

GLOBAL POLITICS

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Maidan Garhi, New Delhi**

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INTRODUCTION

What do we mean by global politics? If you look at the Course Content, you would find that there are issues and processes, forces and actors, institutions and mechanisms which operate at global level; and the outcome of these operations impact policy-making in nation-states and shape the lives of communities at the local level. Global governance and management of these issues call for concerted political action at the global level.

The first and foremost question that needs to be raised is: what is globalisation? There is no agreed definition; further, the phenomenon is multidimensional and its working is intricate. Some may even say that globalisation is not a concept or a theory rather it is a process or a set of practices. Be that as it may, the common view is that we are living in the 'age of globalisation'. Some of the salient features of globalisation therefore need to be identified. Foremost, almost all scholars writing on economic dimension of globalisation highlight the aspect of integration and intensification in the global flows of capital, technology and goods and production processes, including distribution and consumption of goods and services. Secondly, they talk of interconnectedness. Modern technologies, importantly Information Technology and the revolution in communications and transportation have facilitated close interconnectedness at economic, cultural and intellectual, and political and security levels. Thirdly, there is compression of time and space in a way that events in one part of the world have instant impacts on distant locations. Globalisation denotes the expanding scale, growing magnitude, speeding up and deepening impact of interregional flows and patterns of social interaction. Literally no one is immune from the reach and effects of globalisation. Worldwide social interaction has intensified as communities get interconnected; events in far off places have immediate and profound local impacts. Fourthly, globalisation is a historical structure of material power. It represents historical transformation in the global economy, politics and culture. It denotes a significant shift in global power equation, engendering and deepening asymmetry and hierarchy among nations and among communities and social groups within nations. It refers to shift or transformation in the scale of human social organization that links distant communities and expands the reach of power relations across the world's major regions and continents. Finally, globalisation has impacted the idea of nation and cultural identity. Globalisation is compression of the world and intensification of consciousness of the world as a whole.

What drives globalisation? There are several explanations – global capital and multinational corporations; multilateral financial institutions and the international private banks; and the governments of the advanced countries led by the US through forums such as the G-7; and above all, modern technology. Let us look at the dimension of technology as the driver of globalisation. In very broad terms, technology can be defined as the socialized knowledge of producing goods and services. Technological developments are conceived as the main facilitator and driving force of most of the globalisation processes. We are also talking of a new 'digital globalisation' these days. Digital technologies have opened the way towards global networks. Global networks are the networks in which all information and knowledge (and also the ideology), necessary for the realization, maintenance and the reproduction of the system, which is basically the capitalist system, flourish as reality. The term 'digital economy' or 'new economy' is the clearest explanation of how all these information, knowledge and ideology are

in close relation to capitalism. In other words, it is modern technology which has reinforced and strengthened global capitalism. Internet and especially e-commerce are the terms that are basically used for justifying the recent approach of techno-globalism. Techno-globalism can be summarized as the ideology which rationalizes globalism on technological grounds. This whole process presents dramatic creation, expansion, and acceleration of worldwide interdependencies and global exchanges that have occurred since the 1990s.

When did globalisation start? Can it be controlled? Can it be reformed, or reversed? Is it sort of a natural process outside the control of human agency? One hears lots of criticism of globalisation? There are no easy answers to these complex questions. There is a broad agreement that the present phase of globalisation started somewhere around the 1970s. It is a multidimensional process; and is bound to evolve through various phases. One thing which can be said with some certainty is that the present phase of globalisation, which is anchored in the philosophy of economic neoliberalism, is not sustainable. In the 1960s, Andre Gunder Frank and other dependency writers had analyzed the way international economic and power relations impede domestic national development, democratic participation and cultural effervescence. Riding modern technology and highly-mobile capital, globalisation in its present neoliberal phase has worsened many of the ill-traits that had afflicted the working of global capitalism. In the 1990s, globalisation had promised many things: employment, health, democratic participation, good governance, environmental conservation and global peace and security cooperation etc. But global reality is to the contrary; on several parameters such as poverty and inequality, it is worsening. There was hope of peace and prosperity with the triumph of liberal democracy and capitalism at the end of Cold War. Some three decades since the end of the Cold War, the world is witness to multitude of internal wars and external interventions and rise of authoritarianism, intolerance, and nationalist and nativist sentiments especially in the developed countries. Besides, globalisation has taken a heavy toll of natural resources and environment. Critics are talking of disengaging globalisation from its present neoliberal anchorage.

Rise of a global civil society and rise of new forms of resistance in defence of human rights and rights of nature are hopeful signs of alternative globalisations. It is argued that globalisation can be reformed; and the great spurt in technology, knowledge and interconnectedness can be used for the betterment of all humankind. In this context some scholars also talk of Globalisation 2.0, i.e. shift in globalisation away from its present Western orientation. Globalisation 2.0 means shift of globalisation 'from the West to the Rest' especially towards China, and Asia in general. Asia in general has become the new hub of global production and technology. Importantly a new non-Western idea of modernity is gaining wider acceptance; and new norms and values may enshrine soon international institutions of governance.

The interconnectedness, interdependence, technological advances especially in the areas information and communications, and movement of ideas, goods and services across national borders and geographic and cultural regions are realities of the present age of globalisation. Two important themes under debate are state sovereignty and cultural identity. Globalisation impinges heavily state sovereignty. The conventional wisdom that state sovereignty is immutable and inviolable is not true anymore. State sovereignty to take decisions and make policies of its choice are constrained and shaped by global institutions and processes. States

however are the only legal entities that make the international political community; they alone can decide upon and implement decisions related to economic, cultural and technological aspects of globalisation. It is sovereign states which make globalisation possible. In other words, globalisation is changing the capabilities of states, yet at the same time, state remains indispensable to the working globalisation. Thanks to globalisation, values, cultures and ways of doing things are also changing. Market forces have penetrated areas and aspects of human living which were beyond imagination until few decades ago. For example, it is possible that in some remote parts of India, state has not been able to provide school and post office as yet but one would find the ubiquitous presence of globalisation in the form of Coca Cola and potato chips.

Likewise, it was argued that globalisation will lead to the birth of a cosmopolitan global citizen committed to liberal human values of equality, freedom, tolerance. No denying, there is a new global consciousness evident in the form of concerted action in support of human rights and protection of environment etc. But, at the same time, globalisation might have produced a cultural reaction. Scholars are of the view that cultural assertion and identity politics witnessed in contemporary times could be a reaction to the cultural 'invasion' of globalisation. Modern technology of communication and information might have transformed the world into 'global village' but at the same time it has intensified the 'us vs. them' syndrome. The spread of heightened intolerance, nativist sentiments, violence against ethnic and religious groups, and the culture of exclusion and marginalization of vast segments of populations from economic, political and cultural arenas is a product of globalisation. At a popular level, the question is asked in stark terms: is globalisation a 'good' or a 'bad' thing? Does globalisation make people around the world more alike or more different? The available evidence goes either way. Apologists eulogize globalisation as a great leveler – it ushers in equality, freedom, choice, raises living standards and brings in new modern values and makes technology like smart phones part of everyday life. Skeptics raise a note of caution and argue that market dynamics dominate social and political choices and outcomes which may not be in the best interests of the nation and society. The opportunities and rewards of globalisation are spread unequally, concentrating power and wealth amongst a select group of people, regions, and corporations at the expense of the multitude. The challenge is how to make globalisation a positive force for the betterment of states and human beings?

Are there alternatives to globalisation? One big challenge is how to embed the economy back into the society. Economy must work for the well-being of the society and for not market, where it works to generate profits only for the few. Capitalism disembeds and globalisation has intensified this disembeddness of the economy. Here as an alternative to globalisation an important idea is put forth: bring the state back as a tool to make the economy work for the betterment of the society as a whole. The need for a large public sector and state regulations on trade and investment is lauded so as to check the predatory forces of global finance and business firms. Practical alternatives to globalisation, as suggested by some, are old formulas such as return to self-reliance and localized economies, working in consonance with local needs and resource endowment. It is believed that IT can be used positively to build new communities that are self-sufficient and self-reliant. In this context it is also said that international relations need to undergo change and international system need to be 'democratized': expand the ambit of global governance by bringing in NGOs in the global governance; a

new and more equitable world economic and political order with the flow of capital and technology from the north to the south; and the emerging powers be included in the global governance mechanisms such as the UN Security Council and the IMF and World Bank so as to reflect the contemporary power realities. There are varieties of reaction to globalisation. Some reject globalisation in toto; others believe in reforming it; still others who present alternative models to globalisation. In that sense, all these global resistance movements have political objectives. There is a whole lot of ideas presented enthusiastically – ranging from building participatory democracy, to localized governance (‘think global, act local’), autonomy to indigenous and local communities, gender justice, and recognition to the rights of Planet Earth and the environmental conservation. Critical analyses of globalisation come particularly heavy in their denunciation of environmental degradation cause by resource depletion, mega developmental projects, and destruction and pollution of rivers and other water resources.

Technology has helped both the forces of globalisation and those resisting it. A number of popular resistance movements all over the world include most prominently the Arab Spring, the anti-war protest against the invasion of Iraq, the Occupy Wall Street movement, World Social Forum (WSF) and popular protests at the meetings of World Economic Forum (WEF). The globalised world faces new challenges such as climate change, terrorism, poverty and economic crisis and these challenges having no borders and cannot be solved by any country or inter-governmental institutions. These can be resolved only by coordinated efforts of the forces – state and non-state actors, multilateral bodies and local initiatives. In consequence, there is focus on building new norms and mechanisms for regional governance and multilateral coordination to face challenges such as the bird flu, human trafficking, droughts and food scarcity, and cross-border water and air pollution etc. Global governance and its challenges is a theme under debate in all multilateral and plurilateral bodies.

Culture is difficult to define. Nevertheless, it is culture which enables human beings to relate themselves to nature and life; find meaning in faith and rituals; it is part of the search for the ultimate meanings that offer human beings goals and motivations. Culture enables us to describe ourselves as part of a group or community and how one group is different from other groups and communities. Besides, culture enables an individual to understand and interpret the world around him. The volume and extent of cultural transmissions in the 21st century have far exceeded those of earlier times. Facilitated by the Internet and the proliferating mobile telephonic devices, ideals and values of individualism, consumerism, and various ethnic and religious discourses circulate more freely and widely than ever before. Today, cultural practices have escaped the prison of fixed localities such as town and nation, eventually acquiring new meanings in interaction with dominant global themes. This interconnectedness of the global and the local has produced alternating realities of homogenization, polarization and hybridization of cultures.

The end of the Second World War was a watershed moment in the development of global economy and politics. It marked the onset of the Liberal International Order (LIO). Led by the US and its allies, the victorious powers of the West set out to create international institutions – political and economic – to uphold peace and security and promote monetary stability, developmental assistance and a free and fair trading system. In due course of time, they would also set up other institutions and mechanisms to check for example the proliferation of nuclear,

missile and other advanced technologies which have military-use dimension. The decade of the 1940s saw the formation of Bretton Woods institutions, importantly the IMF and the World Bank, the UN system and the General Agreement on Tariffs and Trade (GATT). The UN was established with the principal aim to ensure international peace and security through cooperation and collective security measures. The Bretton Woods Institutions were instituted for monetary and financial cooperation. While IMF aims to provide monetary assistance to economies, particularly during time of crisis; the International Bank for Reconstruction and Development (IBRD) lends to governments in order to develop their economies. A comparable International Trade Organization (ITO) could not materialize; therefore, GATT was established in 1948 as an interim treaty to encourage and lay down the norms of a liberalized trading system. In 1995, the World Trade Organization (WTO) was established and it replaced the GATT. WTO is an intergovernmental organization whose aim is reduction of tariffs and other barriers to trade among nations.

The decade of 1970s marked the rise of the age of neoliberalism. Neoliberalism is a distinctive ideology. The rise of neoliberalism marked an eclipse of the faith in the state. Neoliberals, like Milton Friedman, focus on monetarist theories which discount any significant role of the state. The idea that markets are self-regulating is central to the beliefs of neoliberals. Neoliberals say that efficient allocation of resources is the most important purpose of an economic system; and the most important way to allocate resources is through market mechanisms. Neoliberalism has greatly changed the perception about economic development. International institutions like IMF, World Bank and the UN all have endorsed the neoliberal path of economic growth. These institutions pushed their desired economic restructuring in the developing countries through structural adjustment programmes (SAPs). Developed economies have championed it for long and pushed it in the developing countries through policies of aid and assistance, loan restructuring and market access etc. Besides, the consortium of international private banks and the transnational corporations have promoted neoliberalism through their business processes and operations especially in the developing world. Broadly speaking, this coordinated approach is labeled as 'Washington Consensus'.

Multinational corporations (MNCs) and Transnational Corporations (TNCs) are a part of everyday life. In the past some three or four decades, MNCs and TNCs have become extremely powerful institutions in possession of resources far in excess of many of the nation states in the world. These corporations have become centres of power having the capability to exert influence in the international organizations, nation states, and the relations among them, and domestic economy of countries. For instance, of the 100 largest economies in the world, 51 are now global corporations; only 49 are countries. For instance, in terms of its economic size, the Japanese TNC Mitsubishi is larger than Indonesia – the fourth most populous country in the world.

One may say that TNCs are the vehicle of globalisation. Of the major contributions of TNCs to the world economy is the creation of transnational production networks, supply chains or global value chains whereby a single product is produced at different places across the globe. Among the positive aspects, TNCs are considered crucial for the stimulation of economic growth by raising exports and bringing in direct foreign investments and R&D in the host country. Critics however remain skeptical: it is said that TNCs exploit natural resources of developing countries; impose culture of superfluous consumption, create only

few jobs and produce at global level concentration of wealth and inequality. TNCs are also responsible for the spread of new cultural values and consumption habits – the so-called McDonaldization of culture.

Environmental conservation and mitigating climate change is a subject of foremost importance in the study of global politics. The Paris Climate Agreement, 2015 is a landmark development as it is an instance of global consensus on how to tackle climate change. There may be ‘outliers’ such as the US under President Donald Trump who has decided to quit the Paris agreement but climate change has convinced the world of common but differentiated responsibility in tackling the rising temperatures on account of greenhouse gas effects. Weapons of mass destruction (WMDs) could be chemical, biological and nuclear. The challenge is how to rollback these weapons and prevent their proliferation. Of great concerns is the danger of WMDs falling into the hands of terrorists and other rogue elements. Today, we are living in a world where the concept of security needs to become comprehensive. The concept of traditional security meant security of sovereign states but today security of communities and individuals are under threat from unconventional sources – trafficking in drugs, arms and human beings; terrorist networks; ‘failed’ states etc. Of these non-traditional security threats, most potent is terrorism which threatens not state and society alike. Today migration and refugee movement has become a global phenomenon. It has several manifestations and has intensified in recent times for a whole lot of reasons – economic, political and demographic and cultural. All these new and somewhat unparalleled developments in international politics have engendered a call for human security. A new concept, the idea of human security is how to secure communities and individual from fear and from want. The agenda of human security once again like several other global political developments impinges on the idea of sovereign states in international states.

The present Course entitled ‘**Global Politics**’ covers as many as 13 themes. The Course is divided into three broad sections:

The first **block-I Globalisation: Conceptions and Perspectives**. This block Comprising six themes, introduces you to major concepts such as globalisation; and brings to you perspectives on global financial and trade architecture; the operations of transnational corporations; the cultural and technological dimensions of globalisation; and the debate on state sovereignty in the context of globalisation.

The **block-II Contemporary Global Issues** identifies and discusses five major themes which are central to contemporary global politics. These themes pertain to environment and climate change; proliferation of weapons of mass destruction; migration and refugee crisis; non-traditional security threats such as terrorism; and call for human security in the contemporary discourse on international relations.

The **block-III Contemporary International Relations**: This section has two Units – one discusses and debates the myriad resistance movements to the process of globalisation. Globalisation may or may not be inevitable; but empirical evidence and theoretical constructs that build alternative approaches to globalisation are of considerable academic interest. The final Unit takes you once again to discussing the concept and reality of globalisation. No gainsaying, it is a comprehensive course which is intended to make you aware at an advanced academic level about the theoretical issues and specific themes that are central to global politics.



BLOCK 1
GLOBALISATION: CONCEPTIONS AND
PERSPECTIVES

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UNIT 1 UNDERSTANDING GLOBALISATION*

Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Meaning and Features of Globalisation
 - 1.2.1 Phases of Globalisation
 - 1.2.2 Types of Globalisation
 - 1.2.3 Digital Globalisation
- 1.3 Theories of Globalisation
 - 1.3.1 Hyper Globalists
 - 1.3.2 Sceptics
 - 1.3.3 Transformationalists
- 1.4 Globalisation and Sovereignty
- 1.5 Criticism
- 1.6 Let Us Sum Up
- 1.7 Some Useful References
- 1.8 Exercises

1.0 OBJECTIVES

In this unit, you will be reading about globalisation. After going through this unit, you should be able to:

- Explain the meaning of globalisation;
- Discuss different views on it;
- Explain its phases and types;
- Examine relationship between globalisation and sovereignty; and
- Critically comment on globalisation.

