

The future of globalisation

A global recession, and possibly depression, appears imminent and with it a contraction in world trade and capital flows



Alok Sheel

While globalisation may well beat another retreat, it is nevertheless becoming clear that several emerging economic and political challenges cannot be meaningfully addressed within the framework of the nation state

WITH thirteen letters, is it surprising that globalisation has such a chequered lineage? It has entailed rapid intensification of cross-border trade, services, and capital flows; greater and from movement of people and ideas; enhanced welfare through efficiency gains, greater equity and higher growth even though it may have increased income inequalities and undermined nation states. Globalisation, however, has also been linked to colonialism, underdevelopment and to external shock, with a crisis in the US housing market threatening to bring down the global economy. How far, and in what directions, will the process go in future?

The emergence of nation states towards the end of the highly localised Middle Ages was critical to modernisation. They facilitated trade and market integration, centralisation and scale economies. The imperial extension of nation states was an important element of the globalisation surge in the nineteenth century. In the twentieth century nationalist sentiment fuelled bitter conflict in Europe, as well as the anti-colonial movements that followed.

The post-colonial surge in globalisation from the seventies is led by TNCs (transnational corporations). Their individual assets now exceed the GDP of several countries. Their objectives are also coming into sharp conflict with those of nation states as they endeavour to disseminate international trade, capital, labour, modern technology, transportation and communication channels seamlessly to every flag on earth. Nation states are recovering lost space in the wake of the ongoing global financial and economic crisis. But these attempts lack conviction and in any case they find it impossible to substantially influence events without greater coordinated action.

Historical trends are rarely linear either in space or time. There are parts of the world where nationalism is just fructifying through conflict emanating in new nation states, such as in the Balkans and Africa, even as it diminishes elsewhere through post-nationalist unions such as the European Community and Asean. Indeed, civilisation itself has time and again teetered on the brink during interludes of barbarian dominance, only to surge forward at a higher plane after having seemingly regressed. Consider Europe following the collapse of the Western Roman Empire, or during the nineteenth thirties. Globalisation, likewise, beat a major retreat with the outbreak of the First World War, before resuming its triumphant march from the 1970s.

Predicting the future is consequently fraught with hazards, since history is neither linear nor a natural science. Nevertheless, just as a study of the past is a meaningful way of comprehending the present, the present in turn is a creaky window opening into the future.

One of the immediate consequences of the 9/11 attacks on the United States was to reverse the growing ease of cross-border labour mobility. However, global integration through trade in goods and services and capital flows, and at the level of ideas and interpersonal exchange, continued to expand geometrically. In recent months, however, following the unprecedented global financial crisis, a number of renowned developed country economists such as Joseph Stiglitz, Lawrence Summers, Paul Krugman, Martin Wolf and Dani Rodrick, have expressed scepticism regarding the globalisation process. Its institutional basis is seen to be weak, and perceived losses seem to outweigh gains.

For the first time in modern history per capita incomes in developed and developing countries are con-

verging. Understandably, protectionist sentiment is currently stronger in developed countries, just as it was in developing countries during the anti-imperialist interlude when the divide was widening. Workers in developed countries seem to be losing out. The greatest gains seem to accrue to non-democratic countries like China, Russia and Venezuela bent on pursuing geopolitical ends rather than enhancing welfare. The recent surge in commodity prices rekindled nationalistic fervour and temporarily reversed the long-term trend in transportation costs that made globalisation possible. There is also widespread fear that globalisation may unravel in the wake of the ongoing turmoil in financial markets and

change that threatens the very survival of the human species cannot be meaningfully abated with the nation-state framework.

Fifthly, the efficiency of regional supply and production chains is constrained by market failure in funding and managing inter-operable cross-border networks like roads, railways and energy. This can be overcome only through greater integration.

Sixthly, sovereign macro-economic tools are getting blunted as growth, inflation, tax, and now increasingly financial and monetary policies, become globally coupled, with the dollar as the global reserve currency. The dollar has emerged stronger than ever



global recession. Are these rising whispers of a retreat from globalisation a turning point in history, or yet another interlude in a relentless movement forward?

