

GLOBALIZATION IN THE WORLD ECONOMY

Dr. Vinod Kumar

Assistant Professor,

Sociology. Vallabh Government College Mandi Himachal Pradesh 175001 India.

Email : vinodkrmnd@gmail.com

Abstract: The word 'globalization' has now become familiar to most of us. The idea suggests that the world is undergoing an increasing process of international interdependence so that national economies as distinct entities with supreme authority within their territorial jurisdiction are becoming increasingly irrelevant. This does not mean the creation of a world or global community based on equality. Historically, the international economic system has developed on the basis of nation-states. Revolution in transport and communication, highly sophisticated industrial production technologies in the post-war period created a capitalist world market. The Bretton Woods System 'heated in the post-war period that laid down the rules for international trade and commerce, collapsed in the seventies. The nineties has seen the emergence of the process of globalization. New institutions and rules to govern world trade have come into existence in the form, of WTO - World Trade Organization. This study explains Globalization in the World economy and the institutions that have come into existence as part of the process of the globalization.

Key Words: Globalized, Economy, Financial markets, Production and Transformation.

1. GLOBALISATION -ITS MEANING AND STRUCTURES:

We must recognize the conceptual distinction between the international economy and globalized economy. 'International' economy refers to the collective is one in which process and outcome of the various national economies at the international plane. "International economy is an aggregate of nationally located functions". A wide range of international economic interactions such as financial markets and trade in manufactured goods tend to function as opportunities or constraints for nationally determined economic actions. In a global economy, as markets and production become global and interdependent, domestic policies whether of private corporations or sovereign states, have to take into account the predominantly supra - national determinants of their spheres of operation. The state has to construct national policies to cope with increasing inter-connectedness of production, markets, at the global plane. As factors of production becomes international, particularly finance, and market forces extend to the global plane, the role of the sovereign state becomes subordinate to the dictates of global markets. Another major consequence of the notion of globalization is the transformation of Multi-National Corporations - MNCs, into Transnational corporations - TNC's, as the major players in the world economy. TNC's capital has no specific national identification and with an internationalized management. it is willing to locate and relocate anywhere in the globe to obtain either the most secure or the highest returns. With the revolution in communications, capital, particularly the financial sector, a "NC could relocate itself at the touch of a button. In a truly globalized economy this would be wholly dictated by market forces, without reference to national monetary policies. A TNC can produce and market at the global level as strategy and opportunities dictated. A TNC's production-base is not restricted within one predominant national location (as with the multinational corporation), but it services global markets through global operations. Thus the TNC, unlike the MNC, is not controlled or even constrained by the policies of particular national states. This process tends to undermine the traditional notion of state - sovereignty.

2. HISTORICAL BACKGROUND:

The post-second world war period of international trade was governed by, what has come to be known as the Bretton Woods System. The great depression of the 30s and the collapse of the international monetary system were attributed to economic nationalism, competitive exchange rate, devaluations, formation of competing monetary blocs and absence of international cooperation. In July 1944, as the Allied forces were moving across France, representatives of forty four nations met at Bretton Woods, New Hampshire, to create a new international monetary order. A consensus

emerged, which underscored that, the previous monetary systems which had relied primarily on market forces had proved inadequate. United States of America, as the dominant economic and military power in this phase, assumed the primary responsibility for establishing a post - war economic order that was designed to prevent economic nationalism and encouraging free made, along with increased international interaction.

A liberal economic system, with international cooperation, was assumed to promote lasting peace. The United States and the United Kingdom, drew up a plan for new system of international monetary management. The Anglo-American plan, approved at Bretton Woods, became the first collective international monetary order that provided a basis for growing international trade, economic growth and political harmony among the developed market economies. Twenty seven years later, on August 15, 1971, President Nixon appeared on television to announce to the world the end of the Bretton Woods System, and that, the US would no longer abide by the rules and' procedures of the International Monetary Order. The successive oil crises, the growing instability in the market economies, fall in the growth rates of the industrialized countries, have contributed to the increasing trend towards, what is now termed, 'globalization' in the nineties. Before we go on to explain 'globalization' let us turn back to the Bretton Woods system and the institutions established under it, particularly the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) known as the World Bank.