1.1 INTRODUCTION

The word ‘globalisation’ has become a buzzword popularized by media since late 1980s. After first appearing in the 1960s, the term ‘globalisation’ has often been described variously as a process, a condition, a system, a force, and an age. Globalisation is a complex and multi-dimensional concept which covers areas like politics, economy, society and culture, and technology. It is not a single process but a combination of processes which could overlap and be contradictory at times. That is why; globalisation cannot be reduced to a single theme. Some of the phenomena often associated with globalisation are: classical liberal or free market policies, superiority of western (or even American) forms of political, economic, and cultural life (westernization or Americanization), spread of new information technologies (Internet Revolution) and lastly, the trend towards global integration which means that the world is becoming a unified community without

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major social conflicts. It is because of the wider impact of globalisation on various areas that this concept is being vigorously debated.

1.2 MEANING AND FEATURES OF GLOBALISATION

A number of scholars have tried to define globalisation focusing on different aspects of this concept. According to Anthony Giddens, globalisation refers to 'intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa'. Jan Aart Scholte has argued that globalisation leads to growth of 'supraterritorial' relations among people around the world as 'transborder' connections make territorial boundaries irrelevant. David Harvey defines it as 'time space compression'. According to David Held, globalisation 'may be thought of as a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions - assessed in terms of their extensity, intensity, velocity and impact - generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power.' These definitions include interaction between local, national and international level and shrinking of time and space due to technological advances in communication and transportation leading to growing interconnectedness among people around the world. It is important to mention that globalisation does not mean subordination of local and national to global but it only facilitates an interaction between these three levels.

There are five features that can be associated with globalisation. One, it leads to deterritorialization, meaning the geographical borders become less relevant as internet and media bring the world to our homes. The happenings in one country are immediately transmitted to other countries through TV and online news. Second feature is interconnectedness. Due to blurring of geographical borders, there is growing connectivity between the actors at local, regional and global level. For example, the Islamic State of Iraq and Syria (ISIS) used online media and social networking sites to allure youths from all over the world to its cause. Young recruits sitting at their homes have been in contact with their bosses through internet which has been facilitated by growing interconnectedness between them by forces of globalisation. The popular image of globalisation is that it is a top-down process where a single global system is being established. Here, globalisation is linked to homogenization as political, cultural, economic and social diversity is being destroyed in favour of uniformity (globalisation from above). However, there is also a shift towards indigenization as western consumer goods and images have been absorbed into more traditional cultural practices (globalisation from below). Third feature is speed, as people, information, goods and services are travelling at an intensified speed which accelerates social activity. Fourth feature of globalisation is that it is a long-term process. Experts agree that globalisation is not a contemporary phenomenon as its features have existed since humanity itself, although they disagree when exactly globalisation started. Lastly, globalisation is a multi-pronged process as it impacts areas like politics, economy, culture and technology at the same time.

There are two views about what leads to globalisation. According to George Ritzer, the materialist view believes that capitalism in general or the multinational companies are the main factor behind globalisation. In contrast, the ideal view

says that globalisation is a result of changes in thinking and ideas, information and knowledge. In terms of thinking, there is a shift from local and national to global. Our knowledge base has also become global in scope. However, Ritzer argues that globalisation is a result of both material and ideal factors.

1.2.1 Phases of Globalisation

Economist Adam Smith never used the word globalisation but it is a key theme in his book, *Wealth of Nations*. His description of economic development has as its underlying principle the integration of markets over time. As the division of labour enables output to expand, the search for specialisation expands trade, and gradually, brings communities from disparate parts of the world together. The trend is nearly as old as civilisation. Features of globalisation have existed since long but academicians still debate about the starting point of globalisation. Here, there are three points of view. The first view says that globalisation is a historical process that has occurred in cycles. Second group also believes that globalisation is a historical process but it is linear not cyclic while the last group believes it is a new phenomenon.

A G Hopkins in his book, *Globalisation in World History* has talked about four phases of globalisation in history. First is archaic globalisation which occurred before the era of industrialization and rise of modern nation states. This type of globalisation was brought about by agents like tribal leaders, seafaring merchants and land traders. They helped in expansion of European and American hold over world economy. Next phase is proto-globalisation, a period between 1600 and 1800 when state system emerged. The globalizing agents in this phase were merchants and slave traders. From 19th century, the modern or the West-centric phase started which related to industrialization, imperial and colonial trends, science community and government organizations. The Post colonial phase began with the demise of colonialism in 20th century marked by emergence of supranational bodies. This phase is the result of political and business elites, immigrants and networking through Internet. M B Steger in his book, *Globalisation: A Very Short Introduction*, has given five phases of globalisation starting with pre-historic period between 10000 BC to 3500 BC. Next is pre-modern (3500-1500 BC), early modern period (1750-1500 BC), modern period (1750-1970) and contemporary system (1970 onwards). He says that distinguishable economic, social, technological and political factors in these periods have changed over time to bring about the present state of globalisation.

Scholte believes that although globalisation is historical yet it is a linear process. He has argued for three phases of globalisation. The first phase began 500 years ago, second in the second half of 19th century while the last one started in 1960 and lasts till now. The last phase, according to him is absolute globalisation. It is not only the period of electronic communication, satellites, optic cables, television, internet, expansion of global markets, activities of international organizations which interfere in everyday life but also the period of ecological problems and efforts to find their solutions.

Anthony Giddens believes that globalisation, as we experience today is not only new but revolutionary and direct in many respects. The world is spinning out of control and new technology also brings new risks. He argues that globalisation is multidimensional – as it has political, technological and cultural aspects. He also believes that globalisation is not a single but combination of many processes.

Some experts have already started to put forward the idea of Globalisation 2.0.

It means that the old western-dominated Globalisation 1.0, which had assumed the universality of one global culture, has passed. Globalisation 2.0 means the interdependence of several identities or cultures characterised by new forms of non-western modernity. China's rise as an economic powerhouse and its model of development is seen in this context as it does not focus on democracy and human rights like the Western development model.

1.2.2 Types of Globalisation

According to Andrew Heywood, the most significant forms of globalisation are economic, cultural and political.

- **Economic Globalisation** – It reflects the idea that no economy in the world is isolated today and there is an inter-locking global economy which has absorbed various economies around the world. Demise of Soviet Union acted as a catalyst for global economic integration as the last major block of countries were absorbed into global capitalist system. Economic globalisation has reduced capacity of national governments to manage their economies and to resist their restructuring along free market principles.
- **Cultural Globalisation** – This is a process by which images and information produced in one part of the world diminish cultural differences between individuals, nations and regions by entering the global flow. It has often been portrayed as the process of McDonaldization. However, culture may also constrain forces of globalisation instead of serving them as sensitivity towards local cultures is required to become a global business brand.
- **Political Globalisation** – This is evident from growing importance of international organizations which exercise transnational jurisdiction like the United Nations and European Union. Most of these organizations have come up in the post-1945 period. The inter-state emphasis of political globalisation distinguishes it from economic and cultural globalisation as they highlight the role of non state and market based actors.

David Held has highlighted the military aspect of globalisation. He has defined **military globalisation** as “the process which embodies the growing extensity and intensity of military relations among the political units of the world system. Understood as such, it reflects both the expanding network of worldwide military ties and relations, as well as the impact of key military technological innovations (from steamships to satellites), which over time, have reconstituted the world into a single geostrategic space.” He argues that globalisation in military domain has been visible in geopolitical rivalry and imperialism of great powers, evolution of international alliance systems and security structures, emergence of world trade in arms with worldwide diffusion of military technologies and institutionalization of global regimes with jurisdiction over military and security affairs. For Robert Keohane and Joseph Nye, military globalisation entails “long-distance networks of interdependence in which force, and the threat or promise of force, are employed.”

Manfred Steger has added one more dimension – **ecological globalisation**. He argues that there is an inexorable link between all humanity and the planet Earth. The Industrial Revolution has caused many ecological problems, including,

resource and food shortages, overpopulation, reduced biodiversity, pollution, and climate change. All these problems are global — the result of aggregated human action — and require a coordinated response. However, there are still debates about the seriousness of ecological issues, and, whilst progress has been made, few multilateral measures have been implemented. This phase of globalisation has been severely damaging to the environment, and action is needed now to save future generations from negative impact.

George Ritzer has added other dimensions like **religion, science and sports**. He opines that most of the world religions like Islam and Christianity are global in scope and often seek to expand their global scope. Science has become a global enterprise as its knowledge base is formed by inputs from many parts of the world and that knowledge is virtually disseminated everywhere. Sport has become global through major organizations involved in globalisation of sports like football, tennis and golf.

1.2.3 Digital Globalisation

Where is globalisation headed tomorrow? We are entering a new, digital-driven era of globalisation, which is sometimes described as ‘Globalisation 4.0.

The present phase of globalisation was facilitated by the onset of the Third Industrial Revolution. The era of internet and rapid transport and communication dawned in the 1980s. People and businesses were connected; by pressing a button on computer, millions of dollars could be transferred from one end to another of the world. E-banking and e-commerce began. What is more, internet allowed further global integration of value chains. From the sourcing of raw material to manufacturing and final consumption all became integrated. In the year 2000, global exports had reached a staggering one-fourth of the global GDP. Trade, the sum of imports and exports, consequentially grew to about half of world GDP.

Yet another wave of globalisation is upon us. The new frontier of this round of globalisation is the cyber world. The digital economy has now arrived through e-commerce, digital services, 3D printing. Technologies of the Fourth Industrial Revolution, Artificial Intelligence (AI), robotics etc are the enablers of this latest wave of globalisation. One cannot escape the effects of the technological progress unleashed by the Fourth Industrial Revolution. How this wave of globalisation powered by the technologies of the Fourth Industrial Revolution, works out is the story for the next decades. How this round of globalisation evolves and how new technologies will shape the economies and trade, politics and culture is a subject for study and analysis for the next several decades.

Meanwhile, the reaction against globalisation and its consequences is also part of the present phase. Among the left liberal political circles, there is an acknowledgement that globalisation has not benefitted all; rather it has left many behind. Rising inequality, social instability, cultural tensions, global warming etc are the legacy of globalisation. There is a global mood to fight against the ill-consequences of globalisation. Some want to reject it in toto. Conservatives who until the other day championed globalisation are also turning away from it. In US, UK and several countries in Europe, there is reaction against immigration. It is said that immigration of people who belong to different ethnic and religious communities poses a threat to the national cultures. Economic protectionist and

nationalist tendencies have become strong in US and elsewhere; it is said that other countries have taken undue advantage of liberalized trade and immigration system in the US, UK and other countries. As a result, there is spread of sentiments against globalisation both in the left-liberal and conservative political circles; and some are turning away from it.

Globalisation as an ideological political perspective seems to be on the wane in the West. Support for globalisation is now coming from China, India and other emerging economies. Emerging economies are of the view that integration into the global economy is a historic trend. The solution is not to reject economic globalisation; rather to make it inclusive and equitable.

Check Your Progress Exercise 1

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) What is meant by globalisation and what are the causes behind it?

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2) Explain the concept of digital globalisation.

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1.3 THEORIES OF GLOBALISATION

Being a deeply controversial subject, there are three main perspectives on whether globalisation is happening or not. There is a sense that the pro- versus anti-globalisation debate is no more than a revision of the older and familiar debate between capitalism and socialism since globalisation has a free market orientation. However, this debate is new in the sense that it recognizes the fact that there are no viable alternatives to market structures and the choice is between neoliberal globalisation and regulated globalisation.

1.3.1 Hyper Globalists

The first wave of globalisation theory is called ‘hyper’ globalist account of the economy as it indicates that national economies have become less significant due to increased role of capital mobility, economic interdependence and multinational companies. The proponents include Francis Fukuyama (*End of History*), Thomas Friedman (*World is Flat*) and Kenichi Ohmae (*End of the Nation*)

State). They argue that political restrictions on movement of money have decreased due to technological changes like computerization of financial transactions. They believe that the current phase of globalisation spells doom for nation-states as it leads to “denationalization” of economies. That means the national boundaries will become irrelevant with respect to economy and the national governments will have to facilitate connections among and between different parts of the world through supranational organizations such as European Union. This means that economic changes are leading to political and cultural changes. Nation states tend to have lost their power, influence and even sovereignty as they have to design their policies keeping in mind the needs of mobile capital. This has implications for social democracy and welfare state as they are downsized to give more space to business interests. This also leads to decline in national culture as people around the world consume global culture. Politically, nation states give way to international organizations such as the UN and International Monetary Fund (IMF). Hyper globalists believe that transnational, global forces lead the way ahead of nations in terms of economy, politics and culture.

1.3.2 Sceptics

The second wave is associated with the sceptics who believe there is little new about globalisation and its impact is being exaggerated for political reasons. Its main proponents include Paul Hirst and Grahame Thompson (*Globalisation in Question: The International Economy and Possibility of Governance*). Karl Marx had pointed out the international character of capitalist organizations in mid-19th century. Sceptics see globalisation not as a revolutionary technological and economic force but as an ideological tool used by theorists and politicians to further the interests of corporate. They opine that there is evidence to show continued role of nation states at the national and international level. In cases of the core (developed world), states continue to be powerful in North America and Europe. There has been resurgence of nationalism as old nations come under stress from globalisation. Sceptics also argue that national identities have a history which holds the popular imagination and global culture cannot replace national culture. Economically, sceptics have said that globalisation has not been received evenly everywhere and there is differentiation in its spread. For instance, countries in Sub-Saharan Africa are much less integrated with the global economy compared to powerhouses like East Asia and Europe. Poverty and inequality in many parts of Africa has increased due to globalisation. Culturally, sceptics say different nations respond to globalisation differently. McDonalds may have spread across the globe but it has to use ingredients in its dishes according to local customs. (For instance, they make shrimp burgers in Japan and kosher burgers for its Jewish customers). The analysis of sceptics leads to conclusions that stress aspects like power, inequality, conflict and importance of nation states.

1.3.3 Transformationalists

The third wave consists of transformationalists whose position lies between hyper globalists and sceptics as they paint a complex picture of globalisation where it is seen as happening but without sweeping away everything with it, as argued by globalists. David Held and Anthony McGrew (*The Global Transformations Reader: An Introduction to the Globalisation Debate*), Anthony Giddens (*Runaway World*) and Ulrich Beck (*Risk Society*) are main supporters of this

argument. According to them, national economic, political and cultural forces are being transformed to share sovereignty with other entities due to problems like environment, drugs, crime and developments in international transport and communication. Global inequality has moved away from core-periphery binary to a three tier structure that also includes a middle group of countries in Asia and Latin America which have seen significant growth to be more integrated in global economy. Politically, the nation state is no more self-governing, autonomous unit and authority is more diffused. States are seen as activists and their power is not diminished but is being reconstituted. In cultural domain, national culture like films, food, religion and fashion is so infused with inputs from international sources that national culture is no longer distinct from global culture.

The table below summarises the three theoretical perspectives on globalisation. The three perspectives are slightly modified and are called Globalist, Traditionalist and Transformationalist.

Check Your Progress Exercise 2

- Note:** i) Use the space given below for your answer.
ii) See the end of the unit for tips for your answer.
- 1) Explain the Hyper globalist view on globalisation?

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1.4 GLOBALISATION AND SOVEREIGNTY

In general sense, sovereignty means the absolute authority a state holds over a territory and people as well as independence internationally and its recognition by other sovereign states as a sovereign state. This definition includes internal and external aspects of sovereignty. Internally, the state is the supreme authority within its territory which makes laws and commands obedience from its citizens. It also has the authority to punish offenders and has monopoly over use of force. Externally, the sovereignty of a state should be recognised by other states to ensure territorial integrity. This ensures equality among different states in international relations and also ensures there is no external interference in the domestic affairs of a state.

However, forces of globalisation exert pressure on sovereignty of states in a number of ways like erosion of sovereignty, increasing role of non-state actors, sub-national groups and different types of trans-national flows. Well known Japanese business strategist, Kenichi Ohmae argues that the nation state may be still a player in global politics but it has lost its capacity to control its national economy. This has led to rise of region-state which comprises of communities situated across borders based on a regional economic centre. He argues that it is the market which determines who belongs to and who has been excluded from citizenship. He says that notion of citizenship without market has no meaning.

