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Globalisation, trade liberalisation and economic development in the developing countries: An overview

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Abstract. This article examines globalisation in the historical context and also its implications for development, especially in the developing countries. Economic globalisation means where all countries are developing their economies according to homogeneous rules and regulations formulated by international organisations such as the WTO, IMF and the World Bank. Globalisation refers to the opening of national markets and integration of production and increased operations of MNCs. It simply means nation-states are not able to influence exports and imports of goods and capital. And trade liberalisation is seen as a crucial policy towards globalisation. This paper will critically analyse the theoretical justification for the policy of free trade. There seems to be no doubt that globalisation has opened up a number of beneficial avenues for those countries conducive to innovation and entrepreneurship. Yet in the developing countries the fundamental problem of unemployment, income inequality and poverty persists and a more integrated economy under current globalisation has not been successful in resolving the challenges and problems facing the people in developing countries. This study concludes that the political economy of globalisation seems to be another addition to the power of global capital over national capitalist development, which reflects crisis in capitalism due to the accumulation crisis.
Keywords. Globalisation, WTO, Free trade, Institutions, Developing countries.
JEL. F10, F13, F60.

1. Introduction

Globalisation has brought huge changes to people all over the world not always in a positive sense. The average real wages in the United States in 2012 was no higher than in 1967 (Stiglitz, 2013) and at the same time job opportunities shrank because investors in the advanced economies are reallocating industries to low wage developing countries. This gives the impression that the latter group have benefitted from globalisation. This is not entirely correct; if we exclude China then we find such impressions are not correct. In fact, such reallocation since the early 1990s has been unable to make any breakthrough in the expansion of job opportunities in most of the developing countries.

The term globalisation refers to the integration of the world's economy through trade, financial flows and know-how. It is said that the opening up of markets and later on increased global integration have played a major role in expanding international trade and economic growth across the countries. Globalisation is often used in a positive sense to explain the integration process in the world economy (Banerjee *et al.,* 2006). It is said to be an expansion of economic activities between countries in areas such as trade, foreign investment and capital flows. It also means more economic openness, but also increased flows of technology, ideas and cultural exchange among countries. Increased transactions and the integration of markets for goods, services and capital were aimed towards the formation of global

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demands and markets, while at the same time big businesses were facilitated towards globalised production setups through horizontal and vertical integration on the supply side.

The structure of the paper is as follows: the introduction discusses the issues of globalisation and lays out the aims and significance of this paper. Section 2 examines globalisation in the historical process and section 3 analyses free trade and the controversies around the term globalisation. Section 4 considers globalisation and the role of institutions, especially in developing countries and finally section 5 concludes the findings.

Drawing upon a range of theory and evidence, the study considers the implications of globalisation. This paper seeks to establish the view of how globalisation should be looked at in totality. Globalisation has been widely debated from a number of perspectives. There is clear evidence that China and other East Asian economies have experienced higher economic growth and diversion of their economies, which are claimed to be due to integration with the global economy and to pursuing free-market policies (Siddiqui, 2016a; Banerjee *et al.,* 2006).

It is relevant here to elaborate briefly on the Japanese economist Nakayama Ichiro who, during the post-war reconstruction of the country, came out as very critical of "modern theory", which saw that rapid economic growth alone would make Japan a developed nation. Ichiro was worried that economic growth that did not take into account the social and political changes accompanying it would be counter-productive and in future could create more problems than it intended to solve. Therefore, he insisted that political reform from below seemed more urgent than economic engineering from the top. Nakayama Ichiro argued that high growth can empower in an unequal society a few individuals or business groups, while leaving behind the vast majority of the people (Hein, 1994).

Large populated countries such as India, Bangladesh, China, Mexico, Nigeria, Pakistan and others (Siddiqui, 2009) have two distinct sectors: the first with modern technology, a high ratio of capital to labour, high productivity and wages; and the second with low productivity and wages. Rapid unbalanced growth could aggravate difficulties for the "dual structure" and could have serious political consequences (Siddiqui, 2017). If a country develops without the rural population into modern sectors, it is vulnerable to social unrest and authoritarian tendencies. Japan's successful post-war economic development was due to a number of factors including the Korean War, infusion of technology, aid, active industrial policy, land reforms and state intervention in the markets; and also through investment in the education and health sectors, which helped to create a skilled and productive labour force for an expanding modern economy (Siddiqui, 2015a). Recent study on globalisation by Anwar Shaikh (2016: 759) concludes "Globalization involved colonization, force, pillage, slavery, slaughters of native peoples, the targeted destruction of potential competitors, and a huge transfer of wealth into the rich countries."

The study will briefly examine globalisation in the historical context and also its implications for development, especially in the developing countries, and the historical materialism that emphasises the role of social forces.

Economic globalisation means where all countries are developing their economies according to homogeneous rules and regulations formulated by international organisations such as the World Bank, IMF and WTO. Moreover, in order to understand globalisation, we need to analyse its three key important components, namely trade, investment and finance. Foreign capital investment was important to raise profits and control over natural resources. The current globalisation is associated with the financialisation of the world economy (Siddiqui, 2008), which means expansion of financial markets, an increase in the portion of income generated by the financial sector worldwide. It also means reductions in regulatory restrictions and further fuelling of global capital flows with a profound impact on global and national economies. It seems that competition is no longer over territory, but the ability to capture market share of

high-value added knowledge intensive technology and a further rise in rent extraction arising from knowledge control by the big global monopolies (Li & Zhou, 2015).