3. BRETTON WOODS SYSTEM:

Under the system, it was agreed that fixed exchange rates was the most conducive to trade and economic stability. Thus all countries agreed to establish the parity of their currencies in terms of gold and to maintain exchange rates within one per cent, plus or minus, of parity. The rules further sought to encourage an open system by committing members to the convertibility of their respective currencies into other currencies and to free trade. The IMF was to be the enforcing authority of the rules and the main instrument of public international management. To facilitate post-war may, the IBRD or World Bank was created with a capitalization of \$ 10 billion and was expected to make loans of its own funds and to issue securities to raise new funds. However, the economic destruction of Europe was far too heavy and it was clear by 1947 that only the US contribution of \$570 million were actually available for IBRD lending and the credit facilities of the IMF were clearly insufficient to deal with Europe's huge deficits. In 1947 the United States stepped into fill the economic gap left by Bretton Woods and in the next two years a new international monetary system - the dollar standard - (replacing gold standard) based on unilateral American Management Development from 1947 to 1958. The US deliberately encouraged the outflow of dollars (as it had huge balance-of-trade surpluses) through various American Aid Programmes - the Marshall plan for European recovery, the Truman plan for aid to Greece and Turkey etc. Another source of dollar liquidity for the international monetary system grew out of the Cold War, i.e. the American aid to its military allies and US troop deployment across the world. The Cold War required significant military expenditures, overwhelming by the United States. Thus the dollar became the world's currency and the United States became the world's central banker, issuing dollars for the international monetary system.

The Bretton Woods Conference established the -

- International Monetary Fund (IMF) to alleviate the problems of international liquidity, i.e. to help the member countries to meet their balance of payment deficit and international monetary instability.
- The International Bank for Reconstruction and Development (IBRD) to help the reconstruction and development of various national economies by providing long - term capital assistance; and
- The International Trade Organization (ITO) to work towards the liberalization of trade.

The IMF and IBRD, known as the Bretton Wood %ins were established in 1946. The proposed ITO did not materialize. In its place came the General Agreement on Tariffs and Trade (GAIT). The World Trade Organization (WTO) of 1995 was the culmination of prolonged GATT negotiations in the earlier era within the framework of the GATT.

4. IMF : OBJECTIVES AND FUNCTIONS:

The IMF is & organization that seeks to promote international monetary cooperation and to facilitate the expansion of trade, and thus to contribute increased employment and improved economic conditions. Its membership consists of 153 countries which today account for over 80% of world trade. Membership of the IMF is a prerequisite to membership in the World Bank. There exists a close relationships between the two organizations as well %between the IMF and GATT. The IMF is a specialized agency within the United Nations system.

The important functions of the IMF are –

- To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income.
- To promote exchange - stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation.
- To eliminate foreign exchange restrictions which hamper the growth of world trade. The fund also provides loans to members to correct maladjustments in their balance of payments, without resorting to measures detrimental to national or international prosperity. The IMF thus combines three major functions : Regulatory, Financial and Consultative.

The Fund maintains a large pool of financial resources that it makes available to members temporarily and subject to conditions to enable them to carry out programmes to remedy their payment deficits. The policy adjustments that countries make in connection with the use of the Fund resources is geared to improve support credit-worthiness with other official sources and private financial markets. The Fund also helps members to coordinate their national economic policies internationally as the focus of the fund is not only on the problems of individual countries but also on the structure of the international monetary system. Sometimes, such problems at the two levels of concern for the IMF are in conflict with one another, which tends to be to this disadvantage of the weaker national economics of the world.

5. STRUCTURE:

The work of the IMF is carried by the Board of Governors, an Executive Board, a Managing Director and the staff. Each member country is represented by a Governor, on the Board of Governors, which is the Fund's highest authority, and which meets annually. A member country's voting power is related to its contribution to the Fund's financial resources, which in turn is related to its relative size in the world economy. The Board of Governors delegates, most of its powers to the Executive Board, which is responsible for conducting its business. The Executive Board is chaired by the Managing Director. Resources - The resources of IMF come from subscription by members and borrowings. Every member is required to subscribe to the Fund an amount equivalent to its quota. Each member is assigned a quota expressed in Special Drawing Rights (SDRs). Quotas are used to determine the voting power of members, their contribution to the Fund's resources, their power to determine these resources and their share in the allocation of SDRs. A member's quota reflects its economic size in relation to the total membership of the Fund. The MF is also authorized to supplement its resources by borrowing to forestall any threat to the strength of the international monetary system. The eleven highly developed industrial countries of the world have undertaken to lend to the IMF, if necessary. The states can borrow from the IMF to meet their balance of payments needs, under various policies and facilities. Those who borrow from the Fund are required to follow an economic policy programme aimed at achieving a viable balance of payments position over an appropriate period of time. This is known as conditionality and reflects the principle that financing and adjustment must go hand in hand. IMF conditionality and its adjustment programmes (Structural Adjustment or SAP) are the subject of much debate in the developing countries. These conditionalities and structural adjustment programmes /policies that have been imposed on the developing countries include withdrawal of subsidies, devaluation of currencies, privatization of economy etc.

6. INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT:

The International Bank for Reconstruction and Development was established in 1945. It has two other affiliated institutions :

The International Finance Corporation (IFC) established in 1956: and the International Development Association (IDA) established in 1960. Membership of the IMF is the principal condition for membership of the Bank.

Objectives :

The objectives of the Bank as laid down in the Articles of Agreement are –

- To assist in the reconstruction and development of the member states, by facilitating capital investments for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peace-time needs, and the encouraging of the development of productive facilities and resources in less developed countries (LDCs).
- To promote foreign investment by means of guarantees or participation in loans and other investments made by private investors, and when private capital is not available on reasonable terms, to supplement private investment by providing, or suitable conditions, finance for productive purposes out of its own capital funds, raised by it and its other resources.

- To promote long-Age balanced growth of international trade and the maintenance of equilibrium in the balance of payments, by encouraging international investment of the productive resources of members in order to raise productivity, the standard of living and conditions of labour in the various countries of the world needing such help.

7. FUNCTIONS:

The IBRD, whose capital is subscribed by its member countries, finances its lending operations primarily from its own borrowings in the world capital markets. The Bank's loans have a grace period of five years and are repayable over twenty years or less. They are directed towards developing countries at a relatively advanced stage of economic and social growth. The Board of Governors, on which each member country is represented by one Governor exercises all power vested in the Bank. The Governors of the Bank have delegated their powers to a Board of Executive Directors, which perform its duties on a full time basis. There are 21 Executive Directors who are appointed by the five members having the largest number of shares of capital stock and the rest are elected by Governors representing the other member countries. The Bank assesses the repayment prospects of its loans, and for this purpose, takes into account the availability of natural resources, the country's past debt record etc. The bank lends only for specific projects which are economically and technically sound and of a high priority in the context of its larger objectives. As a matter of general policy, it lends for projects which are designed to contribute directly to economic productivity, and normally does not finance projects of primarily social character, such as education and housing. Most bank loans have been made for provision of basic utilities, such as power and transport which are prerequisites for economic development. The Bank encourages the borrowers to procure machinery and goods for Bank-financed projects in the cheapest possible market consistent with satisfactory performance. Finally, the Bank indirectly encourages promotion of local private enterprise. In recent years the Bank has stepped up its lending for energy development, which now forms the largest part of the Bank's lending programme. Gas and oil development have also shown increasing attention in Bank lending. As economic conditions deteriorated in the third world countries in the 1980's the bank inaugurated a programme of structural adjustment lending. This lending supports programmes of specific policy changes and institutional reforms in less developed countries designed to achieve a more efficient use of resources. In 1983, the bank initiated its special action programme (SAP) for a two-year period designed to increase assistance to countries trying to cope with exceptionally difficult economic environment due to global recession. This comprised financial measures. combined with policy advice, needed to restore credit worthiness and growth.

8. GENERAL AGREEMENT ON TARIFFS AND TRADE:

An attempt to create an international organization to look after matters of trade and commercial policy were made as early as 1947. Although a charter for an International Trade Organization was drafted at the Havana Conference it was never ratified due to differences between those who wanted a free multilateral trading system and those who placed emphasis on full employment policies on a nation4,basis. However, the American proposal for a general agreement on tariffs and trade was agreed upon, and many nations signed. So emerged the General Agreement of Tariffs and Trade with no formal organization and no elaborate secretariat. It is though increasing liberalization of world trade and through GATT negotiations that the world Trade Organization emerged in 1995. The two outstanding features of GATT were the principle of non discrimination and the principle of reciprocity with the purpose of promoting fair and free international trade among members. To ensure non-discrimination the members of GATT agreed to apply the principle of MFN (Most Favored Nation) to-all import and export duties. This meant that each nation shall be treated as well as the most favored nation. However GATT did not prohibit economic integration such as the formation of free trade areas or customs unions, provided that the purpose of such integration was to facilitate trade between constituent territories and not to raise barriers to the trade of other parties. Several rounds of GATT negotiations aimed at reduction of tries and non tariff barriers to trade led to the lowering of duties on trade, involving more than two-third of the world's States.

9. URUGUAY ROUND AND WORLD TRADE ORGANIZATION:

The last round of multilateral trade negotiations known as the Uruguay Round which was the eighth round, centered around three main issues –

- Trade Related Intellectual Property Rights (TRIPS)
- Trade Related Investment Measures (TRIMS) and
- Trade in Agricultural Commodities.

