthy respect for markets, efficiency and competitiveness. Developing countries cannot afford to do things by halves. For instance, first-order adjustments to globalization by enhancing international competitiveness, driven by governments based on pragmatism are perceived to be taken seriously in four ASEAN countries, Indonesia, the Philippines, Thailand and Vietnam (Morrison, et al, eds, 1998). But they still lag in second order adjustments economic market-based reforms which have domestic social and political impact. The more successful the first order adjustments leading to deeper international integration, the more complicated the second-order adjustments will be. A political environment is further required for wider participatory processes.

The most critical implication impinges on the role of the state and third world government are particularly vulnerable to the transformative capability they have to deal with the backlash of globalization. The state may easily blame MNCs and TNCs rather than itself for not ensuring the market driven efficiency aspects of globalization to be maximized even if this is not an easy task. More critically, politics get in the way as there are certain noneconomic objectives behind the role of the state in the economy for balancing ethnic, regional and other vested interests.

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Greater income inequality and job insecurity are two very peculiar features of ICT and KBE on the backs of globalization. Again, it is easier to lay the blame on MNCs and TNCs together with global capitalism than lack of government efforts. Already struggling with basic education and literacy, computer literacy, intellectual capital requiring innovation and creativity to create new bases of wealth and value adding may be beyond some states. Worse is that globalization may accelerate brain drain and loss of whatever IT skills and intellectual capital a developing state has. Indian and other Asian IT and software specialists are already the pillars in many Silicon-based companies (Saxien, 1999) and even Germany and other European countries are looking East to recruit such skills.

The income disparity will become more vicious and severe as the gap between the IT-rich and IT-poor is over and above the traditional gap between the "haves" and "have-nots" in the old economy. The vulnerable groups are not just the less educated, females, and old. Knowledge workers need a mindset and attitudinal change beyond cognitive skills and education which has to be continuous education and training as skills upgrading with technology change have to be dynamic and competitive with globalization. Greater human insecurity in all forms, from employment to social security is a facet of globalization and no government can protect and avert risks from such globalization fallout.

The reminder from the Asian crisis is less than gentle and a new social contract to address the problem of poverty must also handle new insecurities (Birdsall and Haggard, 2000, pp 39-55). These insecurities of employment and employability, income and living standards faced by emergent working, middle income classes of more open economies in a globalized marketplace where flows of goods, services and people are occurring at a unprecedented scale and complexity. More than aging and retirement, new systemic risks such as crisis and economy-wide recessions contagious regionally and globally and manufactured risks as in man-made human errors ranging from gross mismanagement and greed to politicization problems are part and parcel of the new globalized KBE.

However defined, if not the Western welfare state variant, the logic of social insurance has to be considered seriously. New labor relations stressing on continued lifelong education and training and not just retrenchment benefits. A better understanding of how tripartite understanding by government, labor and management is a necessary coalition for such globalized and open

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economies. For instance, with every Asian economy that dependent on US as their export market more than Europe (Table 5), the region's overall vulnerability to an American recession has to be reckoned with across-the-board and not just individually.

Table 5. **Share of Asian and European exports to the US (% , 1999).**

Japan	28.8
Singapore	25.0
Hong Kong	22.1
South Korea	19.9
Thailand	19.6
German	10.3
France	8.5

Source: IMF.

That corruption is a source and cause poverty in Asia is not as farfetched and facetious as implied. In direct terms, various forms of corruption eat up resources destined for the poor from international and domestic poverty reduction programs. Indirectly, corruption lowers the economic and investment environment and foreign investment might be deterred even if unscrupulous governments and bureaucracies also seem to create opportunities and risks which excite some entrepreneurs and businessmen, However, ethics and morality should be long term values for a sustainable economic growth, development and income distribution. The arguments for good governance in terms of accountability and transparency bear repeating to contain malfeasance no matter how appealing and seductive are those of industrial policies based on political business and patronage. Democratization has to go hand in hand with the new social contract and the global and technological awareness we are highlighting for socio-political solidarity.

At another most practical and day-to-day level, neither ICT nor new economy will be of any use or good to millions of rural Asians without electricity or at tariff rates artificially high and unsustainable due to a monopoly or oligopoly as the utility provider. The yawning digital divide will be impossible or difficult to close without electrification, let alone cellular or Internet connections. In Indonesia alone, 60.7% of the 204 million population are in the rural areas with 27 telephone lines

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per 1,000 people nation wide compared to 225 in the Indonesian largest city, mobile telephones and personal computers per 1,000 at 5 and 8 respectively (International Herald Tribune, 20-1 January 2001, p 1). As Bill Gates, chairman of Microsoft, noted in an industry conference, Internet is useless to people without adequate food, education and health care, not to mention electricity.

Rapidly rising ICT has yet to yield equivalent economies of scale. While costs have gone down significantly, technologists are still arguing that incompatible mobile technologies have interfered with cellular's propagation. In rural parts, there is still very little traffic to support the large number of base stations needed. The development of the third generation (3G) cellular as a global standard proposed by the International Telecommunications Union (ITU) is unresolved as three different versions and corporate rivalry dominate. Whatever the choice, building a 3G network could cost twice the existing digital network. Developing countries are likely to hold off on the 3G, relying on technical upgrades to existing digital networks which offer Internet access even at a lower speed but lower cost. Satellites is another expensive alternative and collective buying power of rural residents to afford the plain old telephones (POTs) to create community "telecenters" may be better solution.