A global recession, and possibly depression comparable with the 1930s, appears imminent, and with it a contraction in world trade and capital flows. Unlike the thirties, however, when the disastrous Smoot-Hawley tariffs only compounded the problem, the macro-economic response to an impending global recession this time around is co-ordinated. This is reflected in the November 15 declaration of the Washington Summit of G-20 leaders representing over 85% of global GDP. The disastrous consequences of uncoordinated action were immediately manifested in the unilateral steps taken by some European countries rushing to guarantee bank deposits, and in divergent monetary action by the US Fed and the ECB. A global super financial regulator is unlikely in the immediate future. However, co-ordinated multilateral action on the lines of WTO to address issues arising out of escalating global capital flows is now more likely than ever. The concept of a college of national regulators to enforce common regulatory principles and accounting standards is already on the table.

While globalisation may well beat another retreat, it is nevertheless becoming clear that several emerging economic and political challenges cannot be meaningfully addressed within the nation state framework. The institutional structure that would succeed the nation state is, however, still unclear.

Firstly, a sustainable solution to the emerging energy-food (the two are becoming increasingly substitutable) imbroglio lies in greater integration of several predominantly poor agrarian countries stuck in a vicious cycle of poverty and low median incomes and developed economies constrained by fiscally damaging agricultural subsidies.

Secondly, an emerging demographic crisis is making labour mobility from young developing countries to ageing developed countries a categorical imperative.

Thirdly, the production and trade of technology, goods and services is increasingly becoming the domain of TNCs that are by definition global entities.

Fourthly, the global environmental and climate

from the current financial turmoil, despite the financial crisis emanating from the United States.

Seventhly, for the first time in modern history the balance of military power in the world has become uni-polar. War between states is yielding to state-less conflict and dissent that cannot be meaningfully addressed with the nation-state framework.

Eighthly, at the socio-cultural level, rapid advances in communications technology is fast creating a global culture through greater people to people contact. The logical corollary is diminishing of nationalist sentiment, apparent in the declining lure of military service. A brave new universal civilisation is, of course, inconceivable alongside competing cultural pulls of strident nationalism and religious bigotry. However, like nationalism, institutionalised religion (as distinct from individual spiritualism) also appears to be in long-term decline in the wake of science, reason, liberty and globalisation. Christianity has come a long way from the days of heresy, inquisition and crusades. In the Islamic world, the twin deficits of democracy and socio-economic growth may have stalled social reform, but the rise of Islamic terror could hasten reform from within in the foreseeable future.

Evolutionary biologists might see this universalising trend as disruptive since the robustness of the evolutionary process is premised on heterogeneity and hybrid vigour. Man, however, is by nature a restless and exploratory animal. The virtuous cycle of globalisation, in particular rapid technological advance, would induce man to become more extra-terrestrial oriented. Indeed, the tools of global level organisation would serve him well in any future extraterrestrial contact. This could both hasten and redefine globalisation and the evolutionary scale. Those who think the future reads like a chapter out of the science fiction serial 'Star Trek' would do well to compare man's recent advances with the writings of Jules Verne and H G Wells; or compare the crew profile of the ill-fated space shuttle Columbia with that of Starship Enterprise. The only constraint on man's future is his own imagination.

(The writer is a civil servant. Views are personal.)

LETTER FROM LONDON

SUDESHNA SEN

Xenophobia on the rise



FOR all those who think all I do is Brit-bashing, some weeks I love this country. Really. And that's got absolutely nothing to do with a freak snowfall that turned the whole place into a Holi holiday of sorts, (white, not coloured), with strangers and usually grouchy Londoners having impromptu snowfights and carousing on the streets. Before I get into major affairs, a relatively minor one.

Last week, financial journalists of the highest order faced a Treasury select committee of MPs, which is conducting an enquiry into the entire banking crisis. The issue: the role of the media in both failing to report, and aggravating the banking crisis, whether they were manipulated or reported the crisis in ways that sent shares up or down, cosy links with government and bankers, et al. Venerables like Robert Peston, BBC's business editor, Lionel Barber, FT's editor, SkyNews, Guardian and others were grilled for hours. Did you have access to preferential info? Do you think you were responsible for the run on Northern Rock? Are you afraid of legal action? And why didn't you call the bell earlier? Do you think your sources were trying to manipulate you? These are just some of the questions that had British media's high and mighty squirming. (For those of you not terribly interested in the intricacies of Whitehall activities, the Treasury select committee is questioning government, hedge funds, regulators and everyone else. Next in line are bankers themselves.)