The Third World countries have been by and large dissatisfied with GATT negotiations. Liberalization of trade related intellectual property rights would mean that the less developed countries would have to compete with the advanced countries or the transnational companies. TRIPS covering copyrights, patents and trademarks is likely to harm the

indigenous technology and nascent industries - particularly pharmaceutical and drug industry, GATT covers the service sector as well under TRIMS. This is likely to affect the employment conditions in the developing countries as they will be swamped by professionals from the advanced industrial countries. Agriculture is another contentious issue under GATT. While the US insisted on free trade in agriculture, withdrawal of state subsidies, EEC countries particularly France, which heavily subsidize their agriculture objected. The US threatened to use a law called super 301, under which punitive action is taken against countries which do not follow a free trade regime.

World Trade Organization:

The Uruguay Round was scheduled to be completed by 1990, that is within four years after its commencement. However, as the negotiations reached a deadlock over several contentious issues, the Director General of GATT - Arthur Dunkel intervened and proposed a draft that is known as the Dunkel Draft. also decisively called DDT (Dunkel Draft Text). The Dunkel proposals called for reduction in domestic and export subsidies, and replacement of non-tariff barriers, like quotas and quantitative restrictions by tariffs. Then proposals also called for require longer enforcement of copy rights and trade marks in case of India. Such a provision requires a change in India legislation on patents to conform to the Paris Convention. The multilateral trading system sanctioned by GATT and the Dunkel proposals maintain the predominance of the advanced industrial countries of the West in the international economy. The GATT, the Uruguay Round, and the Dunkel Draft do not take into account the role of MNCs in exploiting the countries of the third world and widening the gap between the rich and the poor in such countries as well as with in the global system. The Dunkel Draft was signed by member nations of December 15, 1993. After seven years of intensive negotiations, the new GATT agreements of Uruguay Round were ratified in December 1994 by the Indian Cabinet. The significant aspect of the GATT agreement is the establishment of the World Trade Organization (WTO) that supersedes the GATT. The 500 page agreement setting up the WTO ushers in a new era of multilateralization of world trade. The WTO has become operational since 1st January, 1995 and has a status similar to the World Bank and the IMF. The treaty is binding on all its 117 member countries, two thirds of which are less - developed countries (LDCs). The Organization is expected to be the arbiter between the trading parties and generally ensure that the rules of the game, being followed. A dispute settlement mechanism is also to be established under the WTO. As to how the LDCs (including India with its vast market) fare in the competition with powerful, industrialized countries of the west is yet to be seen.

10. POST BRETTON WOODS DEVELOPMENTS:

The significant development in the global economy since 1950 are the growth of regional economic subsystems, and the growth of multinational corporations (MNCs) which operate across national boundaries. While MNCs contribute to globalization they can also pose a threat to national economic autonomy. Within the core of the capitalist industrialized world, regional economic activity emerged in the form of west European Economy leading from a common market to European Union in the 90's; in the Pacific and South East Asia regional subsystems emerged. The emergence of a financial and securities market centred in New York, Tokyo and London is symptom of regionalization and globalization through interregional linkage. The growth of MNCs is both the cause and consequence of globalization. The emergence of world markets, and an international economic regime, provided the environment favorable to the growth of transnational firms. Initially such companies were predominantly US-based and sometimes dominated a whole sector of the global economy, imposing standards on it. The classic example is the IBM which at one time accounted for more than 80 per cent of the World Market in computers and was able to use this dominant position to define standards to maintain or increase its share of the market and / or competitive advantage. In the postwar period, the number, range and diversity of MNCs increased along with a changing balance between them in banking, oil, car manufacture and so on. This growth in the MNCs produced more complex interdependence in the global economy. It also posed difficult problems for national economies in areas of investment, capital movement and control of technology. A new managerial class - the class of corporate managers - emerged moving between companies and countries. The post-war economy clearly indicates three features - the hegemonic position and role of the US in the world economy; the decline of the less developed (or developing) countries share of world exports from 1960-70; the relative isolation of the centrally planned economies (or socialist countries) in terms of their share of world trade. These countries (i.e. the socialist economies) did not receive Marshall Aid nor join the Bretton Woods system. Their post-war recovery was followed by world wide recession, with increasing energy prices. as the oil-producing countries of the Gulf hiked oil prices. In 1971, the US suspended fixed dollar convertibility to gold, and world trade and finance moved to a system of flexible exchange rates rather than fixed parities and regulated adjustment mechanisms that had been planned originally. The end of the Bretton Woods system led to the intervention of the Central Banks of major economies in the money market to keep exchange rate fluctuations within limits and reintroduce some stability into the international system. Over the last twenty years or so the dominance of the US in the world economy has declined. However, the dollar has retained its role as the principal international currency, and this has helped it to stay at the centre of both monetary and

trade regimes. The US still remains committed to the institutions of international economic order and to multilateralism and trade liberalism. But the emergence of Western Europe, particularly West Germany, and Japan as major economic powers has to some extent altered the distribution of economic power in the post-cold war era.