There were two phases of globalisation. The first phase was between 1860 and 1913 and the second phase began slowly in the 1950s, but was only limited to the few developed economies of West Europe and North America. However, in the 1980s the international debt crisis and mismanagement provided an opportunity for the IMF and World Bank to impose a 'Structural Adjustment Programme' (SAP) in developing countries. The opening up of domestic markets was one key element of the SAP. Moreover, the final success came with the collapse of the Soviet Union in the early 1990s and the globalisation project received a further boost and almost the entire world's economy was open for trade and capital liberalisation (Siddiqui, 1994). The World Bank, IMF and WTO remain important institutions for global governance in which international rules are elaborated, decisions are made and agreements are reinforced.

Globalisation is not new. Actually such attempts were made by the British earlier in the second half of the 19th century and continued until the beginning of World War I, when they were an imperial power; i.e. Britain was willing to implement open trade and free flow of goods and services across borders, but after that such efforts were brought to an end. During the last quarter of the 19th century, international trade increased rapidly. The statistics show that between 1870 and 1913 world trade rose to an average of around 3.9% annually, which was much faster than the growth of world output, i.e. 2.5% annually (Maddison, 1989). Another estimate by Michie & Kitson (1995) found the growth rate for the same periods respectively averaged 3.5% and 2.7% annually. The data of the share of world trade and output is also available for selected regions. For Western countries, for instance, the share of exports in GDP rose from 13.6% in 1870 to 18.3% in 1913 (Bairoch & Kozul-Wright, 1996). However, smaller European countries such as Belgium, the Netherlands and Switzerland's share of exports in GDP was much higher than the large European countries such as Britain, France and Germany (Maddison, 1989).

The first phase of globalisation witnessed a rapid technological development and rapid transformation in communication and transportation with the introduction of steam engine, the railways, and the telegraphs in the second half of the 19th century. This also coincided with the opening of the Suez Canal in 1869, which halved the distance between London and Bombay and thus reduced both the journey time and cost of travelling.

With the advent of globalisation in the 1980s, the flow of capital was given freedom to move and international trade has been further liberalised, crossing boundaries of countries. Of course, globalisation is by no means an economic phenomenon only, but also manifests itself in a number of aspects including social, cultural, and language. However, our current study will focus largely on the economic aspects of globalisation. Ecker-Ehrhardt argues (2014:1 276) that: "Economic globalisation …has had far reaching repercussions for domestic politics by fomenting conflicts between the 'winners' and the 'losers' on a highly competitive world market, resulting from intensified exchange relations between societies."

2. Globalisation in historical process

Globalisation is not merely a contemporary event, but rather a process started long before the last decade of the 20th century; in fact it started in the 18th and 19th century with colonisation and the consequent global capital expansion. In the 19th century Marx and Engels observed the phenomenon of globalisation: "The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society… The need of a constantly expanding markets for its products chases the bourgeoisie over the whole surface of the globe. It must nestle

everywhere, settle everywhere, and establish connections everywhere. The bourgeoisies has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country" (cited in Wang, 2015).

As Stephen (2014: 918) points out: "capitalism's outward expansionary forces confront porous borders, in which the scales of political and economic processes are allowed to diverge, the control of territory is dissociated from market access, and the free development of an independent world capitalist economy can unfold. Historically, this can be taken the form of empires of free trade and regimes of multilateral liberalization. Under such conditions, divisions of labour and functional differentiation can be left to develop in tandem with state power accumulation…" He further notes: "The Allied victory in the Second World War allowed the US and its allies to shift the governance of global capitalism from a highly 'nationalized' order of neo-mercantilism to one to one of liberal multilateralism and neoliberal globalisation" (Stephen, 2014: 918).

The expansion of grain imports into the UK began with the repeal of the Corn Law in 1846 and soon after, in 1860, the signing of the Cobden-Chevalier Treaty between France and Britain led to a cut in tariffs in bilateral trade. As a result, exports in both agricultural and non-agricultural products rose to an average of 3.5% per annum between 1850 and 1913, which was much more than the average agricultural growth rate of 1.1% per annum for the same period (Rodrik, 2012).

Britain, after the second half of the 19th century, took a number of initiatives towards liberalising trade and removing barriers to trade. For example, Britain signed a trade treaty with France in 1860. Other European countries such as France, Germany and Italy brought down tariff duties to a range of 10-20%. Britain and the Netherlands continued free trade policies during this period; while the US followed trade restrictions throughout the period of 1870-1913 with a tariff rate as high as 40-50% on manufactured goods (Chang, 2002). Ha-Joon Chang found in general that the West practised protection wherever necessary, but imposed free trade on their colonies and semi-colonies.

In the colonies, European powers imposed free trade. As Nayyar (2006:139) notes, "in 1842 China signed a treaty with Britain which opened its market to trade and capped tariffs at 5%. In the 1840s, free trade was imposed on India by Britain and on Indonesia by Netherlands. In 1858, Japan signed the Shimoda-Harris treaties, persuaded by the American gunboats of Commodore Perry, to switch from autarchy to free trade: Korea followed the same path, through its market integration with Japan. Similar treaties, which put a ceiling of 5% on import duties, were imposed on most Latin American countries somewhat earlier. This was achieved through British gunboat diplomacy".

Angus Maddison (1989) calculated that India had a share of 27% of the world trade in 1700, which declined to merely 3% in 1947, the time India became independent. The reason for the sharp fall was twofold: the deliberate destruction of India's industry, especially the textile industry, and the transfer of money from India to Britain, referred to as a tribute paid by the colonial government to Britain. According to other estimate, nearly 5% per cent of India's gross domestic product (GDP) was transferred annually to Britain by various means (Siddiqui, 1990).

Prior to colonisation of the Indian economy, during the first half of the 18th century the agriculture sector was very productive, as the surplus was largely invested back into the sector and India had comparative advantage in the production of cotton textiles – cheap but high quality calicoes – which were then produced at low cost. Since the raw material was produced locally and food was cheap, all this contributed to the lower prices of cotton goods. The cotton export industries were largely located in Bengal, Gujarat, Madras and Punjab (Alavi, 1982).