Needless to say, the journalists insisted they had absolutely nothing to do with it. Though most have admitted, in print and public, that perhaps the media's 'dooseness' to the City may have blinded them for a while. As in they got as fooled as the rest of us. On the other side, they also got a chance to defend themselves, in public, about how the media has to work to get at the truth, especially when senior people lie to them. The best part is that every media outlet in the country is reporting, commenting, discussing, and dissecting, with intrinsically British irony and ruthlessness, this ordeal of their peers. And not one of these venerables has lost an iota of professional 'face'.

Can we imagine this ever happening in India? We get nationalistic about a masala Hollywood movie, for God's sake. To be fair, we can't ever imagine that the equivalents of Alan Greenspan, Mervyn King, or Alistair Darling also answering questions in an open—please note the key word—session. Oh well. Someday, maybe, India will be developed and confident enough to face this kind of self analysis—and live through it honourably. Development isn't always about the size of your car or diamond-studded iPhones, or the number of people who show up at elections. It's about the assurance that comes from being able to wear gardening tweeds to the ball; and be laughed at for it without getting hysterical.

To get on with matters of consequence, the major event of last week, of course, was the unusual (for England, not Scotland) snowfall that shut the whole country down. For some completely peculiar reason I fail to comprehend, it roused the ire of everyone—because London pretty much shuts down at the slightest excuse anyway, half an inch of rain, a car bomb threat, a strike, 'planned engineering' closures, almost every major holiday season, most weekends, or as the famous joke here is, the 'wrong kind of snowflakes'. Apparently this was definitely the wrong kind of snow, (that's dry, powdery, and fluffy) in much vaster quantities.

Maybe it has something to do with recession, 'cos suddenly we heard about £1.2 billion losses to the economy, why Moscow and NY can do it, why this is all terribly 'third world' and inefficient. I think it has to do with the fact that this wasn't a 'planned' closure. Brits meekly accept the worst sort of inefficiency as long as someone keeps announcing, in the best British nanny tones, that it's all 'planned'. But get annoyed when it is an act of God like unprecedented snowfall.

And then, what I really ought to be writing about this week are the wildcat strikes that flashed through the country, because Total gave a contract to an Italian company which decided to employ Italian workers instead of hiring British ones. British workers were up in arms. I'm told wildcat strikes were an integral part of this country, like betting shops, in the '70s and '80s. However, I suspect that I'm going to have to revisit the rising anti-foreigner backlash in later instalments, so for now, all I can say is it's lucky they got all anti-EU, instead of picking on us. One theory is that while they'd really like to throw all the Asians and Chinese and Japanese, et al. out, Italians are a politically correct target and unions can't be accused of racism. So yes, the anti-foreigner sentiment is very definitely rising. Undercurrents that have been buried for years are slowly rising to the surface, like scum. I just hope it doesn't get too ugly. I gotta live here. And it doesn't snow every day.

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PERSPECTIVES

For a new financial architecture



Colin Mayer

firms is far more modest than their central function in corporate governance would suggest.

Even independent chairmen appear to play a limited role. While separation of chief executives and chairmen of boards is widely advocated, there is not much evidence that it is associated with markedly greater intervention in underperforming firms.

Attention recently has shifted from directors to investors. Institutional investors in particular have been exhorted to take a more active role in the governance of firms. Shareholder activism has been trumpeted as a solution to otherwise passive investor engagement.

Any failure of financial institutions not only undermines the funding of new investment and new companies but the governance of our well-established corporations as well

There have been some examples of funds being specifically created to undertake shareholder activism. They have done exactly what other investors have failed to do, namely target underperforming companies, take shares in those firms, engage actively with the board of directors and replace management where necessary. The returns to such activity appear significant but it is only now with a substantial downturn that their performance in bear markets is being tested and it is unclear how well they will fare in these conditions.

When do directors get fired? The answer is quite clear cut. It is primarily when firms get into financial

difficulty that changes occur. Board turnover is appreciably higher not only when firms are underperforming but in particular when they face financial shortfalls. The reason is straightforward. Faced with a need to raise external finance, investors can impose conditions on additional funding being provided. One of those conditions relates to changes in control of firms.