He further argues that the modern nation-state itself—the artefact of the eighteenth and nineteenth centuries—has begun to crumble. Giddens agrees by saying that nations have lost the sovereignty they once had, and politicians have lost their capability to influence events. The era of the nation-state is over, according to him. David Held has given five areas where globalisation undermines sovereignty - hegemonic powers and power blocks, the world economy, the end of domestic policy, international organizations and international law. With rise of security blocs like North Atlantic Treaty Organization (NATO) and Collective Security Treaty Organization (CSTO), there are clear cut restrictions on foreign and security choices that can be exercised by the member states. In the world economy, organizations like IMF, World Bank and the multinational corporations apply certain pressures on state governments. IMF and World Bank want state governments to restructure their political and economic aspects before seeking assistance from them. Such developments have reduced the space for nation states to formulate their domestic policies. In the international organizations, there are new forms of collective decision making which involves states, inter-governmental organizations and even transnational pressure groups further restricting sovereignty. Lastly, recognition of human rights in international law can come in conflict with national governments who do not respect human rights and could even invite humanitarian intervention from the international community. The other dimension of sovereignty relates to internal supremacy of the state over all its individuals and groups. This monistic or Austinian understanding of sovereignty is already coming under stress due to globalisation. Pluralists argue that internal sovereignty of state will be more diffused between the state on one hand and civil society and the rights of federating units on the other hand. The technical advances like mobile phones and internet are making citizens active and shifting power from the state to civil society groups.

One can say that these developments recast the role of institutions associated with state. This means that globalisation is not eroding sovereignty but transforming it. The sovereignty mainly resides in the state but it can also be located in multiplicity of actors beyond the state like the World Bank, IMF and European Union etc. Globalisation tends to undermine the state capacity to maintain its boundaries and exercise sovereignty; yet in the near future, territorial state will remain a reality. Paul Hirst argues that a world economy with a high degree of trade and investment is not necessarily a globalized economy and in such a system nation states have a crucial role to play especially in providing governance of the economy. He further observes that so long as nation-states remain important, sovereignty would remain relevant, although its role and manifestation has altered.

Check Your Progress Exercise 3

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) How does globalisation undermine sovereignty?

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1.5 CRITICISM

Globalisation leads to entrenched forms of inequality giving rise to winners and losers. In 2018, Oxfam reported that the 26 wealthiest individuals in the world had a combined wealth equal to that of the bottom 50 percent of the world's population, or about 3.8 billion people. Poor are also taxed more: only 4 cents in every US dollar of tax revenue comes from taxes on the wealthy. In the game of globalisation, industrially advanced countries in Europe and the US have been the winners while the losers are the developing and least developed countries where wages are low, regulation is weak and production is oriented towards global rather than domestic markets. This leads to north-south divide as the industrial development is concentrated in northern hemisphere (developed countries) while disadvantage and poverty are mainly found in southern hemisphere. After the global financial crisis of 2007-08, a new term has become popular – deglobalisation. Attributed to Walden Bello, deglobalisation signals rollback of globalisation as trade and investments between countries decline. He further argues that it is not a synonym for withdrawing from the world economy but transformation of global economy from one integrated around the needs of transnational corporations to one integrated around the needs of peoples, nations, and communities. US President Donald Trump's policies and Brexit suggest that there is increasing trend towards deglobalisation resulting in nationalism. There is rise of nationalist sentiment around the world due to a number of reasons that range from economic hardships, issues with mass immigration to a desire for change.

Globalisation is associated with increased risk and uncertainty as highlighted by Andrew Heywood. Ulrich Beck has talked of a risk society where tradition, community and established institutions are weakened leading to increased individualism. As all the fixed points are undermined, it raises questions over people's basic identity and values. Globalisation also is seen as a catalyst for environmental crisis. By emphasising mass production, profit and consumerism, globalisation exerts pressure on environment. Achieving state action to tackle climate change has become difficult as it involves sacrifices and could impede economic growth as well.

Globalisation also has negative impact on democracy. By concentrating economic and political power in the hands of transnational corporations, democracy empowers them to escape democratic control. They have the capacity to relocate production and capital from one country to another and as a result, developing countries may not be in a position to influence their decision making. Another cause of concern is that the pace of economic globalisation is faster than political globalisation. Economic activity does not give any attention to national borders but politics continues to operate within national borders while the international institutions of economic governance like IMF and World Bank are too weak to hold global capitalism to account.

Noam Chomsky has criticized neo-liberal globalisation dominated by the US and its economic interests. Such globalisation, says Chomsky, is largely sponsored by the US and is designed to further its interests as well as those of American corporations and the "haves" within the US, not the masses. He also argues that neo-liberal globalisation does not enhance, but rather undermines democracy as it enhances the power of the interlinked corporate and state leaders who exert

control over the economy, and much else, without being answerable, accountable to the people. Privatization, “reduces the arena of potential democratic choice” according to Chomsky.

1.6 LET US SUM UP

Globalisation is a complex and multi-dimensional concept which covers areas like politics, social, economy, culture and technology. It is not a single process but a combination of processes which could overlap and be contradictory at times. That is why, globalisation cannot be reduced to a single theme. There are two views about what leads to globalisation. The materialist view believes that capitalism in general or the multinational companies are the main factor behind globalisation. In contrast, the ideal view says that globalisation is a result of changes in thinking and ideas, information and knowledge. Some experts have already started to put forward the idea of Globalisation 2.0. It means that the old western-dominated Globalisation 1.0, which had assumed the universality of one global culture, has passed. Globalisation 2.0 means the interdependence of several identities or cultures characterised by new forms of non-western modernity. China’s rise as an economic powerhouse and its model of development is seen in this context as it does not focus on democracy and human rights like the Western development model. Forces of globalisation exert pressure on sovereignty of states in a number of ways like erosion of sovereignty, increasing role of non-state actors, sub-national groups and different types of trans-national flows. David Held has given five areas where globalisation undermines sovereignty - hegemonic powers and power blocks, the world economy, the end of domestic policy, international organizations and international law. One can say that these developments recast the role of institutions associated with state. This means that globalisation is not eroding sovereignty but transforming it. The sovereignty mainly resides in the state but it can also be located in multiplicity of actors beyond the state like the World Bank, IMF and European Union etc.

1.7 SOME USEFUL REFERENCES

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1.8 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) Your answer should include following.
 - Definitions of globalisation by David Held, Anthony Giddens and J A Scholte.
 - Materialist and Ideal view on occurrence of globalisation.

Check Your Progress Exercise 2

- 1) Your answer should include following.
 - Views of Francis Fukuyama, Thomas Friedman and Kenichi Ohmae.
 - Denationalization of economies.
 - Decline in national culture.

Check Your Progress Exercise 3

- 1) Your answer should include following.
 - Erosion of sovereignty, increasing role of non-state actors, sub-national groups and different types of trans-national flows.
 - David Held's five areas where globalisation undermines sovereignty.

UNIT 2 STATE SOVEREIGNTY AND JURISDICTION*

Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Sovereignty
- 2.3 Jurisdiction
- 2.4 Globalisation
- 2.5 Effects of Globalisation
 - 2.5.1 Globalisation and Economic Sovereignty
 - 2.5.2 Globalisation and Political Sovereignty
 - 2.5.3 Globalisation and Cultural Sovereignty
- 2.6 Jurisdiction in a Globalized World
- 2.7 Let Us Sum up
- 2.8 Some Useful References
- 2.9 Answers to Check Your Progress Exercises

2.0 OBJECTIVES

In this Unit, you will be reading about state sovereignty and its jurisdiction. At the end, you would be able to understand:

- The meaning of state sovereignty and jurisdiction;
- The effects of globalisation on state sovereignty and jurisdiction;
- Impact of globalisation on political, economic and cultural sovereignty; and
- Analysis of state jurisdiction in a globalized world.

2.1 INTRODUCTION

A nation-state is also commonly called a 'country', a 'nation', or a 'state', but, it is a specific form of sovereign state (a political entity on a territory) that is guided by a nation (a cultural entity), and which derives its legitimacy from its citizens. The *Compact OED* defines 'nation-state' as a sovereign state of which most of the citizens or subjects are united also by factors which define a nation, such as language, common descent, culture and history. The nation-state implies that a state and a nation coincide.

It is also said that the nation is the only legitimate political community, and therefore it is the highest form of political organization. Indeed, national sovereignty is usually understood to be the cornerstone of international law, giving each nation the right of self-defence and to determine its own destiny.

The modern state has a territorial base. This means that the state exercises its authority within its territorial borders which are acknowledged by other states.

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The modern 'nation-state' tries to bring together the state, the society and the economy under the ideology of nationalism.

The concept of sovereignty is one of the central concepts of modern nation state. However, due to the processes of economic globalisation as well as legal and political universalism, contemporary political theory struggles to account for the exercise of state power in terms of the traditional understanding of sovereignty. The renewed interest in the concept of sovereignty in contemporary political philosophy should come as no surprise to observers of recent developments around globalisation and the rise of supranational and transnational entities. In its traditional meaning, elaborated by early modern theorists of the state like Jean Bodin and Thomas Hobbes, sovereignty means supreme, indivisible and absolute power within the bounded territory of a state.

2.2 SOVEREIGNTY

Sovereignty means absolute and unlimited power of the state within its territorial boundaries; here, it is both supreme legal authority and unchallenged political power. In the form of internal sovereignty it refers to the distribution of power within the state, and leads to questions about the need for supreme power and its location within the political system. In the form of external sovereignty, it is related to the state's role within the international system and whether or not it is able to operate as an independent and autonomous actor. The sovereignty of modern states is reflected in the supremacy of law; others such as family, club, trade union, private business etc., can establish rules which command authority, but only within limits defined by law as stipulated by the sovereign state.

The principle of sovereignty underlies the modern international system of states. The origins of this system are often traced in scholarly and popular literature to the Peace of Westphalia – a series of treaties signed in 1648, which ended Europe's religious wars. The 1648 treaty resulted into the coining of a principle known as Westphalian sovereignty which simply meant that each nation state has sovereignty over its territory and domestic affairs and to the exclusion of all external power. It simply means that there should be no interference in domestic affairs from another country and all states are equal in international law. Westphalian sovereignty located supreme legal and political authority within territorially delimited states, which claimed to be coterminous with the nation.

The system of states is organized around the central model of sovereignty. A sovereign state has territorial integrity and its law making authority is unquestionable. It has total control over its internal affairs within its territory and the legal right to govern its people. A sovereign state will brook no interference from another nation-state.

Internal sovereignty refers to the internal affairs of the state and the location of supreme power within it. External sovereignty refers to the state's place in the international order and therefore to its sovereign independence in relation to other states. A state can be considered sovereign over its people and territory even when no sovereign figures in its internal structure of government for some time. External sovereignty can thus be respected even though internal sovereignty may be a matter of dispute or confusion. Moreover, while questions about internal sovereignty have, in the present age of democratic governments, appeared to have become increasingly out dated, the issue of external sovereignty has become

absolutely vital. Indeed, some of the deepest divisions in modern politics involve disputed claims to such sovereignty.

2.3 JURISDICTION

The jurisdiction of a state originates from state sovereignty, and is an important and central feature of it. It is the authority of a State over persons, property and events which are mainly within its territories (land, national airspace, internal and territorial waters). This authority involves the powers to prescribe the rules of law, to enforce the rules of law and to adjudicate. The powers related to State jurisdiction raise the question regarding the types and forms of State Jurisdiction. State jurisdiction may extend beyond its territory over persons and entities which have a national connection such as business firms. This extension raises the question regarding the grounds or the principles upon which the State can assert its jurisdiction within and beyond its boundaries. A state is entitled to make binding laws within its territory. It has a legislative exclusivity in many areas. This supremacy is entrusted to constitutionally recognized organs.

Although legislation is primarily enforceable within a State territory, it may extend beyond its territory in certain circumstances. International Law, for example, accepts that a State may levy taxes against persons not within its territory as long as there is a real link between the State and the proposed taxpayer, whether it is nationality or domicile. Generally, since States are independent of each other and possess territorial sovereignty, they have no authority to carry out their functions on foreign territory. No State has the authority to infringe upon the territorial sovereignty of another State. In this sense, a State cannot enforce its laws upon foreign territory without the consent of the host State; otherwise, it will be liable for a breach of International Law.

When the Westphalian doctrine of absolute sovereignty was prevalent in the late nineteenth and early twentieth century, it was commonly assumed that the autonomous decisional powers of constitutionally independent sovereign states could not and would not be weakened by their activities in international institutions. International law was essentially concerned with forestalling conflicts and confirming the independence of national jurisdictions. Until the end of the Second World War, legally speaking, states were considered sovereign in an almost absolute sense, exercising supreme authority over the people and resources living in their territories.

Check Your Progress Exercise 1

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Explain the external dimension of state sovereignty.

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2.4 GLOBALISATION

The Unit-1 explained to you the meaning and features of globalisation. At a general level, one can say that the post-1945 period has been characterized by a marked trend towards globalisation, reflected in the growth of economic interdependence as national economies gradually got incorporated into a global economy. Besides, the period is also marked by the emergence of supranational bodies such as the United Nations, the World Trade Organization and the European Union. The state exercises its sovereignty in three important spheres: political and legal sovereignty, economic sovereignty and external sovereignty. All are impacted by the globalisation process.

As Unit-1 described in details, with globalisation, borders of sovereign states become more fluid with the impact of electronic and other flows such as money transfers, satellite communications, computer data flow, capital flows and merchandise trade. The contemporary state is unable to control phenomena such as global companies, global production and trading, movement of people – immigrants refugees etc. Globalisation has also loosened some important cultural and psychological underpinnings of state sovereignty. For example, with the help of global communication supra-territorial bonds and solidarity have been created among a diverse range of groups, from women's movements to environmentalists. There is strong evidence that globalisation challenges the very state and its idea of sovereignty. According to John Naisbitt, "the international society is being transformed from an industrial society to an information society. Virtually all nation-states become part of a larger pattern of global transformations and global flows. Goods, capital, people, knowledge, communications and weapons, as well as crime, pollutants, fashions and beliefs, rapidly move across territorial boundaries. It has become a fully interconnected global order...."

2.5 EFFECTS OF GLOBALISATION

Sovereignty of modern states is a much discussed issue in the era of globalisation. National sovereignty is severely undermined because the state can no longer control the movement of resources, people and cultural influences across its borders. The need of the hour demands a growing interdependence of economic and cultural life. The state no longer has control over transnational movements of people, ideas and resources across its sovereign territories.

Three ways that globalisation has affected sovereignty. First, the rise of international trade and capital markets has interfered with the ability of nation-states to control their domestic economies. Second, nation-states have responded by delegating authority to international organizations. Third, a 'new' international law, generated in part by these organizations, has placed limitations on the independent conduct by sovereign states of their domestic policies.

2.5.1 Globalisation and Economic Sovereignty

Economic globalisation has ensured that no national economy is an island. All national economies are more or less invested into an interlocked global economy. The interconnectedness of markets, finance, goods and services, and the links created by the transnational corporations are the consequences of economic globalisation. Though international trade has been going on since centuries, but

the expanse and pace of trade and global investment has increased manifold in the recent times. Economic globalisation has accelerated due to advancements in information technology which has made movement of money, decisions and ideas easier across international borders. It is commonly claimed that the market's ability to shift money from one part of the globe to another by the push of a button has changed the rules of policy-making, putting economic decisions much more at the mercy of market forces than ever before. According to Karky, economic globalisation is a historical process; the result of human innovation and technological progress. The economies of the world are increasingly integrated through trade and financial flows. Now, shifts in economic activities in any part of the world, are felt in countries all over the globe. The internationalization of financial markets, of technology and of some manufacturing and services bring with them a new set of limitations upon the freedom of action of nation states. In addition, the emergence of institutions such as the World Bank, and the International Monetary Fund, involve new constraints and imperatives.

The supremacy of international institutions in this era has led to developing countries in particular into ceding their sovereignty. In today's time, International Institutions play a vital role in altering any local infirmities that may affect the global market or trade scenario in any way. Institutions such as the World Trade Organization (WTO), International Monetary Fund (IMF), World Bank and the United Nations are regarded as the supreme authorities in the global economic and political sphere. These institutions have been empowered with the authority to make member-states implement domestic laws in order to form uniform standards in the global economy.

The understanding of sovereignty as discussed earlier lies essentially within the State. Sovereignty allows the State to make laws in order to govern its citizens, but when international institutions implement policies and mandate States to implement laws which are in coherence with the policy, irrespective of whether the State is in a position to do so domestically, international institutions admittedly overstep their ambit and encroach upon the sovereignty of the State.