Soon after the occupation of Bengal, the colonial administration had increased rents and introduced the 'permanent settlement' of the land revenue in 1793. This required payment based on the potential value of the land whether there was a good harvest or not. Between 1793 and 1814, the land revenue collection in Bengal rose

sharply from £817,553 to £2,680,000. A large proportion of the revenue generated was either transferred to Britain or spent on wars to preserve imperial interests and little was reinvested in plantations, mining and infrastructure (Alavi, 1982).

As a result, most of the surplus generated was transferred to the metropolis countries and thus they were in a position to export capital to their colonies. Some money was invested in plantations, mining, railways and the telegraph, which was to benefit the metropolis countries (Bairoch & Kozul-Wright, 1996). Moreover, the total share of British investments into Europe and the US dropped from 52% to 26% between 1870 and 1913, while at the same time capital investment in Latin America and the British colonies in Asia rose from 33% to 55% of the total for the same period (Kenwood, & Lougheed, 1994: 30).

The economic relationship between the metropolis and the colonies remained very unequal; the growth did not converge and the economic growth rates in the metropolis were much higher than their colonies – thus, such development widened the income gaps further. For example, in the colonies on average, the growth in GNP per capita only rose from –0.2% annually during 1830 to 1870 to just 0.1% annually during 1870-1890 and 0.6% during 1890-1913 annually (Siddiqui, 1990), while in the metropolis (i.e. imperial countries) corresponding growth rates were 0.6%, 1% and 1.7% annually for the same periods. The development of modern industries was largely confined to the metropolis countries and in 1870 two-fifths of the industrial production was based in Europe and North America, which further went up to 60% by 1913. As a result, a handful of industrialised countries experienced development in modern industries and technology and convergence in incomes and prices, but the same was not true for their colonies.

Therefore, the gains of economic liberalisation during the first phase of globalisation were largely confined to the metropolis countries, which were able to export capital and control high technology, while although the colonies did experience an increase in trade, at the same time they also experienced de-industrialisation. During this period new international divisions of labour emerged and the income gaps between the colonies and metropolis widened. For example, the income gaps between the metropolis and colonies was 3:1 in 1820, which rose to 7:1 in 1870 and further rose to 11:1 in 1913 (Maddison, 1989). On the one hand, colonial rule saw the rapid increase in trade and integration of the their economies with the metropolis, but on the other hand large populated countries such as China, India and Indonesia also experienced destruction of their handicraft industries and poverty (Alavi, 1982).

Rosa Luxemburg (1968) emphasised the existence of a pre-capitalist periphery and its destruction provided a rise in the demand for a capitalist sector, which is a prerequisite for accumulation under capitalism. It means the presence of a pre-capitalist sector is an "inducement" to investment. The opening up of external markets can cause a net increase in investment or consumption because the opening of new areas or regions would require more investment such as increased demands for industrial goods and transportation. However, such situation cannot go on forever, with the exhaustion and undermining of capitalist accumulation leading to stagnation and crisis.

3. Free trade policy argument

Trade liberalisation is seen as a crucial policy towards globalisation. Theoretical justification is provided for the policy of free trade and also claimed that trade liberalisation induces economic growth, and examples of East Asian economies are often cited (Williamson, 1996) as having better economic performance against the less free trade countries of African and South America. It is generalised that countries with abundant land and labour (Africa) should focus production and exports of land intensive commodities and import manufactured goods from countries that are land scarce and have abundant capital and technology (Europe), and that these countries should produce and export capital intensive manufactured goods and import land and labour intensive goods.

David Ricard’s (1819) book on the *Principles of Political Economy and Taxation* argued that by the extension of free trade or by improvements in machinery, food prices would be reduced, and wages would fall as a result, leading to a rise in profits. Ricardo suggested that each country should specialise in the production of goods for which it has comparative advantage and then trade them. Ricardo’s key argument in support of comparative advantage and free trade is based on the hope that specialising in the production of some commodity is inherently better because of the comparatively lower labour time involved in production. As Joan Robinson (1979) stated, “Ricardo’s analysis of comparative advantage is often misunderstood. The comparison is not between the costs of production, in money terms, of particular commodities at home and abroad; it is a comparison between the real costs (in terms of labour and other resources) of different commodities at home. The argument was that, when protection is taken off, resources will move from the production of commodities with high real costs (which can then be imported) to those with lower real costs so that their productivity is increased” (Robinson, 1979: 102-103).

Globalisation is based on ‘free trade’ theory that draws arguments from David Ricardo’s famous example that both England and Portugal would gain by adopting a trade liberalisation policy, meaning England specialising in the production of textiles and Portugal in wine. It claimed that by pursuing free trade consumption both countries would have higher returns than in the absence of trade. However, it did not elaborate on the fact that England’s textile industry, with its spillover links to machine tools and steam engines, had room for further productivity improvements in many other industries, while Portugal’s focus on wine had very limited spillover effects and linkages to other industry and thus very little scope for wider technological impact. As a result, Portugal’s flourishing textile industry was wiped out and England’s investors took over Portugal’s vineyards as their owners borrowed from London’s banks and Portugal became the poorest countries in Europe.

Erik Reinert (2007) criticised Ricardo’s arguments which assume that if Portugal focuses on the production of wine, then most likely it would be caught in diminishing returns and rising costs of production and later on the country would fail to industrialise and diversify its economy, which is the key for any successful transition to become developed and rich. Reinert (2007: 302) argues: “It is important to understand that … [Ricardo’s] theory represents the world economy as a process of bartering of labour hours which are devoid of any skills or other characteristics. A labour hour in Silicon Valley equals a labour hour in a refugee camp in Darfur in the Sudan. Ironically, capitalist trade theory in its purest form does not consider the role of capital; instead it is based on the labour theory of value. Therefore, it does not consider the one country’s production process might potentially absorb much knowledge and capital (like Microsoft products) while the other country’s production process might remain highly labour-intensive, processes where capital cannot profitably be employed…” (Reinert, 2007: 303).