#### **V. Policy suggestions and implications**

Coping with globalization is not easy and domestic risks have to be securely battened. Culpability in government and business malfeasance, sins of commissions and omissions in poorly designed reform packages, worsened by legal impediments affecting implementation and weak institutions and regulation are signs of "captured" liberalization as noted (Haggard, 2000, pp 32-8). Halfway measures are neither sufficient or innocuous as accumulated policy misdemeanors accumulate and become harder to rectify without painful costs. The price paid and victims of globalization backlash are inevitably the already poor and helpless groups. Regardless of whether state sovereignty is reduced or has potential to be enhanced, states cannot give up altogether and let people fend for themselves. They have to know there are no halfway measure in dealing or adjusting to globalization.

On a positive and sanguine note, globalization also means more resources and transformative capability which can be tapped and shared as all states face the same force even if they can be differentiated as "above" or "below" effects. Based on the intrinsic assumption about competition and free trade as generally good and desirable, globalization needs greater joint efforts to ensure the

developing world does not get worse with deepening poverty from the backlash. Markets, consumption demand, resources and other supply factors still come from a large part of humanity in the developing world. The latter is also responsible for a large part of environmental resources which needs to be properly safeguarded and protected. Greater poverty and abysmal conditions will worsen these commons.

If one of the sources of globalization backlash is identified as the marginalized being left out, what can be done for them bears some rumination. Developing states are quite inadequate in bringing these groups to participate and share with the good of globalization as noted. Nonstate players such as the MNCs, TNCs, IFIs and INGOs can be harnessed as there are tremendous incentives for both profit-making and nonprofit oriented entities in helping the marginalized. The payoffs for good corporate responsibility as to systemic risks being reduced through a well designed and maintained international financial architecture or social security and safety net for all the vulnerable groups are no different be they in monetary profits or social welfare terms. It is as important to the global capitalists that sustainable systems and markets need some long term social investment as well. These are not just in traditional hard and soft infrastructures but a moral economy and global solidarity must come on board the new economy and globalization often accused of without a human face.

## **VI. Conclusion**

It is imperative that states, policy makers and all players in any poverty reduction program to one, understand and appreciate the forces and effects of globalization and two, realize that globalization is not something which can be avoided and averted. It is manifest in many aspects, from economic globalization to financial globalization, more specifically in new globalization which combines the forces of ICT and KBE. It is equally undeniable that globalization has made it more difficult to reduce poverty and the disparity is now worsened by the gap between the IT-rich and IT-poor and footlooseness of MNCs and TNCs which can scour the worldwide for the most competitive and efficient production locations.

But over emphasis on the negative impact and implications of globalization is self defeating as the resources which can be harnessed and shared to tackle the issues and problems have also increased in commensurate. However, greater economic interdependence, the externality effects of

globalization backlash and the rising role of nonstate actors which must be drawn in to reduce poverty must be recognized. Both traditional poor and the new poor as those now challenged by employment insecurity resulting from KBE and globalization magnifies the extent and scope quantitatively as well as qualitatively and issues become more complex both because of scale and speed of change due to globalization expedited by ICT.

Globalization does not, however, imply totally new set of tools and strategies to deal with poverty reduction which remain catering to basic needs as much as augmenting capabilities as in human resource development and measures to minimize human insecurity. The effects and implications of globalization have to be explained and rationalized for the marginalized groups not to demonize globalization, no matter how some INGOs seem to want to do that. A countervailing set of publicity efforts and public education to bring out the true costs and problems of globalization on poverty, income disparity and social injustice has to be addressed. Corporate and noncorporate entities must join hands with states in these efforts as any globalization backlash is as detrimental to corporate profits and markets as ballots for governments.

It seems as much a timely and opportunistic window for poverty reduction programs to address the old and new issues in one fell swoop. Human resource development and education can now be simultaneously directed at ICT and KBE to face new rather than old globalization. Structural, legal and institutional reforms and changes can be comprehensively worked together with the hard and soft infrastructure which is necessary. The challenges in terms of resources are tremendous but the dividends from a well thought out and implemented plan to tackle poverty reduction with a globalization angle in built would be as abundant.

Globalization, ICT and KBE when properly harnessed and tapped can bring new dimensions of competitiveness and efficiency to economies caught in traditional poverty traps if they seize the moment in newfound contexts. It remains to be seen whether India with its new trajectory as an IT savvy and much sought after source of IT skills can takeoff steadfastly and sustain that path. Indians have come back from Silicon Valley to seed projects and globalize India in IT areas. It could be an inspiring model as much as it could offer partnerships with other developing economies. Singapore may seemingly have coped as well as it could as among the most globalized state in Asia and there

are many areas and opportunities which it sees in India as elsewhere with the right developmental attitude.

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