International Institutions do encroach upon the sovereignty held by member-states by implementing policies that don't serve the needs of the states. Developing countries are left with no option but to revise these policies as domestic laws because a failure to do so will disrupt their international trade with member countries. Grant of financial aid, market access etc becomes contingent upon a sovereign state agreeing to the conditionalities as laid by international financial institutions or the rich and developed countries. Therefore, it is extremely necessary to acknowledge the disparity between countries, their developmental levels and social climates. If international institutions successfully undertake these factors, it would enable the world economy to boom as a whole instead of only developed countries profiting and progressing.

The sovereign powers of a nation-state are not only to defend its territorial region. Yet, another important aspect of governance of a sovereign state is to formulate and implement policies which take its Human Development Index higher and gives its citizens a safe social security net. This is the welfare state in modern times.

However, over the last thirty years or so, the welfare state has been under attack in many developed democracies due to the increasing scope and extent of

economic globalisation. For example the devaluation of currencies, the high regulation of capital markets, the nationalization of domestic industries to protect them from going bust, extensive public spending leading to expensive public deficits. Yet as the markets have become more integrated and pressures from international competition encouraged states to take risks, opening up fiscal markets, and considering the implications of high labour costs on goods and services in the global economy.

More explicitly, economic globalisation, in its most recent form, has been limiting the capacity of states to determine their own policy outcomes in three main ways: through trade and economic integration; financial markets; and the competition for employment. Due to the increasing pressure of international competition in trade markets as well as the increased mobility of capital and multinational corporations, states are incentivized to cut labour costs, to reduce the price of goods and services, reduce taxation to make their domestic market more competitive, and to decrease the size and scope of the welfare state.

2.5.2 Globalisation and Political Sovereignty

Globalisation has led to a decline in the power of national governments to run and influence their economies or to determine their political actions. There is a strong indication that the impact of globalisation is felt more because politics to a large extent everywhere are now essentially driven by economics. It is not that governments are now unable to run their states, but to remain in power they must manage national politics in such a way as to adapt them to the pressures of transnational global economic forces. The institutionalization of international political structures has led to political globalisation. Since the early 19th century, the European interstate system has been developing both an increasingly consensual international normative order and a set of international political structures that regulate all sorts of interaction. This phenomenon has been termed 'global governance.' There is no supranational government or authority; yet matters of global importance and concerns have to be managed in an effective manner. Global governance here refers to the growth of both specialized and general international organizations which manage varieties of issues. The most dominant of the general and global organizations that had emerged was the League of Nations and now succeeded by the United Nations. At the regional levels, the African Union, European Union, Organization of American States, the Arab League, etc exist. The impact of these organizations is to create of a process of institution-building, where the organizations are able to influence and dictate what happens in the governance of member states. This is the trend of political globalisation. Non-member states find themselves outside this cooperation and are regarded as non-conformists. The future will see more states edging to conform to the norms laid down by these organizations.

Already, the impact is being felt in the area of human rights. Due to the internationalization of human rights, a state is no longer free to treat its nationals and aliens the way it pleases. It must conform to international standards laid down in the various human rights treaties.

2.5.3 Globalisation and Cultural Sovereignty

Culture refers to the patterns of behaviour and thinking that people living in social groups learn, create, and share. Culture distinguishes one human group

from others. People's culture includes their beliefs, rules of behaviour, language, rituals, art, technology, styles of dress, ways of producing and cooking food, religion, and political and economic systems. Culture has several distinguishing characteristics. First, it is based on symbols – abstract ways of referring to and understanding ideas, objects, feelings, or behaviours; and the ability to communicate with symbols using language. Second, culture is shared. People in the same society share common behaviours and ways of thinking through culture. Third, culture is learned. While people biologically inherit many physical traits and behavioural instincts, culture is socially inherited. A person must learn culture from other people in a society. Fourth, culture is adaptive. People use culture to flexibly and quickly adjust to changes in the world around them. Since no human society exists in complete isolation, different societies also exchange and share culture. Cultures do not live and grow in isolation. They interact and exchange with each other. In fact, all societies have some interactions with other societies, both out of curiosity and because even highly self-sufficient societies sometimes need assistance from their neighbours. Economic activities often force diverse cultures to interact and exchange. Today, for instance, many people around the world use similar kinds of technology, such as cars, telephones, and televisions. Commercial trade and communication technologies, such as computer networks, have created a form of global culture. Therefore, it has become increasingly difficult to find culture that is shared within only a single society.

Cultural exchange provide many benefits for all societies. Different societies exchange ideas, people, manufactured goods, and natural resources. Such exchanges also have their drawbacks, such as the introduction of aspects and values of another society's culture can disrupt the cohesive life of the people of another culture. Cultural globalisation relates to the diffusion of two sets of cultural phenomena: (i). the spread of individualized values, originally of Western origin, to large parts of the world. These values are expressed in social contracts that recognize individual rights and identities and transnational and international efforts to protect 'human rights'. (ii) The adoption of originally Western institutional practices, Bureaucratic organization and rationality, belief in rule of law, the values of economic efficiency and political democracy have been proliferating more under globalisation. Though, it must be stated, these values and institutions have been propagated since the European Enlightenment. The growing influence and acceptance of Western values of rationality, individualism, multiculturalism,, equality, and efficiency is an important trend of the present times – a trend which has heightened both in speed and nature in the context of globalisation. Time and space compression by new information technologies is simply an extension and acceleration of the long trend towards globalisation of values and practices.

Check Your Progress Exercise 2

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Explain globalisation and cultural sovereignty.

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2.6 JURISDICTION IN A GLOBALIZED WORLD

Globalisation is transforming the contemporary international system and has impacted the idea of state sovereignty and its jurisdiction. Two major developments have arisen at the expense of the law of the sovereign state. First, specialized regimes of public international law have proliferated into areas previously monopolized by the state, such as human rights, social and environmental laws, economic development policies and trade and investment. Second, rules enacted by intergovernmental organizations, multilateral institutions such as the World Bank and transnational corporations have become increasingly prominent. Inevitably, intertwined with these developments is the undermining of the Westphalian idea of state sovereignty. In a globalized world, the idea of state sovereignty being absolute, immutable, brooking no interference is not sustainable.

The actual impact of globalisation on the state's legal apparatus is far more complex than that of simple negation or dilution of sovereignty. Global forces are likely to transform state law; however, state law has a remarkable capacity to adapt to different environments and to constrain the actions of transnational actors. The result of these interactions will likely lead to a reworking of the concept of 'law'. No matter the pace and depth of globalisation, sovereign states are needed to make globalisation possible. The implementation of varied norms and practices still remain in the hands of sovereign states. Transnational actors in the form of inter-governmental organizations (IGOs), international non-governmental organizations (INGOs), transnational corporations (TNCs), along with the transnational networks of state agencies, private foundations, and migrants, now play substantial roles on the global platform. It is rightly said that state sovereignty has been 'compromised' to an extent by the competing interests of non-state actors like NGOs. Indeed, many national rules barring the movement of labour, goods, services, and capital have been replaced by new institutions that span several territories.

Currently, the state cannot ignore issues related to the wider interests of humanity, even within its own borders. Individuals and ethnic groups enjoy greater recognition as subjects of international law, as seen in the expansion of legal regimes and enforceable mechanisms in the fields of international human rights law including humanitarian law, international refugee law, and international criminal law. Further to be noted is that international law has evolved into a central framework for the 'emergent system' of global governance. This system supplies the normative mechanisms for the establishment of IGOs and the facilitation of the international response to diverse issues such as nuclear proliferation, climate change, ocean use, and the functioning of the world trade system.

Check Your Progress Exercise 3

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) How globalisation has impacted state jurisdiction?

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2.7 LET US SUM UP

Globalisation has given birth to a multidimensional world that operates through unique economic, political and cultural processes that are deeply interconnected at global level. Sovereignty, the authority to make rules within the territorial boundaries of the states, is the hallmark of the modern international system. Globalisation, that signifies an ever increasing volume, speed and scope of cross-border transfer of ideas, money, commodities and people, besides its political dimensions such as growth in humanitarian international law, technology control regimes etc, challenges the exclusive territorial authority of sovereign states.

The concept of sovereignty, once uncontested, has recently become a major bone of contention within international law and international relations theory. Earlier the concept of sovereignty had a timeless or universal meaning, but more recently amidst increasing globalisation researchers and analysts are focusing more and more on the changing meanings of this concept across many historical, political, economic and cultural contexts. What is apparent is that the sovereign state is not likely to remain the main and exclusive focus of political authority and community in the future. It is challenged by new scenarios of authority and community which go beyond the divide between the domestic and the international spheres, and might soon be replaced by new forms of political life that know nothing of this distinction. This is due the emerging trends of globalisation across borders.

Sovereignty, earlier concentrated in the nation-state, is challenged by the market economy and its natural tendency to expand beyond the politically defined boundaries of states. As a result, features of state sovereignty have been weakened, such as its ability to make and enforce laws, the power to define and defend territorial borders, as well as the capacity to shape and direct economic performance. While the sovereign state certainly has not withered away, much of its former authority has been dispersed to other levels of governance, above as well as below the institutions of central government.

It is reasonable to speak about the transition of most countries and the system of international relations in general to a new state of sovereignty. We can presume that if such processes gain strength it will surely affect all spheres of life, including changes in ideology and social psychology. There emerges a peculiar system where the problems of separate countries, nations, regions and other subjects (corporations, different associations, global media holding companies etc.) interlink into one tangle. Separate local events and conflicts affect a great number of countries. At the same time decisions in the most significant centres of the world have an effect all over the world. In general the processes of globalisation in the broadest sense are characterized by the abrupt intensification and complication of mutual interconnections in the basic spheres of economic, political, cultural and social life.

Rules and regulations have historically referred to activities or the spaces where the activities are conducted. In an era when activities increasingly cross borders which separate different regulatory environments and regulators seek to maintain some control over these activities, the spatial organisation of rule-making authority is brought into question. Issues of extra-territoriality or disputes of jurisdictional authority inevitably come to the fore as spaces and the rules which govern them

are contested. Spaces and rule-making authority may come to be shared, but the ways in which they are shared and the outcomes of such sharing depend upon the institutional mechanisms which are established to deal with jurisdictional disputes.

The present Unit states that the effects of globalisation and way its processes are working at international level, the idea of absolute, indivisible and immutable sovereignty, as laid down by Hobbes and Bodin, no longer applies. Old concepts of state sovereignty have fallen by the wayside as sovereignty and jurisdiction of nation-states are undergoing vast changes. The problem for political theory is that it has failed to develop analytic tools appropriate to study both new forms of power and modified practices of old forms of power. Put differently, not only is the classical theory of sovereignty inadequate to account for a kind of sovereignty that is no longer indivisible, absolute, and supreme, but it also lacks analytic models to theorize productive forms of power. Thus, as Foucault says the model of Leviathan should be abandoned and power should be studied outside the field outlined by juridical sovereignty and the institution of state.

Globalisation has had an impact on all spheres of life – be it politics, economics or technology. Rapid advancements in communication have created a global society. Economic interdependence amongst nation states is putting new constraints on the sovereignty of states. Economic leverages (sanctions) are used wildly, more so by the United States of America and with the approval of UN Security Council, to influence internal affairs and even change the internal political dynamics of other countries. In a world which is connected on all levels, confining oneself to internal politics in the name of sovereign jurisdiction could isolate a country, as we can see in the case of North Korea. Though the developed democracies profit the maximum from globalisation, it is the developing countries that face challenges as globalisation and their domestic economic development strategies, including welfare goals, may not always be in synchronization. It is widely admitted including by developed economies and multilateral institutions like World Bank that the benefits of globalisation have not reached all, including developing countries and poor and low-income populations living in rich and developed countries. As a result, some of the more ardent critics argue that globalisation has led to neo-colonization of weak, under-developed countries – a phenomena which can be seen in many African countries. No longer able to keep up with the fast moving globalized world, economic failures in these countries has led to state failure and into domestic disorder.

Globalisation has led to the development of a voluntary agreement among states. This is due to the fact that the nation-states recognize this as an advantage in the fluid world that they live. This bolsters their sense of security in the face of common danger or threat. This is the modern supranationalism. The supra-national organizations such as UNO, NATO, EU, IMF etc. facilitate inter-governmental political and economic functioning. These have over a long period of time acquired the ability and bureaucratic apparatuses to impose their will upon member states. Political pundits say globalisation is leading to the highest form of supranationalism i.e. a global state or some kind of world government.

The sum total of the various elements of globalisation has left the individual sovereign state less and less a locus of policy and control as the WTO, the EU and other regional economic integration groupings, free trade agreements and other supranational organizations become more significant players. Further, the

economic policies of developing economies is also to a large extent influenced by the international financial institutions such as IMF, World Bank and WTO, as evidence of a new international system with new centres of power. To access loans and assistance, there are ‘conditionalitys’ which the recipient countries have to comply. Rich and developed countries often arbitrarily stipulate norms to provide preferential market access to the goods exported by the developing countries. These institutions and norms tend to point to the rise of global institutions of governance and different sets of norms of global conduct. Indeed, it will be increasingly difficult for the future civil servant to draw meaningful distinctions between national and international dimensions of problems.

The essence of globalisation is a complex web of political and economic relationships, this means that the lives of people are more and more shaped by events that occur and decisions that are made at a great distance from us. The world has become truly borderless in the sense of traditional political borders. National and state boundaries have become porous; and divisions between people of time and space have become less important and sometimes totally irrelevant.

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2.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) Your answer should include the following:
 - Concept of state sovereignty; internal and external
 - Modification of state sovereignty under globalisation

Check Your Progress Exercise 2

- 1) Your answer should include the following:
 - Effects of globalisation on political sovereignty of the state
 - Globalisation and national culture
 - State and economic sovereignty

Check Your Progress Exercise 3

- 1) Your answer should include the following:
 - The concept of sovereign state jurisdiction
 - List the challenges to the idea of state jurisdiction

UNIT 3 THE GLOBAL ECONOMY AND FINANCIAL ARCHITECTURE (IMF, WORLD BANK)*

Structure

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Stages in Global Economy
 - 3.2.1 Age of Mercantilism (1500-1750)
 - 3.2.2 Industrial Revolution
 - 3.2.3 Global Economy and Trade until 1945
- 3.3 Antecedents and the Ideology of Neoliberalism
 - 3.3.1 Liberalism
 - 3.3.2 Neoliberalism
- 3.4 Global Financial Architecture
 - 3.4.1 International Monetary Fund (IMF)
 - 3.4.2 International Bank for Reconstruction and Development (IBRD)
- 3.5 Let Us Sum Up
- 3.6 Some Useful References
- 3.7 Answers to Check Your Progress Exercises

3.0 OBJECTIVES

In this Unit, you will be introduced to the global economy including to its various stages; concept of liberalism and its evolutionary phases; and finally the global financial architecture comprising of International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), commonly called the World Bank. After going through this Unit, you should be able to:

- Understand global economy through its various stages;
- Explain neoliberalism – the concept and policies prescriptions;
- Describe and discuss the global financial architecture including the working of IMF and the World Bank.

3.1 INTRODUCTION

The global economy has witnessed unprecedented transformations in the last three decades or so. There is lots of flux around – economic and financial. Manifestation of this, for example, are the global economic crisis of 2008-09, the increasing role of the Global South in the world economy and most recent tide of protectionism and populism in the developed economies, particularly generated by the Brexit vote and US President Donald Trump's 'America First Policy'. These developments have reinvigorated the debate on economic globalisation and international financial architecture. Admittedly, the ambit of global economy has also expanded over the years. The world has shrunk due to

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globalisation, spinning an interconnected nature of politics and economics at international and global levels. Political factors along with economic factors have come to play a significant role in shaping global economy. Despite the fact that there exists reciprocal influence of economic and political factors; this interaction has been transformed in fundamental ways over the past several centuries. This is particularly the result of increasing interdependence of economies because of enhanced flows of trade, finance, and technology. Markets operate under the principle of competition in a globalized world, creating complex interdependence.

What is meant by global economy? The present Unit on global economy addresses this question and highlights aspects of interplay of economics and politics and the global economic interconnectedness – the way it has evolved to the present times. In fact, global economy has evolved over centuries with change in ideas and practice. Modern global economy has gone through the age of mercantilism; industrial revolution and the period between the two world wars which was marked by protectionism and the Great Depression of 1929. The present Unit describes and analyzes the ideology of neoliberalism. A discussion of neoliberalism is preceded by a short historical account of liberalism and its salient manifestations. Finally, the Unit explains the global financial architecture including the organization and working of the IMF and the World Bank.