In fact, most of the developing countries focus in the production of commodities that have generally these following characteristics: they are subject to diminishing rather than increasing returns and often the fruits of improving productivity, efficiency and fruits of learning are passed to the customers in the developed countries in the form of lower prices rather than benefiting the local producers. The developing countries often exports commodities where the key elements to achieve increasing returns to scale are absent, meaning little or no technical change and no synergies and these are ones bearing the damage.

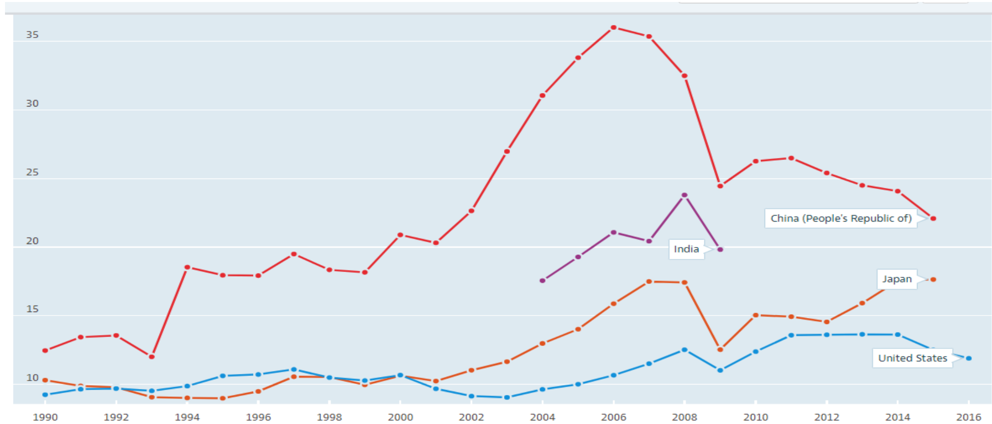

Figure 1. *Trade in Goods and Services, Exports as % of GDP, 1990 – 2016*
Source: Accessed November 10, 2017. [Retrieved from].

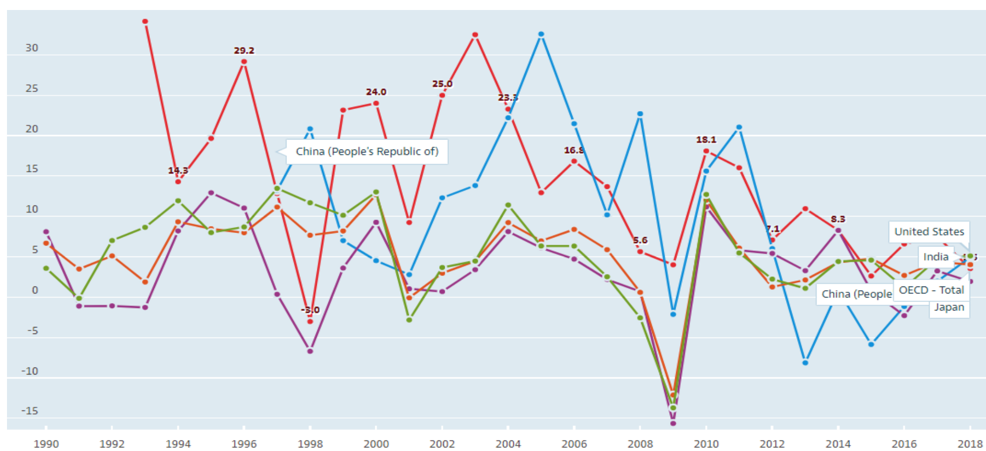

Figure 2. *Trade in Goods and Services forecastImports, annual growth rate (%), 1990 – 2018.*
Note: US shown in green colour, India in blue, OECD in orange, China in red and Japan in violet.
Source: OECD Economic Outlook: Statistics and Projections. [Retrieved from].

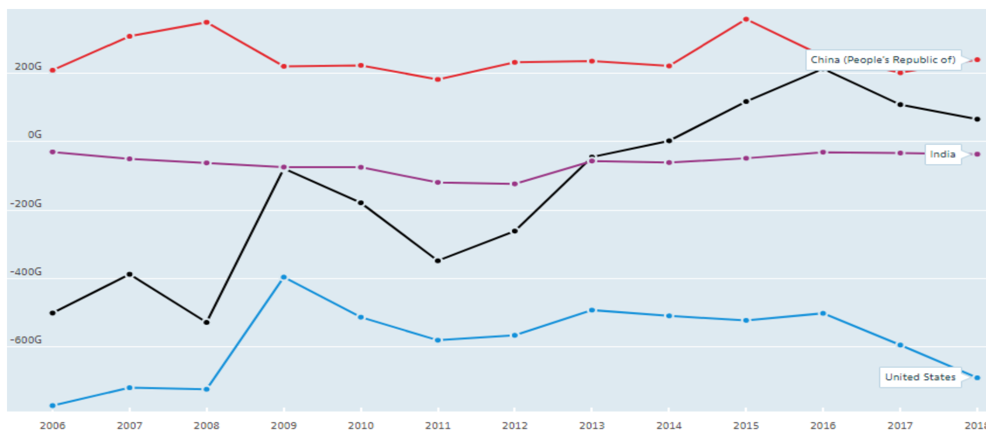

Figure 3. *Trade in goods and services forecast net trade, 2006-2018 (US$)*
Source: OECD database. Accessed November 4, 2017. [Retrieved from].
Note: China in red colour, OECD in black, India violet, and US in blue.