11. GLOBALIZATION AND THE THIRD WORLD :

The expansion of industrial capitalism to the 'periphery' of the international economy - South Korea, Taiwan, Singapore and the neighbouring newly industrializing countries - 'South East Asian Tiger ' as they are referred to - is also another feature of the 80s . But, these countries are inhabited by less than 2 per cent of the Third World population. Throughout the 80s the gap between the rich and poor countries of the world widened and has continued to do so. The hope for a new international economic order (NIEO) through the North-South dialogue have not resulted in any improvement in the conditions of the people of the south. The belief, following neoclassical economics, that unrestricted international trade would allow the poor countries to come closer to the level of the rich, has been belied by historical experience. On the contrary, the lending policies of the World Bank & IMF, the conditionalities and structural adjustment programmes imposed on the countries of the third World - Africa particularly - have resulted in food riots, unemployment and increasing poverty in these countries. It must also be noted that international mechanisms of free trade led to inflation and recession, the deterioration of terms of trade for many European countries.

Impact of Globalization

The technological advances of the last two decades have brought about a revolution in communications and transportation eroding the boundaries between markets and nation-states. Thus, economic processes have become increasingly internationalized in a number of key spheres, like communications, production, trade, finance. New technology has also radically increased the mobility of economic units and the sensitivity of markets, and societies to one another, thus globalizing economies of the world. This has paved the way for the ideal of global free trade to be achieved through the World Trade Organization (WTO). Globalization has brought about radical changes in the production process, shifting industry from its old centres in the rich countries with high labour costs to countries of abundant cheap labour. While, earlier, labour remained a major factor of production, technology continued to render human labour redundant thus increasing unemployment and under-employment. Historically such pressures have been met by state interventions, like protectionism. However, globalization with a free market ideology removed or weakened the possibilities of state intervention - whether in the form of subsidies or protection of their internal markets. While the labour in the developed countries fear losing jobs, the third world countries hope to see increasing employment opportunities. But, when commitment to free market ideology compels governments of the west, and more particularly the third world countries, to reduce the costs of social security and public welfare, mass reduction of employment and marginalization of large sections of the society is inevitably taking place. Such social and political consequences of globalization are likely to be world-wide, with its relatively greater impact within the countries of the Third World. An important consequence of globalization is labour migration. As labour migrates to the industrialized countries of the West, or the oil-producing countries of the Gulf, in search of jobs social conflicts are on the increase. Racism in Germany and other western countries, resentment against immigrants in the Gulf by the local people are examples of this. Revolution in communications has undoubtedly brought the different parts of the World closer. Yet, that in itself is not sufficient to build a global community. An important consequence of globalization of economies is also fragmentation of societies, rise of movements of identities - ethnic, nationalist and religious. Free trade and WTO do not automatically halve the interest of the states. This is quite evident from the conflicts between the US and European countries over questions of telecommunications and satellite T.V programmes, electronic industries etc. Economic globalization should not be equated with the emergence of a Global community as a Nation. States (even after if their sovereignty has been undermined) continue to assert their priorities and interests over global interests. These conflicts tend to produce global insecurity and inter-state tensions.

12. CONCLUSION:

Globalization is a process of intensifying economic interconnectedness and interdependence of the national economies of the World. This tends to curtail the powers of the state to regulate their economies. Globalization has been a historical process. The post-war period has seen the establishment of institutions that attempted to regulate the international monetary and trade relations. These institutions are the IMF, the World Bank and the GATT . The system was known as the Bretton-Woods system. However, this system under the hegemony of the United States of America collapsed in the 70s because the United States, unilaterally, refused to abide by its rules and procedures. The subsequent oil crisis followed by the revolution in industrial production through highly sophisticated computerized methods brought about radical changes in the international economic order. The Western countries need for resources, the economic crisis and stagnation in these countries, eventually led to globalization under American hegemony. The process of

globalization has neither promoted equality among the national-states nor necessarily development for the third world countries. The transnational corporations and the industrialized countries continue to exploit and enjoy a dominant position in the global economy.

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