3.2 STAGES IN GLOBAL ECONOMY

Before understanding the evolution and various stages modern global economy has passed through, it is necessary to first understand the meaning and importance of the subject. Global economy can be described as the intertwined economic activity of various countries which can negatively or positively impact one another. However, global economy cannot be understood in absence of the political developments that have happened in a given timeframe. This interplay of economics and politics helps us to understand and analyze the shape and the working of global economy. The relative influence of the state and market in defining global economy has been recognised by scholars of International Relations. The reciprocal influence of state and market in the working of global economy has been aptly described by Robert Gilpin in his *The Political Economy of International Relations*: “...the state and the associated political processes affect production and distribution of wealth and, in particular, ... political decisions and interests influence the location of economic activities and the distribution of costs and benefits of these activities.”

Given the unprecedented transformation that has come about in the world economy, Robert Gilpin describes in some details the dynamic interplay between economics and politics that has historically characterized global economy. Foremost, he notes the aspect of reciprocity between economics and politics. He elaborates it as follows: (i) state exercises its power to determine the framework of economic activity. Once done, state policies further direct overall economic activities in ways which benefit the dominant groups. The way state exercises this power determines the nature of an economic system. (ii) Gilpin further states that economic process itself tends to redistribute power and wealth. He observes that “the dynamics of international relations in the modern world is largely a function of the reciprocal interaction between economics and politics”.

3.2.1 Age of Mercantilism (1500-1750)

The emergence of modern global economy dates back to beginning of the sixteenth century. The period 1500 -1750 is called the age of mercantilism. Sometimes, the period is also described as 'early capitalism' or 'trade capitalism'. It is the age when Europe began exchanging goods with the other continents of Africa, Asia, Americas and Australia. The growth in intercontinental shipping facilitated the expansion of transcontinental trade in the 16th century. Emergence of Dutch and British colonial trade in the 17th century raised the level of European trade with the outside world. The global trade and its expansion were made possible by the strong monarchical states of Europe. Remember the axiom: global trade thrives when powerful states protect it; it falls when they don't. Be that as it may, global trade facilitated the development of a world market economy.

But what is mercantilism? Mercantilism is not an ideology; rather it is a combination of various principles and practices which different countries of Europe adopted at different times thinking that they were in their national commercial interest. Some of the beliefs and principles that mercantilist states held very dear and practiced for some two-and-a-half centuries were: (i) Gold, silver and other precious metals owned by a state is an indicator of its wealth. (ii) A state should export more than it imports so as to have a favourable balance of trade; and thus to acquire more precious metals. (iii) There are upper limits to the expansion of global trade. It was believed that European trade by 17th century has attained the optimal level; henceforth it will only stagnate. (iv) The larger the population, the stronger and self-sufficient would be the state. (v) State, or crown, has a dominant role in the making and direction of national and international economies. Strong monarchy should just nor control the economy but also shape the political order and social hierarchy.

Mercantilist economy had the following features: (i) Barter system disappeared. By the end of 15th century, money economy arose as national, regional and international trade grew. Currency became the order of the day. European currencies became very powerful and their circulation increased in far-away places. The adage that 'money means wealth' originated in the age of mercantilism. It was believed that a moneyed man could command influence and acquire goods and services of his choice. (ii) Large and powerful nation states were formed in Europe. They bulldozed small states and principalities in the name of carving up a 'nation' i.e. people said to be having a common descent, language, culture, history etc. Large nation states produced large bureaucracies and armies to fight frequent wars for resources and markets. These developments and huge court expenditures meant need even for more money, which in turn meant need for more metals such as gold and silver. Bureaucratic careers were the most lucrative; and mercantilist wars spread across Europe and overseas. (iii) Foreign trade, not domestic trade, was viewed as the preferred method to obtain gold, silver and precious metals and minerals. Foreign trade in manufactured goods was preferred over agricultural goods. (iv) This was the age of discovery. The discovery of the Americas in 1492 by Columbus and sea route to India by Vasco da Gama in 1497-99 opened tremendous opportunity to obtain such wealth. European explorers connected the west with the east – this brought to an end trade on the silk roads as well seaborne spice trade. The need to have ever more wealth continued to rise up and up; in turn, more and more wealth was required to conquer and protect overseas colonies and trade. Age of mercantilism was made

possible by new scientific discoveries and innovations. This was the age of “scientific revolution” in the fields of astronomy, mechanics, physics and shipping. The scientific discoveries and inventions aided the discoveries and creation of colonies by the Portuguese, Spanish and later the Dutch and the English. Circumnavigation of the Earth was one of the biggest feats of its time: it brought about integration of global economy. Discovery of new lands and introduction of new crops created the institution of African slavery – a legacy that continues to manifest itself in many ugly ways to this day. (v) Mercantilism demanded more and more royal control over both the internal and external economic policies of the state; this gradually facilitated the transition from strong monarchies to absolutist states. Moreover, as colonies grew in number and expanded in size, it was deemed legitimate to exploit their resources and people for the benefit of the ‘mother’ countries. “All of these factors ensured that the rising late medieval and early modern states embraced mercantilism as an economic theory that allowed them to adapt to and seek to exploit these shifting structures” (Source: “Europe, 1450 to 1789”, *Encyclopedia of the Early Modern World*).

The age of mercantilism came to an end around mid-18th century. New economic ideas discredited the mercantilist assumptions and ideas. The most influential was the idea of a laissez faire economy. The theory of laissez faire rejected the two main assumptions of mercantilist capitalism: the availability of gold and other precious metals is limited; and that there is an upper limit to global trade which Europe has already reached. David Hume and Adam Smith were the main proponents of laissez faire. David Hume (1711–1776) sought to identify the natural advantages that various nations enjoyed in the flow of commerce and provided a new theory on international trade. Adam Smith’s (1723–1790) argued that world wealth was not static; and that the principle of comparative advantage worked in international trade. Profit motive i.e. the ‘invisible hand’ of the market makes human to labour.

3.2.2 Industrial Revolution

The Industrial Revolution marked a major shift in the technological, socio-economic, and cultural conditions in the late eighteenth and early nineteenth century Europe. Industrial Revolution began in Britain and spread throughout the world – a process that continues even now as industrialization.

What caused the Industrial Revolution? The question remains largely unanswered in social sciences. Many theories have been put forward. Suffice to say, it originated from the social and institutional changes left behind by the declining feudalism in England after the English Civil War in the seventeenth century. However, everyone agrees that Industrial Revolution was made possible by technological innovations; and the key enabling technology was the invention of steam engine.

Historians also differ as to when it started? Eric Hobsbawm is of the view that Industrial Revolution ‘broke out’ in the 1780s and was not fully felt until the 1830s or 1840s. In other words, one can say that Industrial Revolution refers collectively to the technological changes that took place over five to six decades; and even after.

However, every one concurs about its profound impact. No denying, Industrial Revolution is a major turning point in human social history. Its impact has been huge and on all aspects of life and society – wealth; social life; and politics:

- i) It led to an unprecedented increase in production and consumption, and thus in per capita wealth.
- ii) Industrial Revolution gave birth to a new social order: by the early decades of the 19th century, there was a strong middle class of industrialists and businessmen had that had triumphed over the class of landowners and nobles. Large population had moved to factory sites where they became the factory workers. According to Karl Marx, industrialization divided the society into two classes: the bourgeoisie (those who own the means of production) and the proletariat (the working class).
- iii) Writing in 1844, Friedrich Engels noted that Industrial Revolution had greatly changed the civil society in England. Soon, the tax payers demanded the franchise right. Use of steam power in printing press facilitated massive expansion of newspaper and popular book publishing. Easy access to printed material raised literacy; and further to demands for popular political participation. Right to vote was granted to more and more number of people in Britain under Reform Bills of 1832, 1867 and 1884-85.
- iv) Other changes were equally profound: spread of scientific temperament and scientific enquiry. Scientific knowledge began to be applied to social issues. An example of the empirical and scientifically researched work was Adam Smith's *The Wealth of Nations*. One of his main arguments for capitalism is that industrialization increases the wealth for all, as borne out by rising consumption and life expectancy in England.

A brief description of the ideas of Adam Smith on the virtues of free market capitalism would be helpful. (i) Adam Smith saw modern industries working on the basis of division of labour. He said that division of labour enabled factories to raised both production and productivity of their workers. (ii) Economies follow the path of comparative advantage in order to register growth and prosperity. (iii) He argued that people have a natural drive to improve their own lives. This self-interest propels markets to satisfy individual demands by producing goods and services. He called this the 'invisible hand'. For example, it is not benevolence but self-interest which makes a baker provide bread to consumers. (iv) He suggested that competition between businesses is good. Competition keeps producers honest. Customers can avoid a dishonest seller and patronize an honest one. Competition ensures fair price, quality of product, and economic innovation.

3.2.3 Global Economy and Trade until 1945

It was in the age of mercantilism that Europe began exchanging goods with the other continents of Africa, Asia, Americas, and Australia. For four centuries until the outbreak of the First World War in 1914, the intra-European trade remained most significant in the overall global trade. Technological innovations facilitated overseas trade and colonial expansion. From the mid-18th century, seaborne trade experienced strong growth.

From Industrial Revolution until the First World War, three European powers viz. Great Britain, Germany and France dominated the global economy. The three also determined the Europe's commercial links with the world outside. They accounted for more than three-fourth of the industrial production of Europe and more than three-fourth of Europe's trade with rest of the world. All the three

economies had high level of productivity and competitiveness about them. This made them export a lot of industrial products and import raw materials. Until the break of the First World War, the three also dominated the international flow of capital and direct foreign investment. Great Britain was the centre of global capital market and it came up with trade and financial innovations. Bank of England followed the principle of the gold standard in all money and capital markets of the world. France formulated new norms and laws which brought lots of rationalization to global financial and fiscal matters. Various measures were adopted: such as standards in the areas of measures, coinage and weights, as well as currency and bank reforms etc, anti-protectionism, and dissolution of merchants' guilds. The spread of laissez faire ideas in 18th century provided a strong impetus to global trade and connectivity. Several free trade agreements were signed in the 18th century; the principle of most favoured nation (MFN) was formulated and practised by trading nations.

All these measures and developments brought lots of stability and security to global trade. European economies were very diverse. With high productivity and competitiveness about them, European economies began specializing in particular areas. For instance, Germany took to innovations; and by the late 19th century was the world leader in steel production, railway equipment, heavy machinery and electrical engineering. A liberalized trading system boosted both internal European trade and trade between Europe and the rest of the world. A new international division of labour came into being: Europe exported manufactured products, capital and machinery; in return, it sourced raw materials from colonies and underdeveloped regions of the world.

In early 20th century, two events proved devastating for the global free trade system. First World War damaged it; it became impossible to resurrect the system after the war. The international currency system had disintegrated; in 1914 countries such as Russia, Germany and France had abandoned the convertibility of their currencies into gold. The Great Depression of 1929 was the second blow to the global free trade: global trade volume declined by 26 per cent and European trade by 38 per cent. Major European economies turned nationalist; and practiced protectionism and trade discrimination. The outbreak of Second World War further blocked the circulation of goods and capital within Europe. European countries had to pay a heavy price for converting factories from peacetime to wartime production; for naval blockades; and for high cost of transactions. Moreover, when war ended, Europe found itself split between the liberal capitalist and communist camps. In brief, the liberalized trade regime was abandoned altogether in the period between the two world wars.

The inter-war period brought in other very significant changes in the global economy. The First World War moved the axis of global trade from Europe towards United States. The influence and role of the US in global economy and finance grew exponentially after 1918. Post-1929 world depression, US was in the driver's seat as far as global economy and trade was concerned. When Europe plunged into economic depression in 1929 and its share in global trade fell, other industrialized economies such as the US, Canada and Japan saw their share of the global market increase.

After the Second World War, US came to the rescue of Europe. It launched Marshal Plan to rebuild European economies. This involved restoration of industries, establishing a monetary order and integration of Europe once again with the

global economic order, now led by the US. Marshall Plan was a success and Europe returned to impressive export-led economic growth. An international financial and trade architecture was also envisaged along liberal economic lines.

Check Your Progress Exercise 1

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Describe the principles and practices of mercantilism.

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2) Discuss the impact of Industrial Revolution.

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3.3 ANTECEDANTS AND THE IDEOLOGY OF NEOLIBERALISM

What is definition of neoliberalism and what has been its history? Does neoliberalism mean revival of liberalism? Not many have bothered to enunciate and explain the ideology of neoliberalism. It is critics who often decry neoliberalism: it is equated with profit-making, consumerism, disregard to environment, a capitalist economy with no restrictions on the market forces, and where state has abandoned the goal of social welfare.

Neoliberalism should not be confused with liberalism; much less its revival. Neoliberalism is a distinctive ideology; though it shares some of the historical roots and some basic vocabulary with liberalism. Liberalism as political philosophy has several traditions. One of them is economic liberalism. One can say that it is economic liberalism that comes closest to neoliberalism in contemporary times; albeit still with a difference. As is known, economic liberalism holds the view that state ought not to intervene in economy. Instead let the individual freely operate in market economy which is free and self-regulating.

To repeat once again, don't combine neoliberalism and economic liberalism with liberalism. Neoliberalism is an ideology different from and, in fact, often opposed to 'liberalism'. Let us have a brief look at liberalism and its various phases and dimensions.

3.3.1 Liberalism

The philosophy of liberalism stands for many things: democracy, constitutional government, rule of law, individual rights, a capitalist economy, etc. It emerged as a response to the Industrial Revolution and urbanization in 19th century Europe and the United States. These liberal values remain part of the Western discourse at least since the end of the Second World War.

The history of liberalism as philosophy is fairly old and varied. The concept has become nebulous over time; besides, there is not one but several types of liberalisms. From John Locke, Adam Smith, John Stuart Mill and contemporary philosopher such as Isaiah Berlin and John Rawls all are liberals but with profound differences among them on issues such as the virtues of democracy, limits to individual freedom, the idea of welfare state and equation between state and market. Be that as it may, one simple distinction often made is between ‘classical’ and ‘modern’ liberalism.

i) *‘Classical’ Liberalism*

From the 17th and 18th century philosopher John Locke and Adam Smith to 20th century philosopher Friedrich von Hayek all belong to the tradition of ‘classical’ liberalism. ‘Classical’ liberalism holds the view that state ought to do minimal, such as law and order and defence. All else should be left to the free choice of the individual and the organizations he establishes and participates in. Let the market forces to shape the economy; state is only a ‘night watchman’. ‘Classical’ liberalism as described above thus has close connection with economic liberalism (but the two are not interchangeable terms). ‘Classical’ liberals without exception support the laissez faire economic policies – a philosophical position championed by neoliberals of today. ‘Classical’ liberals believed that free market economic policies would ultimately produce all-round prosperity and promote individual freedom and democracy.

Classical liberalism championed the cause of industrialization during the 19th century. Raising the banner of individual freedom, the entrepreneurial class of industrialists and merchants deployed its energies to expand the production and vastly increased its wealth. The belief in laissez faire was at the core of classical liberalism; and it was considered a panacea as British and other European economies boomed.

Towards the end of 19th Century, the faith in the laissez faire had run its full course. The idea stood discredited; so much so that many were even questioning the feasibility of capitalism as an economic model. Industrialization had allowed production of lots of goods and services but there were not many who could afford to buy them. Markets were glutted with products; but with only few who could buy. The entire production system periodically came to a halt in times of stagnation. These prolonged periods of no purchase and stagnant production came to be called depressions. Working under the ideology of laissez faire, governments did nothing. In any case, governments only did the bidding of the wealthy class of industrialists and merchants. There were other unforeseen consequences of Industrial Revolution: concentration of wealth; low income of the working class; and urbanization with impoverished population. The irony of the

situation was no lost: the very forces that had once released the entrepreneurial energies now restrained them. And those who had once championed individual freedom and limited governments now practiced despotism.

ii) *Modern Liberalism*

An important principle of the working of capitalist economy had been established by the end of the 19th century: capitalist economy goes through boom-and-bust cycles. Periodic stagnation is part of the business cycle of a capitalist economy; and market alone cannot fix it. It was also established that the philosophy of laissez faire has no solution to offer for economic depression. The British political philosopher T. H. Green also noted that inequality, ignorance and poverty are new types of impediments that endanger individual freedom and make the governments despotic. An individual cannot overcome these hindrances through his efforts alone. Green wrote that these impediments to freedom could be tackled only with the positive assistance of government.

This is how modern liberalism was born; modern liberalism advocates positive role of the state in safeguarding and promoting the freedom of the individual. T.H. Green advocated a positive role of the state in the establishment of schools, hospitals, creation of jobs, and labour rights etc. Modern liberalism believes in the virtues of a free market, but it would want to modify and regulate the free market economic system. This became the difference between the modern liberals and the classical liberals: the later continue to believe that complete freedom to the market will produce growth and prosperity, and eventually a social equilibrium. As compared, modern liberals argue that the operation of the market needs to be supplemented and corrected. It calls for a balance between market and state. Modern liberals advocate the idea of welfare state; and believe that material progress would lead to the establishment of a humane world.