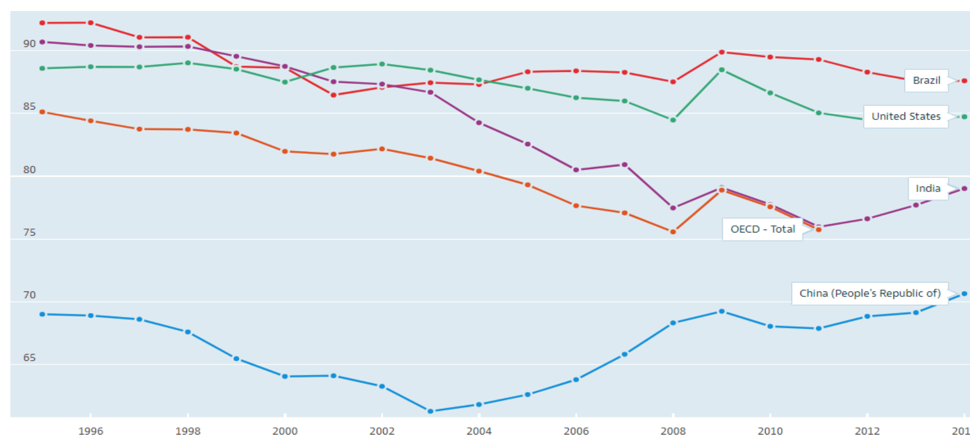

Figure 4. Domestic value added in total gross exports (%), 1994 – 2014
Source: Accessed November 10, 2017. [Retrieved from].

In the 1980s and 1990s a number of measures were undertaken by the developing countries towards pro-market reforms, including trade liberalisation and export promotions. However, in most countries imports rose much higher than exports and also not all countries experienced similar growth in international trade. As shown in Figure 1 between 1990 – 2016China's exports in goods and servicesas % of GDP rose sharply, while India's exports rose at lower rate for the same periods. Annual growth of imports for both countries rose from 2001 to 2005, but between 2005 and 2012, India's imports growth rates were higher than China (See Figure 2).

Figure 3 shows the net trade in goods and services from 2006-2018 for China seems to be a bit better, India net trade witnessed slight fall, and OECD has improved considerably, while US saw slight improvement. We also find international trade rapidly declined for all countries between 2007 and 2009,which also coincided with the global financial crisis, and after 2010 began to pick-up again. Figure 4 indicates that the domestic value added content in total gross exports as a percentage has risen sharply in Brazil, China has also improved. While India'sdomestic value added in total gross exports as percentage has declined steadily for the same period.

Moreover, the theory of comparative advantage focuses on economic growth, increased international trade, while neglecting income distribution and inequality (Zhou *et. al.,* 2011). It is known that NAFTA has brought large material gains to US and Canadian based MNCs (Multinational Corporations) and their top executives, and also to Mexican elites, but the same is not true for the workers and small producers in Mexico. The free trade deal has stimulated capital inflows and investment in certain industries and increased trade. However, Mexico's average economic growth has been much lower than other Latin American countries and wages in the manufacturing sectors have stagnated for the last two decades (Li, & Zhou, 2015).

International institutions claim that globalisation and free market policies would lead to rapid growth and higher employment and prosperity. However, after more than three decades of pursuing such policies the statistics show that globalisation and economic reforms have promoted inequality and poverty, increased economic vulnerability and consolidated economic stagnation in most of the developing countries (Zhou *et. al.,* 2011). Despite the weak empirical evidence, mainstream economists are dutifully repeating mantra that economic liberalisation promotes growth and prosperity.

Pillai's (2011) studies on globalisation concluded that low income countries had benefitted from increased opportunities for exports and imports. Other studies such as Jaumotte *et. al.,* (2013) found that the role of technology and globalisation leads in rising income inequality. They concluded that income inequality increased due

to technological changes, while the impact of globalisation was restricted to limited areas in most of the developing countries. They suggest that increased trade reduces income inequality, whereas financial globalisation, especially capital inflows, increases income inequality (Li, & Zhou, 2015).

Han *et. al.,* (2012) studied the impact of globalisation on income inequality in urban China on the basis of data for 1988-2008. China's global integration with WTO membership has widened wage inequality especially in regions that were more open for exports (Siddiqui, 2016c) and as a result such regions have become integrated with the global economy. Their studies contradict the predictions implied by the Heckscher-Ohlin (HO hereafter) model. The model claims that free trade policy will lead to convergence in incomes and prices among trading nations. For example, another study by Goldberg & Pavcnik (2007) found a widening wage gap between skilled and unskilled labourers in developing countries, which goes against the predictions made by the H-O model. They concluded that capital inflows into developing countries require the use of an increased proportion of technology which moves in favour of the increasing demand for skilled labour.

Multinational corporations occupy a commanding role and at present the largest 500 account for over 90 per cent of the world's stock of foreign direct investment and about 50 per cent of global trade. This means that MNCs are more important than ever in the past and there is no sign that this increasing trend will be reversed in the near future. Increase in the power of corporations also means a rise in profits, due to the threat of moving production to other countries, resulting in stagnation in wages, which increases inequality. As a consequence, such policies will affect the demand side and will depress aggregate consumption. The demand management under globalisation is more problematic, especially based on the nation-state. For example, an increase in fiscal expenditure will generate a balance of payments deficit and that will send the wrong signals to foreign investors, which means depressing wages is crucial to maintain attractiveness for foreign investors. For MNCs, domestic demand may be less important as they are satisfied by global markets and this is being currently experienced in India, where economic growth is not paralleled by growth in employment (Siddiqui, 2016b).