This control that investors can exert in the presence of funding requirements applies as much to equity funding from shareholders as it does to credit from banks and bondholders. One of the conditions that shareholders frequently impose on companies requiring additional finance is that it will only be made available if there are changes in management.

Unfortunately, this cuts two ways because the other response that we know financial distress promotes is fraud. Much fraud did not set out to be as such. Many people created firms with good intentions but faced with financial distress, instead of owing up, revert to fraud as a way of supporting their activities.

The implication is that we are going to observe corporate restructuring on a massive scale over the next few years, as investors are called upon to bail out failing firms and some revert to illegal activities to avoid this. Since corporate governance and financial institutions are so closely related, good governance rests critically on a well performing financial system. The failure of financial institutions, therefore, not only undermines the funding of new investment and new companies but the governance of our well-established corporations as well.

When reflecting on how to restructure financial institutions in response to the recent crisis, policymakers would, therefore, do well to think beyond the confines of what makes for good savings and investment but also how the new financial order will affect the governance of firms. Over the last few decades, we have experimented with many forms of governance, from the closely integrated banking and corporate systems of Japan to the much more arms-length relations of the UK and US. Both have been shown to have their defects and the search is now on for a new financial and corporate governance architecture that will remedy these deficiencies and be fit for the 21st century.

(Prof Mayer is Peter Moores Dean, Said Business School, University of Oxford)

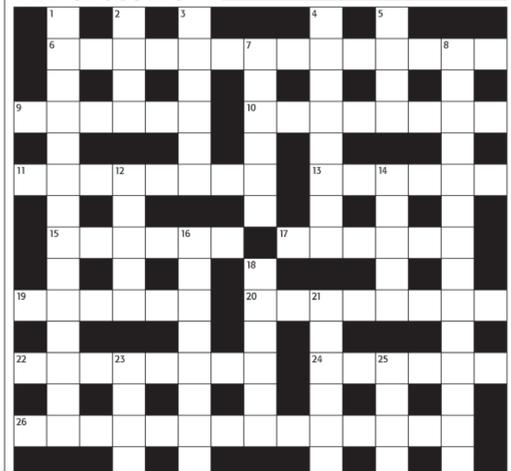
DILBERT

by S Adams



THE CROSSWORD

3596



ACROSS

- 6 Flop into water to get a lot of attention (4,1,3,6)
- 9 Aircraft reaching final point of earth perths (6)
- 10 Lively clerks go around in curls (8)
- 11 Term a man might use in preparation for war (8)
- 13 Bounder in time returning for undercover shopping maybe (6)
- 15 Kill old lady to get the estate (6)

DOWN

- 17 Turn on current to give new appearance (6)
- 19 At the sailing club they manoeuvre the cutter (6)
- 20 Politically it's a matter of choice (8)
- 22 Bit of a politician with animal backing provides words to sing (8)
- 24 Back horse and attempt to hold up signals (6)
- 26 Not finding it easy to get accepted with problems (2,12)

DOWN

- 1 A little bit off the walk and embarrassed to be in the intake (5,9)
- 2 Related to a sort of shortage (4)
- 3 Animal let out to find the herd (6)
- 4 Ties the knot with a friend, you might think (8)
- 5 Criticism of unfriendly fire (4)
- 7 Encourage to be nice and flexible about the matter (6)
- 8 Don't go up and down, just go ahead and make it! (6,8)
- 12 Acknowledge doctor's rise in the island (5)
- 14 Popularity listing of church pictures (5)
- 16 One gets the impression if you start to give a name (8)
- 18 Make the woman officer in charge of the brave (6)
- 21 Swallow last of the wine and get flung out (6)
- 23 Hurry to accept one that's had a great break (4)
- 25 You're right to hit one on the head (4)

Solution to 3595

- ACROSS: 1 Soft currency, 8 Trieste, 9 Bailiff, 11 Exhumation, 12 Bali, 14 Resonant, 16 Priest, 17 Gig, 19 Backer, 21 Negative, 24 Isis, 25 Forecaster, 27 Hapless, 28 Adipose, 29 Reestablishment.
- DOWN: 1 Slights, 2 Fishmonger, 3 Cheating, 4 Ribbon, 5 Evil, 6 Climate, 7 Uter rubbish, 10 Faint-hearted, 13 Preadamite, 15 Tin, 18 Generate, 20 Cripple, 22 Introit, 23 Dorset, 26 Fete.