John Stuart Mill in the 19th century and John Rawls in the 20th subscribed to this brand of modern liberalism. A more recent offshoot of modern liberalism is what is called liberal egalitarianism: John Rawls emphasizes on equality alongside freedom. Liberal egalitarians argue that state should strive to bring about both equality and liberty. State may restrict liberty so as to promote greater equality in the society. Of course, liberal egalitarians too, like all modern liberals, advocate economic freedom which is necessary for the working of capitalism.

The above thus brings out the differences between ‘classical’ and modern liberalism. Their essential difference is on the role of the state and the equation between market and the state.

iii) *John Maynard Keynes*

John Maynard Keynes wrote in the period between the two world wars. He understood that 20th century societies were very complex in economic and social terms. The idea of an uncontrolled free market, as classical liberals had suggested, or the idea of a market economy but with state playing a positive role as advocated by modern liberals had proved insufficient. First World War had destroyed whatever had been attained over the past four

centuries in terms of liberalization of trade and building of a financial and trade infrastructure in terms of norms and standardization. Keynes was also concerned with the Great Depression of 1929 which was unusually very deep and lasted very long. A liberal economist, he was concerned with labour unrest and the alternative socialist economic ideas that were coming from Soviet Union. Foremost, it was clear that some rational economic planning is required to streamline the working of capitalist market economy. It was the context in which the ideas of the liberal British economist, John Maynard Keynes gained wide acceptance among intellectual and policy making circles. In his *The General Theory of Employment, Interest, and Money* (1936), Keynes theorized that government management of the economy could smooth out the highs and lows of the business cycle, which is a principal characteristic of capitalist economy. State regulation and intervention is necessary to produce more or less consistent growth with minimal unemployment.

The influence of Keynesian ideas was widespread in liberal capitalist countries. In US, President Franklin D. Roosevelt (1933-39) launched the New Deal to lift the US economy out of Great Depression. New Deal made government expand its economic and social activities through economic regulations and welfare measures. Roosevelt administration took steps to create jobs, instituted social security and pension, and regulated the working of banks and industry.

After the Second World War ended in 1945, Western Europe, North America, and Japan entered a period of steady economic growth and prosperity. Liberal economists and policy makers now began to focus on institutional factors that would produce high economic growth in these countries. Inspired by Keynes, liberal leaders in the West used government's power to borrow, tax, and spend not merely to counter contractions of the business cycle but to encourage continual expansion of the economy. It was further said that welfare measures by the state diminish class conflict, strengthen consensus around democracy and counter the appeal of communism. Major social welfare programmes were introduced in Britain, Scandinavian countries, Canada and the US. By 1960s, the modern welfare state provided not only the usual forms of social insurance but also pensions, unemployment benefits, subsidized medical care, family allowances, and government-funded higher education.

Keynes' ideas had an equally profound effect on new institutions of global finance and trade that came to be established in the 1940s. Keynes believed that the international system that paved the way for the First World War could as well be transformed into a peaceful and just world order. From his work at the Paris Peace Conference in 1919, and throughout the rest of his life, Keynes played a role on the international stage. Some of his thoughts on international economic relations and global economy, to put briefly, were: (i) After the Paris Peace Conference of 1919, Keynes supported the right to self determination of the colonial and subjugated people. He believed that independence of nations from one another is necessary to achieve domestic economic goals. (ii) He prescribed national self sufficiency, even a degree of economic isolation to achieve goals of domestic economic development. (iii) He advocated two things: governments must generate full employment and maintain decent level of real wage. These two would eliminate economic causes of war and conflict. Such policies of

governments though would produce inflation, sometimes in a perpetual manner, but this is an inevitable part of peace and development. (iv) Though he agreed that inflation is bad for a nation's currency. He accepted the idea of fixed exchange rates and restrictions on international capital flows so that countries could pursue independent economic policies. (v) He had observed that governments in the 1920s and 1930s were primarily concerned with their domestic economic issues, regardless of what happened at the international level. Keynes understood and even came to accept protectionism and isolationism in the 1930s. (vi) There was a lesson from the Second World War: matters of global governance should not be left unattended. Keynes was a firm believer in peace and benefits of civilization. He saw labour unrest and revolutionary ideas as twin threats to the liberal capitalist order. Again, these challenges could be checked through public policies of full employment and decent wages – so necessary to maintain global peace and stability.

Keynes, along with US Treasury official Harry Dexter White, is considered the intellectual founding father of the International Monetary Fund and the World Bank, which were created at Bretton Woods, New Hampshire. From 1936 to 1946, he worked for an international monetary system that would not pit interests of the countries against each other. Importantly, the global economy's institutional underpinnings – the IMF and the World Bank – have remained largely unchanged since his times.

3.3.2 Neoliberalism

Neoliberalism can neither be defined with any precision nor its historical lineage be articulated with some degree of certainty. Such is the confusion about the meaning and origin of neoliberalism. Proponents don't define it clearly; while critics highlight the negative dimensions of neoliberal economic policies – concentration of wealth, rise in inequality, domination of global and national corporate interests, international capital and multinational corporations penetrating across national borders and undermining state sovereignty. Neoliberals claim that their economic policy ideas are drawn from Adam Smith and David Ricardo. They invariably mention concepts like 'comparative advantage' and the 'invisible hand' that drives market.

The rise of neoliberalism in the 1970s marked an eclipse of the ideas of John Maynard Keynes who had advocated a role for the state in the creation of employment and redistribution of wealth. Neoliberals, like Milton Friedman, focus on monetarist theories which discount any significant role of the state. The idea that markets are self-regulating is central to the beliefs of neoliberals. Neoliberals say that efficient allocation of resources is the most important purpose of an economic system; and the most important way to allocate resources is through market mechanisms. State intervention distorts the logic of marketplace and thus the efficiency of resource of allocation. In other words, state intervention in economic affairs is most undesirable. It is believed that state intervention undermines the finely tuned logic of marketplace and thus reduces economic efficiency (Thorsen and Lie).

Neoliberalism has greatly changed the perception about economic development. International institutions like IMF, World Bank and the UN all have endorsed

the neoliberal path of economic growth. Developed economies have championed it for long and pushed it in the developing countries through their policies of financial assistance and loans, trade concessions, lending policies of the multilateral financial institutions, and the working of private international banks and multinational corporations etc. The cumulatively approach and consensus among developed economies, multilateral organizations and private international banks is often referred to as the 'Washington Consensus' – a consensus that had been reached at in the 1970s on the prescribed path of neoliberal model as against Keynesian model of economic development or the socialist system. Today when one talks of 'reforms', it essentially means more economic and financial liberalization of a domestic economy through privatization, deregulation, tax cuts for the rich and eliminating labour and other rights and social welfare schemes. In nearly every country, public sector has been privatized and dismantled according to the logic of neoliberalism; also the assumption that market is the best allocator of resources has a great deal shaped international trade policies.

Some of the major assumptions and policy ideas associated with neoliberalism are: (i) the goal of human well being can be best served by unleashing man's entrepreneurial freedom and skills. (ii) For this, it is necessary to have an institutional framework that guarantees private property, free market and free trade. (iii) Neoliberals advocate role of the state. It is state which must build and guarantee the facilitating institutional setup. It should guarantee integrity of money, business contracts, international commercial and financial commitments, domestic stability and military defence for the smooth working of the market economy; and legal structures to guarantee security to the business sector. If markets do not exist or are weak, or are facing financial turbulence and economic slowdowns etc., state must intervene to create market, or strengthen existing market by infusing capital and through the so-called rescue packages. In simple words, neoliberalism advocates that state spend public money to save and serve private business in times of its need. (iv) State should get out of social sector – education, healthcare, social security. Create private suppliers of these goods. (v) Further it should create markets where none exist. This can and should be done through privatization. It should create private property where none exists. For example, state can create market in areas such as land and forests, water and irrigation, healthcare and education, social security and environmental pollution. Privatize all such areas; and let the consumers pay for everything they use. (vi) State should not venture beyond these economic functions. If it does, it will distort the working of the markets and thus mar the prospect of economic growth. Especially in a democracy there is this danger: a state could be leveraged to distort the working of the market. This may lead to the breeding of 'crony' capitalism and 'rentier' state. The simple adage is: markets know best. In conclusion, most essential for the state therefore is: once the market is created, state confine itself to the bare minimum. It is the night watchman of the classical economists. (vii) In brief, neoliberalism comes out as quite a distinctive economic theory which in recent times has replaced the Keynesian variety of modern liberalism. In fact, there is nothing liberal about neoliberalism. The ideology is far away from the ideals of individual liberty, democracy and human progress. Some of the worst authoritarian regimes of the 20th century practiced neoliberalism, e.g. Augusto Pinochet regime in Chile (1973-1989). Neoliberalism is more a set of political and economic practices centred around private economic forces.

Check Your Progress Exercise 2

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Make a summary of the ideas of John Maynard Keynes.

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2) Delineate the ideology of neoliberalism.

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3.4 GLOBAL FINANCIAL ARCHITECTURE

The end of the Second World War is regarded as the watershed in the development of global economy. It saw the creation of a number of international institutions – political and economic – to uphold peace and security and promote monetary stability, financial support and a free and fair trading system. This is called the birth of Liberal International Order – formation of Bretton Woods institutions, the UN system and the General Agreement on Trade and Tariffs (GATT). The UN was established with the principal aim to ensure international peace and security through cooperation and collective security measures. The Bretton Woods Institutions (BWI) comprising the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) (the World Bank) were instituted for monetary and financial cooperation. While IMF, based in the US, aims at providing monetary assistance to economies, particularly during time of crisis; the IBRD, also based in the US, lends to governments in order to develop their economies.

A comparable International Trade Organization (ITO) could not materialize because of differences between the US and its European allies. In 1948, General Agreement on Tariffs and Trade (GATT) was established as an interim treaty to encourage and lay down the norms of a liberalized trading system.

3.4.1 International Monetary Fund (IMF)

The mandate of both the institutions is different. However, the IMF and World Bank collaborate regularly and at many levels to assist member countries and to work together on several initiatives. IMF was officially established on December 27, 1945, when the 29 participating countries at Bretton Woods signed its Articles of Agreement. It commenced its financial operations on 1st March 1947. Presently, the multilateral institution has 189 members.

The IMF was established to build a framework for international economic cooperation and avoid repetition of the competitive currency devaluations that contributed to the Great Depression of the 1930s. Its mandate and governance have evolved over time along with changes in the global economy, allowing the organization to retain a central role within the international financial architecture.

Objectives of the IMF: Primary objectives are: to promote exchange stability throughout the world; to promote international monetary cooperation; to facilitate the expansion and balanced growth of international trade; to assist in the establishment of a multilateral system of payments; and to make resources available to members experiencing balance of payments difficulties.

What is an IMF 'quota'?: Each member country is assigned a quota. Quota is basically money that a member country has to give to the IMF. The larger a country's quota, the more say that country has in the governance of the international financial institution. A country's quota at the IMF determines: its voting power; the amount of financial resources it must provide to the IMF; and the size of its access to the IMF financing.

How a quota is decided?: The quota of a country depends on its economic importance. When a country joins the IMF, it is assigned an initial quota in the same range as the quotas of existing members that are broadly comparable in economic size and characteristics.

The size or amount of the quota a country is assigned is decided through a formula. The formula takes into account factors such as the size of the GDP, economic openness and international reserves a country has, etc. Suffice to say, the value of a quota indicates the overall impact a country has on world economy. Member countries pay their quota through a mix of foreign exchange or gold and in their own national currency.

Quotas are denominated in Special Drawing Rights (SDRs), which is an international reserve asset determined by the value of the US dollar, Euro, Japanese yen, Renminbi and pound sterling.

What purposes IMF Quotas serve?: IMF quotas serve multiple purposes: (i) Quota subscribed by a member indicates the funds it has provided to the IMF. Hence it constitutes the resource base of the IMF. (ii) A country's loan entitlement depends upon the size of its quota. In exceptional financial contingency, a country can access finance more than its entitlement. (iii) Size of quota determines voting power of a member. Decisions are taken based on weighted voting of members. (iv) India's quota share is about 2.76 per cent. It means its voting weight would be around the same percentage. US enjoy a voting power of 16.54 per cent. IMF rules state that all important decisions should be taken with at least 85 per cent of the votes. In reality, this would mean that no decision can be taken without US consent.

What does IMF quota reform entail?: Quota formula is subject to review. The last review was carried out in 2016. The reforms have increased the quota of each of the IMF's 189 members. Of course, the United States continues to retain the largest quota, with a share of 16.52 per cent in 2017. The quota reform has doubled the overall financial resource base of the IMF. Much of these added resources have come from the extra funding that many member countries

contributed to the IMF after the global financial crisis of 2008. The quota reforms (i) boost the financial power of the IMF to respond in times of financial crisis; (ii) give emerging economies such as Brazil and China larger quota shares at the institution; (iii) the redistribution of quota shares means that China jumps from the sixth to the third largest member country, behind the United States and Japan. At 6.09 per cent, China's quota share increases by more than 2 percent. In 2017, India had a share of 2.64 percent, Russia 2.59 per cent and Brazil 2.22 per cent. (iv) while all member countries gain larger quotas, emerging market countries relatively gain more. The reforms shift about 6 per cent of quota shares to emerging market countries. As a result, quota share of traditionally strong economies such as the United States, Saudi Arabia and European countries slightly diminishes. But it doesn't affect much; quota reduction is less than half a per cent in most cases. The quota shares of the poorest member countries remain largely unchanged.

Reform of the global financial architecture was deemed necessary for long. IMF shareholders decided that the reforms were necessary in order to (i) more accurately reflect the growing global influence of emerging market economies; and (ii) to boost the IMF's legitimacy as a global financial institution. With more finances at its disposal, it is hoped that IMF will respond more effectively to financial crises and contribute strongly to the global financial stability.

The IMF governance structure is made up of the Board of Governors, Executive Board and Ministerial Committees. The Board of Governors is the highest decision-making body of the IMF. It consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the head of the central bank. The IMF's 24-member Executive Board conducts the daily business of the IMF and exercises the powers delegated to it by the Board of Governors, as well as those powers conferred on it by the Articles of Agreement. The 2016 reforms bring a change here: the selection process for executive directors on the IMF's board changes. Once the reforms are in place, all positions will be determined by election, rather than the present prevailing system where the member countries with the five largest quotas each appoint an executive director.

3.4.2 International Bank for Reconstruction and Development (IBRD) - (World Bank)

The IBRD along with the International Development Association (IDA) is called the World Bank organization. The World Bank is a multilateral financial institution that provides loans for capital projects. Generally, every member country of the IMF becomes the member of the IBRD. When a country quits the IMF, it stands automatically expelled from the World Bank.

The mandate of the World Bank is to promote long-term economic development and alleviation of poverty by providing technical and financial support to help countries reform particular sectors or implement specific projects. Akin to IMF, the mandate and governance of World Bank have evolved along with changes in the global economy. The World Bank is composed of 189 member countries. These member countries, or shareholders, are represented by a Board of Governors, who are the ultimate policymakers at the World Bank. Generally, the governors are member countries' ministers of finance or ministers of development.

They meet once a year at the Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund. The next level in the governance structure is the 25 Executive Directors, who work on-site at the Bank, and governors delegate specific duties to them. The five largest shareholders appoint an executive director, while other member countries are represented by elected executive directors. The World Bank Group President chairs meetings of the Board of Directors and is responsible for overall management of the Bank. The President is selected by the Board of Executive Directors for a five-year, renewable term. The Executive Directors make up the Board of Directors of the World Bank. They normally meet at least twice a week to oversee the Bank's business, including approval of loans and guarantees, new policies, the administrative budget, country assistance strategies and borrowing and financial decisions. The World Bank operates day-to-day under the leadership and direction of the President, management and senior staff, and the vice presidents in charge of Global Practices, Cross-Cutting Solutions Areas, regions, and functions.

Upon their establishment, the first task of the IMF and the World Bank was to attend to the restructuring of the world economy on account of the de-colonization process of many developing countries in the 1950s. The main task was the integration of these decolonized countries into the mainstream world economy. To address this situation, the two institutions expanded their realm and created two affiliated organisations of the World Bank. In 1956 the International Finance Cooperation (IFC) was established. Its purpose is to grant credits to private organisations that lack capital for projects in the developing world. In 1961 the International Development Association (IDA) was founded and its main function is to grant credits to especially poor countries at very favourable conditions.