Have the developing countries really benefitted from globalisation in modernising their economies? If we look at globalisation's origin from an economic and historical perspective, we may find thatglobalisation has already had a long history within economic and social terms. Some scholars have pointed out that the advent of globalisation is no less than a miracle, enabling China "one of the globe's poorest countries" before its reforms, to "become a booming economy-second biggest in the world' in the present century" (Wang, 2015: 2060). Wang further adds, "Globalisation, especially economic globalisation, could not, however, have grown up on this poor soil without the Chinese economy having developed by leaps and bounds in the past decade" (Wang, 2015: 2060).

China is seen as one of the biggest winners of globalisation; it was due to its rapid economic growth in the past few decades, since the government began the economic reforms and opened its economy to foreign capital and technology in 1978 (Siddiqui, 2015b). It quickly adopted the regulation demanded by global companies and foreign investors. Now the country has become the second largest economy in the world, with GDP ranking second to the United States (Wang, 2015: 270). China is often portrayed as a success story of globalisation. However, the country needs to solve many emerging problems, including environmental, pollution and the sharp widening differences between rich and poor.

Initially China started with labour and resource intensive industries and later on gradually moved to higher manufacturing and electronics industries. These sectors have attracted huge amounts of foreign investment and China has established itself as a 'world factory' and has become an important player in the globalisation (Siddiqui, 2015b). The model of an egalitarian planned economy has been discarded and a market developmental model based on export-oriented economic strategy has been adopted. This strategy besides delivering massive growth has

caused a high level of pollution. It has also led to a huge income gap or the Gini Co-efficient.

There is critique of globalisation and trade liberalisation, such as that of John Pilger who argues that, "Global economy is a modern Orwellian term. On the surface, it is instant financial trading, mobile phones, McDonald's, Starbucks, holidays booked on the net. Behind this glass, it is the globalisation of poverty, a world where most human beings never make a phone call and live on less than two dollars a day, where 6,000 children die every day from diarrhoea because most have no access to clean water. In this world, unseen by most of us in the global north, a sophisticated system of plunder has forced more than ninety countries into 'structural adjustment' programmes since the eighties, widening the divide between rich and poor as never before" (Pilger, 2002: 2).

4. Globalisation and institutions

During the second half of the 19th century, there was a sharp reduction in transportation and communication costs and most parts of the world were directly or indirectly under European control and the state was able to strictly implement a set of rules to facilitate the process of globalisation. Thus, it was not 'invisible hands' of the market but 'visible hands' of the state that helped to provide guidance and support to the process of globalisation. Therefore, we find the role of the state in the current process of globalisation is missing (Girdner, & Siddiqui, 2008), as most countries are independent and some sort of responsive democracy exists, which is very different from past globalisation.

It is useful to analyse both the similarities and the differences between these two phases of globalisation. The differences between the two phases of globalisation are important to analyse here. During the first phase, inter-sectoral trade had occurred where colonies began to specialise in the export of primary commodities, and began to import manufactured goods from the metropolis. This new development led to a new international division of labour where colonies specialised in the production of raw materials, while the manufactured goods and high technology was produced by the metropolis. Nearly all colonies typically were encouraged to produce a handful of commodities where competition became intense which led to a fall in their export prices and as a result mass poverty and the occurrence of famines. As for example, Erik Reinert (2007: 99) states that "in the late 1600s, Ireland – a British colony – was about to take lead in the most important industry of the time, the production of woollen cloth. A flow of skilled Catholic immigrants from the continent had contributed to this development. English producers of woollen cloth – who in their turn were fighting a winning battle with the wool industry of Florence – could not afford to lose her comparative edge to the Irish. They successfully petitioned the English King at prohibit all exports of woollen cloth from Ireland from 1699… killing the manufacturing sector and forcing the Irish to send their raw wool to England was tantamount to reducing the country to poverty".

However, during the second phase of globalisation we find that the industrialised countries with the removal of trade barriers increased intra-trade which was based on absolute advantage. In this phase, the factor endowments and increased technological application and rise in productivity brought down prices and competition between firms became more intense. Intra-trade in manufactured goods rose rapidly as it is based on product differentiation, marketing and economies of scale.

In the first phase of globalisation there was hardly any restriction of migration and people did not require any documents to travel abroad, particularly Europeans. Between 1870 and 1914 more than 50 million Europeans left to live in North America, Argentina, Brazil, Australia, New Zealand and Southern Africa. For some European countries, emigration was huge as between 20% and 40% of their total population left the country. However, in the colonies, after the abolition of slavery by Britain, about 50 million people migrated from China and India as

indentured labour to work on the plantations, mines and railways owned by Europeans in Fiji, Mauritius, South Africa, and Caribbean and Latin American countries. However, in the second phase of globalisation, despite some European countries such as Germany inviting guest workers to work in their industries, migration was restricted and immigration laws were put in place.

The mainstream economists imply a convergence with the institutions in the developed countries and they also assumed that institutional reforms can be achieved by some sort of social engineering. However, in contrast, studies on varieties of capitalism show that institutions are not the products of social engineering but have evolved and developed historically. They have developed organically in tandem with other institutions. According to Bruno Amable, "Different economic models are not simply characterized by different institutional forms, but also by particular patterns of interaction between complementary institutions which are the core characteristics of these models. Institutions are not simply devices which would be chosen by 'social engineers' in order to perform a function as efficiently as possible; they are the outcome of a political economy process" (cited in Pieterse, 2015: 1992).

Other critiques have also pointed out that globalisation means the state has 'withered away', which seems to be incorrect. As Boris Kagarlitsky emphasises, "Globalisation does not mean the impotence of the state, but the rejection by the state of its social functions, in favour of repressive ones, and the ending of democratic freedoms" (cited in Pilger, 2002: 5). Also Amit Bhaduri argues that, "Multinational firms with subsidiaries in many countries weakened considerably the ability of governments to collect taxes, as foot loose corporations could show their profit in the countries with lower tax rates through 'creative' transfer pricing, sub-contracting and threatening to move to more hospitable climates for investment" (Bhaduri, 2014: 393-94).