In 1960s and 1970s enduring imbalances of payments between the Western industrialised countries resulted in the crisis of the international financial governance. The official termination of gold convertibility of the US dollar in 1971 was the immediate trigger of such crisis. This was intensified with the oil crisis of 1970s. Calls for a “new system of Bretton Woods” gained momentum in the 1980s and 1990s, particularly due to the restructuring of the world order in the wake of the end of Cold War and collapse of the Soviet Union.

During the 1997–1998 Asian crisis, there was almost worldwide consensus that the existing international financial architecture with the IMF at its core was not effective to resolve the crisis and help the crisis laden countries to manage and overcome the crisis. In fact, the IMF was alleged to have intensified the severity of the crisis. As a result, many Asian policymakers and observers questioned the credibility of the IMF. Efforts were underway to reform the international financial architecture which included the establishment of the Financial Stability Forum (FSF); the creation of a new Group of Twenty (G-20) process for finance ministers and central bank governors; improvements of information transparency and disclosure; the adoption of international standards and codes; stronger financial regulation through the Basel Committee on Banking Supervision and such others. However, such reform was not enough to prevent another crisis. The global financial crisis of 2008-09, which engulfed the developed countries, renewed the discussion on reforming the international financial architecture. As such, the FSF has been expanded to become the Financial Stability Board (FSB) with a greater mandate and a larger membership, and the IMF financial resources have been substantially augmented to assist countries affected by the global financial

crisis. As the world economy recuperates slowly from the global financial crisis, the process of reforms of the Bretton Wood Institutions (BWI) continues to be tardy.

The dominance of the Western countries on the financial governance of the BWIs is well illustrated by the fact that despite the broadened membership on account of the emerging and developing economies in the global economy, the governance structure of both the IMF and the World Bank remains dominated by the advanced economies. Apart from the dominance in voting shares, the BWI since their inception have been headed by advanced economies. In light of this skewed representation, developing countries have been at the forefront in demanding reform of the Financial Architecture involving the BWI – the World Bank and the IMF. The main rationale driving such demands is the asymmetry in terms of representation and their failure in accommodating the increased economic influence in the global economy, especially of the emerging economies. The growing economic clout is evident from the fact that the share of the developing countries to global GDP has increased from 25% in 1960 to 56% in 2016, and the share of developed countries plummeting from 80% to 44% for the same period. More importantly, the share of the emerging economies like China, India and Brazil constitute 25% of the global economy. Although reforms were agreed in 2010 in terms of voting shares, it was finally implemented in 2016, particularly because of delay in approval by the US Congress.

Check Your Progress Exercise 3

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) What is the mandate of IMF? Describe the Quota system and SDRs of the IMF.

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2) Explain the organizational structure and working of the World Bank.

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3.5 LET US SUMP UP

Global economy can be described as the intertwined economic activity of various countries which can negatively or positively impact one another. Global economy can be best understood, not just as an economic activity, but as the intersection

of economics with politics. State and other political dynamics shape issues of production and distribution. This interplay of economics and politics helps us understand and analyze the shape and the working of global economy. The relative influence of the state and market in defining global economy has been captured well by Robert Gilpin. He holds the view that state and other political forces shape decisions related to production and distribution and in particular "...political decisions and interests influence the location of economic activities and the distribution of costs and benefits of these activities."

The modern global economy came to be established and grew in the age of mercantilism (1500-1750) when trade grew within Europe and secondly, Europe also began trading on large scale and in a systematic manner with other continents. It was the 'age of discovery' and 'scientific revolution' which propelled both global trade and colonialism. Let it be understood that mercantilism gained strength under the aegis of strong national states and the development of a world market economy.

Mercantilism was based on certain beliefs and practices: gold and other precious metals were considered the indicator of a state's wealth. Exports more than imports make a nation wealthy. The political goal in mercantilist age was simple and straight: a powerful and wealthy state united under a glorious monarch. Under mercantilism, money became the medium to buy and sell. Large financial families and bureaucracy emerged to manage the global trade; so did national armies. "All of these factors ensured that the rising late medieval and early modern states embraced mercantilism as an economic theory that allowed them to adapt to and seek to exploit these shifting structures" (Source: "Europe, 1450 to 1789", *Encyclopedia of the Early Modern World*).

Mercantilist age came to an end with the outbreak of Industrial Revolution around 1780s. Industrial Revolution has a huge impact on all aspects of life. For instance, it led to an unprecedented increase in production and consumption, and thus in per capita wealth. Based on major industrial changes, society changed. Two new classes, viz. capitalists and working class emerged. A middle class also emerged; those who paid taxes were the first one to demand political representation. Scientific knowledge also expanded. In his seminal work *The Wealth of Nations*, Adam Smith concluded that industrialization increases the wealth for all. He thus debunked the two mercantilist beliefs: that there are limits to wealth; and that there are limits to which global trade could rise. In other words, creation of wealth and trade could have no upper limits. Adam Smith wrote in support of free market capitalism. He saw modern industries working on the basis of division of labour. He said that division of labour enabled factories to raised both production and productivity of their workers. He argued that people have a natural drive to improve their own lives. This self-interest propels markets to satisfy individual demands by producing goods and services. He called this the 'invisible hand'. The belief in the laissez faire was the at the core classical liberalism.

By the end of the 19th Century, there were many negative consequences of Industrial Revolution: economic inequality, poverty and ignorance. Most important however was the business cycle: capitalism was prone to boom-and-bust cycle. Faith in classical liberalism began to wane in the last decades of 19th century. It was proved by events that the principle of laissez faire was no magic wand. The belief that let the market operate freely was a myth. It was established that the way market economy works it would produce periodic bouts of stagnation.

The British political philosopher T. H. Green noted that things like income inequality and low wage prevent an individual from enjoying his freedom. Positive assistance of government is necessary to ensure these freedoms. Modern liberals argued that the operation of the market needed to be supplemented and corrected. They called for a balance between market and state.

First World War and the Great Depression were two major events in the early decades of the 20th century that interrupted the material and moral progress, modern liberals had advocated. Critics noted that capitalism goes through boom-and-bust cycles. Business cycle is the chief characteristic of market economy. But the Great Depression had proved unusually long and devastating. Widespread unemployment, labour and social unrest and spread of radical ideas like the Bolshevik revolution threatened both global economy and peace.

John Maynard Keynes theorized that government management of the economy could smooth out the highs and lows of the business cycle, which is a principal characteristic of capitalist economy. State regulation and intervention is necessary to produce more or less consistent growth with minimal unemployment and decent level of wages. The influence of Keynesian ideas was widespread in liberal capitalist countries. A liberal economist, his thoughts also had a profound impact in the creation of multilateral financial institutions viz the IMF and the World Bank.

The period from 1945 marked the emergence of the Liberal International Order – formation of Bretton Woods institutions, the UN system and the General Agreement on Trade and Tariffs (GATT). The Bretton Woods Institutions comprising the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) (the World Bank) were instituted for monetary and financial cooperation. The General Agreement on Trade and Tariffs (GATT), which began as a treaty, intended at establishing a regime to promote international trade and prevent governments from resorting to protectionist measures.

The decade of 1970s marked the rise of the age of neoliberalism. Neoliberalism is a distinctive ideology; though it shares some of the historical roots and some basic vocabulary with liberalism. The rise of neoliberalism marked an eclipse of the faith in the state. Neoliberals, like Milton Friedman, focus on monetarist theories which discount any significant role of the state. The idea that markets are self-regulating is central to the beliefs of neoliberals. Neoliberals say that efficient allocation of resources is the most important purpose of an economic system; and the most important way to allocate resources is through market mechanisms.

Neoliberalism has greatly changed the perception about economic development. International institutions like IMF, World Bank and the UN all have endorsed the neoliberal path of economic growth. Developed economies have championed it for long and pushed it in the developing countries through policies of aid and assistance, loan restructuring and market access etc. In brief, neoliberalism comes out as quite a distinctive economic theory which in recent times has replaced the Keynesian variety of modern liberalism. In fact, there is nothing liberal about neoliberalism. The ideology is far away from the ideals of individual liberty, democracy and human progress. Some of the worst authoritarian regimes of the 20th century practiced neoliberalism, e.g. Augusto Pinochet regime in Chile (1973-

1989). Neoliberalism is more a set of political and economic practices centred around private economic forces.

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3.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) Your answer should include following:
 - Beliefs and practices of mercantilism
 - Economic, commercial, political and intellectual impact of the Industrial Revolution.

Check Your Progress Exercise 2

- 1) Your answer should include following:
 - The ideas of John Maynard Keynes and why and how he came to focus on the role of the state.
 - Delineate the ideology of neoliberalism and its belief in the efficacy of the market in resource allocation.

Check Your Progress Exercise 3

- 1) Your answer should include the following:
 - The mandate of the IMF, the working of the Quota system and SDRs.
 - The organizational structure and working of the World Bank.

UNIT 4 GLOBAL TRADING SYSTEM (WTO AND OTHERS)*

Structure

- 4.0 Objectives
- 4.1 Introduction
- 4.2 World Trade Organization (WTO)
- 4.3 General Agreement on Tariffs and Trade (GATT)
 - 4.3.1 Uruguay Round, 1986 -1993
 - 4.3.2 Doha Round
- 4.4 WTO Principles, Functions and Mechanisms
 - 4.4.1 Principles of the Trading System
 - 4.4.2 Functions of the WTO
 - 4.4.3 Ministerial Conference and Other Organs
 - 4.4.4 Dispute Settlement
- 4.5 GATT, WTO and the Developing World
- 4.6 WTO and India
- 4.7 Crisis of the Liberal International Economic Order (LIEO)
- 4.8 Let Us Sum Up
- 4.9 Some Useful References
- 4.10 Answers to Check Your Progress Exercises

4.0 OBJECTIVES

In this Unit, you will be reading about global trading system – institutions and processes. After going through the Unit, you should be able to:

- Understand and discuss the establishment of the Liberal International Economic Order (LIEO) after the Second World War,
- Describe and analyze the importance and contribution of the General Agreement of Tariffs and Trade (GATT) and its various rounds of negotiations,
- Explain the principles, functions, mechanisms and organs of the WTO,
- Evaluate how the global trading system has treated the developing world,
- Understand and analyze the WTO and India

4.1 INTRODUCTION

One can say that people have been trading for almost as long as they have been around. Trade means buying and selling; or, simply, exchange of goods and services. Initially, trade came about when certain resources and commodities could not be acquired locally or within specific societies; and therefore had to be procured from outside. As societies grew and came into closer contact with one other, the trade became a fundamental form of economic interaction. Often it is

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trade which first brings different people together for the purpose of buying and selling of goods and services. Around first century BC, trade on the silk roads started. Luxury goods from China were hauled up for thousands of miles on the silk roads to be sold in Europe. Around 7th century began the seaborne trade in spices from Asia to Europe via West Asia and Africa. Both the silk roads trade and the spice trade was small in terms of export-GDP ratio. Trade was meant to supply luxury goods essentially to the European elite. Perhaps, it can be said that this was the beginning of global trade.

Modern trading system arose in the 16th century in the age of mercantilism. Two principles guided trade in the era of mercantilism: it is necessary for a country to export more than it imports in order to become wealthy. Secondly, a strong state or a powerful monarch is needed to shape both domestic and international trade flows. A truth got well known: a strong state makes trade possible. .

Trade was facilitated by technological breakthroughs. In the era of industrial capitalism, England, France and Germany all had high level of productivity and competitiveness about them. This made them export a lot of industrial products and import raw materials from colonies and other oversea markets. Adam Smith and David Ricardo advocated the principle of comparative advantage. For instance, nations which have natural resources should exploit them to register economic growth and prosperity. Smith argued that a liberalized trading system that works on the principles of comparative advantage and division of labour produces all round prosperity and peace. He saw an international division of labour working between the industrialized countries of Europe and suppliers of raw materials.

For about four centuries, Europe dominated the global trade. Trade as a ratio of GDP increased. As international trade expanded, norms and rules of trade were also written down. Rules related to currency standards, and standards in the area of weight, measurement and coinage were formulated. Bank of England introduced the principle of gold standard in all money and capital markets of the world. These trade-related norms gave stability to international trade. Some however produced rigidity over the course of time and hampered international trade.

First World War and the Great Depression were two cataclysmic events that destroyed the liberalized trading system that had evolved over the previous centuries. After the War, it had also become clear that axis of global trade had shifted from Europe to the United States of America. When Second World War ended, US brought about a convergence on the need to establish a liberal international economic and trade order. Without an international monetary, financial and trade arrangement, all based on the principles of free market, there was every danger of the global economy once again falling into recession and protectionism. John Maynard Keynes observed that in the inter-war years, European practiced 'beggar-thy-neighbour' policy to prevent domestic economic depression. Countries resorted to protectionism, indulged in competitive devaluations so as to promote their exports and erected tariff walls to prevent import from other countries. When the Second World War ended, there were two challenges: first how to establish international peace and ensure that another world war does not occur. Secondly, it was a challenge for the victorious Allied powers to establish a global financial and trading system which would avoid the disastrous economic and trade policies of the interwar years. Writings and policy

prescriptions of Keynes had a great influence on the economic reconstruction in Europe and the US. Foremost, it had become abundantly clear that some rational economic planning is required to streamline the working of capitalist market economies. Talking of domestic economies, Keynes theorized that government management of the economy could smooth out the highs and lows of the business cycle, which is a principal characteristic of capitalist economy. State regulation and intervention is necessary to produce more or less consistent growth with minimal unemployment.

On 22 July 1944, some 730 delegates from all 44 Allied nations met at Bretton Woods in New Hampshire, US and set up the International Monetary Fund (IMF) for monetary stability and the International Bank for Reconstruction and development (IBRD), the World Bank, to provide finance for development. IMF was the first fully negotiated monetary order in world history. A consensus did not emerge on the creation of an International Trade Organization (ITO) on the lines of the IMF and World Bank. In the absence of an ITO, US took the lead and General Agreement on Tariffs and Trade (GATT) was created in 1948 - a sort of an interim agreement to promote a liberalized trading system.

The Liberal International Economic Order (LIEO) was an attempt to attain a compromise between domestic autonomy and international stability. Bretton Woods institutions allowed states autonomy in pursuing domestic economic growth and social welfare as these very institutions would provide necessary regulation and management of the international economy so as to achieve stability and free trade. Someone described this as the “compromise of the embedded liberalism”. The consensus underlying LIEO was: “Keynes at home and Smith abroad”.

4.2 WORLD TRADE ORGANIZATION (WTO)

The World Trade Organization (WTO) came into being on 1 January 1995 under the Marrakesh Agreement, signed by 124 countries on 15 April 1994. It is an intergovernmental organization whose aim is reduction of tariffs and other barriers to trade among nations. With its formation, WTO replaced the General Agreement on Tariffs and Trade (GATT) which, since its inception in 1948, had worked to regulate international trade between nations. The WTO has 164 members and 23 observer governments. In addition to states, European Union is a member too. WTO members do not have to be independent states only; customs unions with freedom to conduct their external trade relations can also apply for membership.

International trade takes place in goods, services and intellectual property. WTO regulates all three. WTO provides a framework for negotiating trade agreements among countries. There is also provision for resolution of trade related disputes by judges who work independent of governmental control. The idea is that member countries adhere to the trade agreements; and let international trade remain free of discrimination. WTO prohibits discrimination in trade except when member countries do so for reasons of environmental protection, national security or some other weighty reason.

Analyses of international trade show that WTO has successfully raised international trade. Had WTO not been there, on average a country would have faced higher tariffs on its exports by 32 percentage points. Also it has been noted

that countries and groupings when they sign trade agreements among themselves often follow WTO rules and copy many of WTP's major provisions. In other words, WTO has contributed to the standardization of norms and values of interstate trade.

Check Your Progress Exercise 1

- Note:** i) Use the space given below for your answer.
 ii) See the end of the unit for tips for your answer.

- 1) Describe briefly the role of international trading system in promoting global economic development.

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4.3 GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

Two multilateral institutions viz IMF and the World Bank were successfully established for monetary and financial cooperation. No agreement however could be reached on the creation of a comparable international trade organization. The General Agreement on Tariffs and Trade (GATT) was established by a multilateral treaty of 23 countries in 1947. It was sort of an interim agreement; a stepping stone towards the creations of a trade organization. Over the years, however, GATT slowly became a de facto international organization dealing with trade. In that respect, it is said that GATT is the predecessor of WTO.