The process of globalisation and political democracy in nation-states is difficult to pursue together. And capital liberalisation seems to be an important element of the current globalisation project (Siddiqui, 2016c). Economies have become global, but policies remain nation-state. Dani Rodrik (2012) argues that if a country would like to be responsive to local democratic aspirations and demands then it would be difficult to adopt some of the globalisation policies and global economic integration and he says globalisation may involve sacrificing the democratic policies of the nation-state, where the government is supposed to be accountable to the people who have elected them.

Deepak Nayyar (2015) argues that, "There are striking asymmetries. National boundaries should not matter for trade flows and capital flows but should be clearly demarcated for technology flows and labour flows. It follows that developing countries would provide access to their markets without a corresponding access to technology and would accept capital mobility without a corresponding provision for labour mobility. This implies more openness in some spheres but less openness in other spheres. The contrast between the free movement of capital and the unfree movement of labour across the national boundaries lies at the heart of the inequality in the rules of the game" (Nayyar, 2015: 50-51).

The other key difference between current globalisation and other previous attempts at globalisation is that current globalisation is characterised not just by a mobility of capital across the globe but also by mobility of production. Global corporations are trying to take advantage of the low wages prevailing in developing countries and are shifting their production activities. This is not due to meeting local demands or creating employment but to meeting the international consumers' demands.

The key supporter of globalisation is finance capital and under such circumstances the nation-state autonomy is being undermined. Governments have to be more sensitive not to upset the "confidence of foreign investors", otherwise due to lack of any restriction on cross-border capital movements, foreign capital would flow out of the country, leaving a sharp fall in investment, employment, and

a sudden economic and financial crisis (Siddiqui, 2010). Therefore, governments have to adhere to the demands of international financial capital, which favours lower taxes on corporations and "sound finances", which would mean keeping fiscal deficit low as a proportion of GDP. Thus, national governments' ability to undertake Keynesian style demand management becomes impossible.

The question arises, why is international capital is worried about fiscal deficit? It seems it is due to fears of inflation and exchange rate depreciation, because government intervention to rescue the economy could legitimise and create support in favour of government that could undermine the "animal spirit" of the capitalist.

Globalisation has encouraged a shift from the domestic market to overseas markets, later on gaining steady importance. This means not only greater reliance on the trade of goods and services but also reliance on foreign capital. Foreign capital inflow to India has risen sharply from merely US$ 0.1 billion a year during 1978-1990 to more than US$ 9.5 billion annually in 1991-2012. As a result, India has become the second largest FDI recipient after China in recent years (Siddiqui, 2016b).

Financial liberalisation, based on economic policy, which is being initiated by the developed countries, has brought radical changes both at the local and international levels (Girdner, & Siddiqui, 2008). For example, within the developed countries it has increased the influence of financial capitalism. Moreover, it may have a significant impact on the financial sovereignty of countries and how to protect the interest of developing countries seems to a be a big challenge faced by them, as their financial sectors are less developed compared to the developed countries. It seems that for the last three decades in the developed countries the financial sector has acquired greater influence, and wealth has been created largely through this sector rather than from the production of goods (Li, & Zhou, 2015).

The international credit rating agencies exert a very strong influence and among them only the three largest credit rating agencies, Fitch, Moody, and Standard & Poor, control almost 95% of global rating market share. If these international credit agencies downgrade credit ratings, it can cause severe vitality in financial markets, and that can force a government to alter its economic policy. For instance, during the global financial crisis of 2008, the credit agencies downgraded the credit ratings of Greece, Portugal and Spain and soon after these countries were forced to adopt austere fiscal policies; as a result the populations of these countries had to suffer severe socio-economic crisis. Developing countries are more vulnerable to external shocks and thus it becomes difficult to implement sovereign decisions to pursue a monetary policy according to their own national interest.

Financial sovereignty is defined as the right of countries to make decisions on financial matters and to pursue a financial policy that is suitable for the levels of the individual country's development, as financial systems play an important role in the allocation of financial resources in order to promote and develop certain domestic industries. Furthermore, a country must have policy flexibility in order to make sovereign policies regarding money supplies, interest rates and exchange rates; all these important policies should be under the control of the country's central banks for the purpose of promoting employment creation and economic development. Globalisation reduces the economic policy spacefor developing countries. Dani Rodrik (2012) argues, "... as economies grow and geographical mobility increases, the need for clear and extensive rules and more reliable enforcement becomes paramount. The only countries that have managed to become rich under capitalism are those that have erected an extensive set of *formal* institutions that govern markets: tax systems that pay for public goods such as national defence and infrastructure, legal regimes that establish and protect property rights, courts that enforce contracts, police forces to sanction violators, bureaucrats who design and administer economic regulations, central banks that ensure monetary and financial stability and so on" (Rodrik, 2012: 15-16).

Under de-regulated capital markets, currencies are competing with each other and also have options to be able keep their money in local or foreign currencies.

This leads to financial vulnerability and makes it difficult for the developing countries to manage and control macro-economic policy. As Li & Zhou (2015) emphasised, “Because of asymmetry between developed countries and developing countries with regard to the level of economic and financial development, monetary authorities in developing countries are more likely to be affected by globalisation of financial capital and financial capitalism in the formation and implementation of financial policies. Globalisation of financial capital and financial capitalism has led to a rise in the share of financial transactions undertaken in currencies such as the US dollar and euro. Consequently, the liquidity provision and the lender-of-last resort functions of the central banks of other countries, especially of developing countries, are being challenged” (Li, & Zhou, 2015:180).

It is almost impossible to have an independent monetary policy under the control of sovereign government and at the same time an open capital account and fixed exchange rates; it is possible to follow only two of the three. For example, if a country would like to have a fixed exchange rate and autonomy in monetary policy, it must give up capital mobility. In the second scenario, suppose a country chooses capital mobility and fixed exchange rate, then it must abandon autonomy in monetary policy. In the third scenario, if a country desires to have autonomy in monetary policy and capital mobility then to keep a fixed exchange rate is not possible.

There are differences across nations on the basis of history, culture, norms, level of incomes, living conditions, democratic institutions and so on. All these results create different preferences and national requirements. Therefore, we must recognise the centrality of the nation-state, which is more likely to contribute to better prospects of a global economy than ignoring the reality on the ground. John Gray (1999) described the neoliberal globalisation project as a threat to pluralism and human well-being. His arguments are based on Karl Polanyi’s ideas that the market is not a natural phenomenon or a spontaneous order but has been developed by the state’s active intervention and can only be sustained and strengthened by the state.

Globalisation has brought a number of changes, including a shift in structural power from national governments to global corporations and global markets. Under such circumstances, Keynesian demand management to achieve full employment for a national government would be difficult to maintain; and also increased capital mobility, especially under current globalisation, has rendered any effective national economic policy almost impossible (Siddiqui, 2012). National governments have to compete against other countries in order to attract foreign capital. The most important challenge experienced by the global economy is the attempt by international financial institutions and the West to impose free-market capitalism on the rest of the world (Siddiqui, 2015c). With the policy and support from financial capital separated from production could force further de-regulation of capital relations, supplying the finance from productive capital to move around the globe in search of higher profitable locations.

Globalisation has huge potential and benefits, but also enormous challenges and risks. As Joseph Stiglitz (2003) points out in the case of the 1997 East Asian crisis, where more openness and integration was seen as opportunity, while the risks were ignored and the consequences were grave: “Incomes fell by 20-30%, GDP fell by 15-20% in some East Asian countries. The IMF was supposedly created …to provide countries with liquidity to finance fiscal expenditures to reduce the magnitude of economic downturns; yet it is clear that the policies that were imposed by the global institutions like the IMF exacerbated that downturn…, the IMF had different objectives – they were not as concerned with the maintaining the strength of the economies in the region as in preventing a default against Western banks” (Stiglitz, 2003: 6).

The mainstream economists argue that capital liberalisation is that it enhances competition and disciplines the market, which is expected to have positive effects

on economic growth. However, it misses other major points, as Stiglitz (2004) warns: "During the early 1990s, for instance, throughout Latin America, capital flows… helped to finance rapid increases in consumption (both public and private). Better measures of economic performance (which would have taken note of the increased indebtedness and the transfer of ownership of assets to foreigners) might have provided some warnings that things were not as rosy as GDP indicators suggested. To that extent that governments are short-sighted, they have every incentive to take advantage of the further increases in consumption and the loosening of budget constraints that financial-market liberalization provides in a boom-putting little weight on consequences for the future" (Stiglitz, 2004: 62).

Some have claimed that globalisation has led to integrated global markets. "For production, capital flows and trade, the wold economy is increasingly one, and national markets are being replaced by global markets. Global markets are becoming the natural strategic horizon for major corporations, investors and speculators. It should not be forgotten that, not only in absolute figures but also a relative share of the world population, more people are working under capitalist relations than ever before in the history… In little more than a decade most of the non-OECD wold, comprising four-fifths of the world's population, has moved to privatize, liberalize and deregulate, and is moving to compete actively on world markets" (Went, 2002:8). However, the internalisation of the global economy is taking place unevenly because its effects on growth vary in different regions and countries. Despite various attempts, still the (not yet) world economy has not been fully integrated due to all sorts of protectionism. The labour markets in particular can hardly be said to comprise a global market.

5. Conclusion

Globalisation is seen as the opening of national markets and further integration of production and increased operations of the MNCs. It simply means nation-states are not able to influence the exports and imports of goods and capital. As Martin Wolf of the London based *Financial Times* (London) has emphasised: "It cannot make sense to fragment the world economy more than it already is but rather to make the world economy work as if it were the United States, or at least the European Union …The failure of our world is not that there is too much globalisation, but that there is too little. The potential for greater economic integration is barely tapped… Social democrats, classical liberals and democratic conservatives should unite to preserve and improve the liberal global economy against the enemies mustering both outside and inside the gates" (Wolf, 2004: 4).

The first phase of the globalisation (1860-1914) is characterised by the integration of markets and capital across countries through the exchange of goods and services and movements of labour across borders, largely in white settlement countries such as Australia, Canada, New Zealand and the United States. The second phase (from early 1980s) is characterised by the integration of production and the establishment of subsidiaries and joint ventures, mergers and acquisitions in manufacturing and services in the developing countries. We find cross-border movements of not only goods, but also capital, technology, ideas and management practices, and services, whilst more complex relations were built up in this period, most visibly in the East Asian countries including China.

This study finds that international institutions' overriding preoccupation is with higher economic growth which makes little sense without recognising that the development model produces luxury shopping malls rather than primary health centres and primary schools that ensure millions of healthy lives. Economic growth without investment in human development is unsustainable.

However, this current study has argued that free trade model is both theoretically and empirically weak. There seems to be no doubt that globalisation has opened up a number of beneficial avenues for those countries, who are conducive to innovation and entrepreneurship. In the developing countries the fundamental problem of unemployment, inequality and poverty persists and a more

integrated economy under current globalisation will not be successful in resolving these challenges and problems facing the people in developing countries. This study advocates in favour of increased investment in social sectors and to cherish the value of pluralism and national economic sovereignty.

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