It is amazing that GATT, a semi-institutionalized multilateral treaty, continued to work for almost half a century on provisional basis. Countries had learnt their lessons the hard way in the period between the two world wars; no country had wanted to go back to protectionism, competitive devaluations and high import tariffs. Every country had wanted free and fair trade under clearly laid down rules. International trade has many subjects and issues to negotiate and agree upon; for instance, trade in manufactures; trade in agriculture; subsidies; anti-dumping; trade in services etc. Each subject goes through tough negotiations; obviously, norms agreed upon differ from subject to subject. Seven major subjects have been negotiated so far. Each subject discussed is called the Round. The first GATT trade round had concentrated on further reducing tariffs. In the 1960s, the Kennedy Round produced an anti-dumping agreement, among others. The principal subject negotiated under the Tokyo Round in the 1970s was non-tariff barriers. A ticklish issue, not every country agreed to the newly laid norms on non-tariff barriers. There are several subjects which are very complex to negotiate; they cause divisions between the developed and developing economies; or subject which affect most the least developed economies. Examples include government procurement, trade in dairy products etc.

Let us discuss briefly two major rounds viz. the Uruguay Round and the Doha Round.

4.3.1 Uruguay Round, 1986-1993

It was the 8th round of multilateral trade negotiations under the GATT framework. Uruguay Round agreed to extend GATT trade rules to areas which until then were exempt from negotiation; they were found to be subjects that were either very difficult or very sensitive to negotiate. For example, not every country would agree to liberalization of trade in agriculture; likewise it is not easy to negotiate on intellectual property. Further, at the end of the negotiations, the 123 “contracting parties” agreed to set up the World Trade Organization.

The main objectives of the Uruguay Round were: to reduce agricultural subsidies; to lift restrictions on foreign investment; to begin the process of opening trade in services like banking and insurance; and to include the protection of intellectual property. It was really very ambitious and expansive in its scope; and affected almost every other rule under GATT. Uruguay Round came into effect in 1995 with deadlines ending in 2000, and for developing countries 2004.

The round was launched in Punta del Este, Uruguay in September 1986. Negotiations continued in subsequent years in Geneva, Brussels, Washington, D.C., and Tokyo. Finally, as many as 20 agreements were signed in Marrakesh in April 1994. The Marrakesh Agreement established the WTO which came into being upon its entry into force on 1 January 1995. This was finally the most profound institutional reform of the world trading system since 1947 when GATT was established.

GATT continues to exist as WTO’s umbrella treaty for trade in goods. Uruguay Round resulted in a comprehensive treaty with six major parts: (i) An umbrella agreement which establishes the WTO; (ii) Agreement on goods and investment. It is the Multilateral Agreements on Trade in Goods and the Trade Related Investment Measures (TRIMS)); (iii) Services (General Agreement on Trade in Services (GATS)); (iv) Intellectual property (Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)); Dispute settlement (DSU); and, reviews of governments’ trade policies (TPRM).

Uruguay Round has been successful in increasing binding commitments by both developed and developing countries. Tariffs in terms of percentage have fallen. However, Uruguay Round has also been criticized for not taking care of the needs and interests of the developing world. It is said that developed adopted a mercantilist approach viz. to open the developing country markets for their predatory export policies. Also, agreement on intellectual property has been insensitive to basic human needs and put undue restrictions on developing countries in accessing technology and know-how.

4.3.2 Doha Round

The WTO launched the Doha round of negotiations in 2001 at its fourth ministerial conference. The Doha Development Round is an ambitious effort to make globalisation an inclusive force; and to help the world’s poor by eliminating farm subsidies and other barriers. Doha Round envisaged further trade liberalization besides making of new rules so as to provide relief to the poor countries.

Doha Development Round has remained stalled; and attempts to revive it have failed. EU and US want to keep their agricultural subsidies and other trade

distorting practices against agricultural exporting developing countries. Besides, EU and US also maintain agricultural subsidies against each other. There are differences between developed and developing countries on issues such as industrial tariffs and non-tariff barriers to trade. Rich countries want full access to developing country markets for their manufactures and services. At the same time, they want to retain agricultural subsidies for their farmers, which effectively work as trade barriers. At Doha US blamed Brazil and India for inflexibility: US does not want to open its domestic market to Brazilian agricultural exports; at same time, it wants India to open its domestic market for American grains and other agricultural products. It is for this reason that attempts to revive the Doha Round at the Bali ministerial meeting in 2013 failed.

The stalled Doha Round means an impasse in the working of WTO. Some skeptics say that WTO has become defunct. Also a trend has been witnessed: developed countries are circumventing WTO and concluded bilateral and regional trade agreements outside the WTO system.

Check Your Progress Exercise 2

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Explain the evolution of the WTO from the GATT.

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4.4 WTO PRINCIPLES, FUNCTIONS AND MECHANISMS

WTO has received many of the trade rules framed under GATT; it has also framed many of trade-related rules so as to make the global trade transparent and predictable. Countries do negotiate trade matters; but WTO does perform scores of functions including importantly it provides for dispute settlement. WTO is an exercise in continuation with various mechanisms and organs that perform both policy guiding, detailed studies and reports and recommendations.

4.4.1 Principles of the Trading System

WTO sets the framework for trade policies i.e. laying down certain basic rules for trade negotiations among members. It does not control the outcome of trade rounds. GATT worked on certain principles which came to be incorporated into the working of WTO. One can identify five major principles that guide the working of WTO:

1) **Non-discrimination:** The principle of non-discrimination is incorporated in WTO rules on trade in goods, services and intellectual property. World trade is guided by two basic norms viz the most favoured nation (MFN); and

national treatment policy. MFN requires that a member country would grant the most favourable conditions to all in a certain product; and with discrimination to none. Once an imported product has entered a market, it is to be treated as favourably as a domestically produced good. Any discriminatory treatment on non-tariff grounds such as security standard, technical standard etc. is inadmissible.

- 2) **Reciprocity:** the principle of reciprocity means that one should not seek undue advantage of accessing a market in the guise of MFN. There is no free riding in trade. Gains from a negotiated agreement should invariably be higher than gains otherwise available from unilateral liberalization. Reciprocal concessions means that gains do materialize and are eagerly sought by all parties to the agreement.
- 3) **Binding and enforceable commitments:** Members must abide by the tariff commitments made during negotiations. Any drawdown on these commitments must be negotiated with trading partners. Partners are normally compensated for the trade lost. Any disagreement between trade partners is a fit case for WTO dispute resolution.
- 4) **Transparency:** The principle of transparency entails that WTO members publish national trade rules, provide information sought by other WTO members, and maintain mechanisms which would review decisions that affect trade. WTO also periodically comes out with country specific reports.
- 5) **Safety values:** Under safety norms, countries can restrict trade on grounds such as protection of environment and health of man, animal and plants.

4.4.2 Functions of the WTO

Analysts have identified various functions of WTO, important among these are:
WTO

- i) oversees the implementation, administration and operation of the agreements;
- ii) provides a forum for negotiations and for settling disputes;
- iii) reviews national trade policies and ensures coherence and transparency of trade policies through surveillance of global economic policy making;
- iv) provides technical assistance and training to developing and the least-developed and low-income countries for their smooth transition to WTO rules; and
- v) WTO also works in cooperation with IMF and the World Bank and regional development banks to achieve greater coherence in global economic policy making.

The need and relevance of an international institution such as the WTO is acknowledged in the age of economic globalisation. It is a measure of its success: volume of global trade has continuously increased since the formation of the WTO. Trade related differences and disputes have also become more frequent and more acute. These differences normally are related to protectionist and discriminatory trade policies, subsidies, violation of intellectual property etc. In brief, WTO is a global public good. It serves as mediator between nations and also identifies subjects and frames rules for further rounds of negotiations. Its

research on global trade and related issues have been found extremely useful especially by developing countries which may not have the resources to carry out intensive research on trade matters. It can be said that WTO is the product of globalisation and also as one of the most important organizations in today's globalized society.

4.4.3 Ministerial Conference and Other Organs

The highest decision-making body of the WTO is the Ministerial Conference. All WTO members – countries and customs unions – meet every two years. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements. Some known ministerial conferences have been the inaugural ministerial conference in Singapore. There was disagreement on agricultural subsidies between developed and developing countries which came to be known as “Singapore issues”.

China became a member of WTO at the fourth ministerial conference in Doha in 2001. Doha Development Round was launched which was supplemented by the sixth WTO ministerial conference in Hong Kong which agreed to phase out agricultural export subsidies and to phase out tariffs for goods from the least developed countries. Eleven ministerial conferences have taken place so far. The 11th ministerial conference was held in Buenos Aires, Argentina in December 2017; the twelfth ministerial conference is scheduled for 2020 in Astana, Kazakhstan.

Next to the ministerial conference is the General Council which is the real executive of the WTO. It meets several times a year to carry out the functions of the WTO at its headquarter in Geneva. The General Council reports to the ministerial conference.

The General Council has several subsidiary bodies. These organs in turn appoint and oversee works of various committees. Important organs working under the General Council are: (i) The Council for Trade in Goods has a number of specific committees working under its supervision in areas such as textile, manufactures etc. (ii) Council for Trade-Related Aspects of Intellectual Property Rights keeps all the information related to intellectual property and the records of the TRIPS Council. (iii) Council for Trade in Services is responsible for overseeing the functioning of the General Agreement on Trade in Services (GATS). (iv) Trade Negotiations Committee, headed by the Director General of WTO, deals with ongoing trade negotiations. (v) The Service Council has a large number of mechanisms and committees that deal with matters like financial services, regional trade agreements, domestic rules and regulations etc.

WTO arrives at decisions through consensus; and this has been the practice thus far. Although its rules do not rule out voting too. The WTO defines and describes itself as “a rules-based, member-driven organization—all decisions are made by the member governments, and the rules are the outcome of negotiations among members”. The consensual method of arriving at decisions has some interesting dimensions: it means a law-based initial bargaining. In the end however, trade negotiations are finalized through power-based bargaining favouring the Europe and the US. How strong is an economy and the size of its market become decisive factors in decision making.

4.4.4 Dispute Settlement

Settlement of trade-related disputes is necessary for the stability of any global economic order. Such a mechanism is central to the working of all multilateral trading systems. Therefore, the history of settling trade dispute peacefully through negotiation and bargaining is fairly old. Many of these rules have evolved since the inception of trade in the mercantilist age. Since its founding in 1947, GATT itself has framed many rules for resolving trade disputes. The Maarakesh agreement of 1994 had the annexure titled Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU).

Issue-specific panels are set up for resolving disputes under WTO. These issue-specific panels are set up by the Dispute Settlement Body (DSB), the Appellate Body, the Director General and the WTO Secretariat, arbitrators and advisory experts of the WTO. Parties are encouraged to settle disputes through mutually agreed solution. In case, a case has to be decided it should be decided in a year's period. Member countries are obliged to accept the process as compulsory.

Check Your Progress Exercise 3

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) What are the various objectives, features and functions of the WTO?

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4.5 GATT, WTO AND THE DEVELOPING WORLD

In the creation of the institutions of global governance, be it the Bretton Woods institutions or the UN, developing countries were hardly in the reckoning. They found themselves marginalized and without any voice in global matters economic and political matters. GATT rounds were dominated by the developed economies and their concerns and priorities. During negotiations, all countries are equal; but the final outcome of a round depends on the strength of a nation's economy and the size of its market. On the whole, some critics say, that developing countries have had only few benefits from these GATT rounds. For example, in 1966, developing countries accounted for 11.2 per cent of manufactured exports; twenty years later, in 1986, their share had increased to only 13.8 per cent. Many of the ministerial conferences therefore generated lots of heated debate between the developed and the developing countries. The Seattle ministerial conference in 1999 was a failure; there was a backlash from the global civil society against WTO attempts to push neoliberal policies down the throats of the developing world. Cancun ministerial conference saw developed countries trying to prey open the markets in developing world for their own big MNCs trading in agriculture. Similarly, the Doha development round has remained stalemated since 2001. It was mandated to negotiate liberalization in agriculture, services

and intellectual property rights – with developed countries retaining their agriculture subsidies and other discriminatory trade practices.

Developed countries have dominated the agenda of GATT whose ambit expanded beyond reduction of tariffs on goods. As seen earlier, Uruguay round was the most ambitious and controversial of these rounds; and covered seven major areas – market access, trade in agriculture, textiles, trade related investment measures (TRIMS), trade related intellectual property rights (TRIPS), general agreement on trade in services (GATS), and institutional matters. Developing countries remained dissatisfied with the direction of the Uruguay round as well. The final outcome benefitted the rich and developed countries. They had succeeded in protecting their intellectual property rights which in reality meant that MNC from the rich countries had monopoly over specific technologies and knowledge; and that developing countries had lost out the opportunity to learn and use these technologies. The conclusion of Uruguay round made it incumbent that developing countries bring changes in their domestic laws in compliance with their international obligations. In case they did not, there were provisions for punitive measures such as countervailing duties.

In due course of GATT rounds, it had become clear that US would dominate the entire process – from setting agenda, pace of negotiations and the final outcome. US had also begun working out trade agreements outside the multilateral framework and norms of GATT; it concluded several bilateral trade deals which weakened the multilateral trading system. GATT was also unable to impose discipline on other big trading economies.

On the whole, during the post-War period, the US functioned as the international system's hegemon, provided leadership, stability and the opportunity for the world economy to flourish through the pursuit of monetary management and free trade. In 1971, US suspended dollar/gold convertibility, imposed a surcharge on imports, and devalued dollar – which effectively put an end to fixed exchange rates. Analysts describe these developments as the breakdown of the Bretton Woods system. By 1970s, US ability to lead the world in trade and monetary matters came under challenge. Japan, Germany and several other European economies had grown in economic strength and began to challenge the US hegemony over global trade and economy.

The rise of neoliberalism in the 1970s with its focus on liberalization of domestic economies, deregulation and privatization, and globalisation brought in lots of changes in the domestic economic development strategies of the developing world. Critics express the concern that WTO trading system has weakened the system of sovereign nation states; exposed weak and poor economies to the private predatory forces of global finance and business; and has exacerbated inequality among nations.

4.6 WTO AND INDIA

The objective of creating the WTO was to have a rule-based global trading system which would enhance free and fair trade, and improve economic growth rate through trade. Reduction of trade barriers could lead to overall prosperity and better living standards for all the people of the world. Analyses indicate that global trade has grown since the formation of the WTO. However, WTO has

been severely criticized also especially on grounds that it has failed to protect the interests of the developing countries; and that it has reflected the economic and technological might of the powerful and developed economies. Criticism has also been leveled on grounds that WTO entrenches institutional imbalances which favour the developed countries. Further, to the credit of WTO, its trade-related studies and writing down of norms have greatly benefitted all particularly the developing countries.

India is a leading member of developing world; and has often raised concerns of the poor and developing countries at the ministerial conferences and other meetings. It has experienced a major transformation in economy as a result of the changing multilateral trade discipline within WTO framework. India has been following its commitments accordingly, Quantitative restrictions on imports have been abolished and a tariff rate has been streamlined. However, there has been lot of debates on the issue what India has gained or lost.

The Uruguay Round Agreement and WTO have come in for strong criticism in India. Critics are of the opinion that agreement on the provisions of WTO is beneficial to developed countries alone and developing countries like India stand to lose. It is apprehended that by including agriculture in WTO, Indian farmers are going to become more and more dependent on multinational companies for improved seeds and agricultural technology. The farmers are not being able to save superior quality seeds from their crop and are compelled to buy patented seeds at high rates in the open market. Using patented seeds amounts to improved farm technology but it is often beyond the affordable range of the bulk of farming population in India which comprises of small and marginal holders. The overall cost of agriculture has increased at a time when farmers are not getting enough remunerative prices for their produce. Big farmers alone can take advantage of improved farm technology. This ultimately results in small farmers selling their land; and this aggravates the problem of unemployment in rural sector. Critics are of the opinion that after concluding WTO Agreement, subsidy to agriculture sector is slashed. It is also apprehended that through WTO agreement, surplus of food grain production of developed countries will find an easy access to the domestic markets of developing countries. Already, it is adversely affecting livelihood of poor people in many countries besides unnecessarily putting adverse pressure on their balance of payments situation.

Protection of intellectual property rights – patents, copyrights, trademarks etc – has become more stringent in the Uruguay Round. This has been done essentially to protect the interest of multinational corporations and developed countries as an agreement on TRIPs is in favour of patent holders. It has been said that TRIP is anti-competition and anti-liberalization and goes against the spirit of opening up the world economy and global integration. It amounts to legalizing and legitimizing the monopolistic approaches of the MNCs. Foreign MNCs claimed and tried to secure patent rights over several natural products of India e.g. turmeric and *neem* etc. They tried to patent traditional medicinal knowledge and practices on several occasions.

It is feared that WTO will adversely affect our service sector. Banking, transport, education, insurance, hotel services as offered by MNCs are of superior quality as compared with our domestic standards. As a result, indigenous units engaged in rendering these services will be marginalized and forced to wind up, causing a blow to the domestic entrepreneurship. Besides, entry of private players in

education, healthcare would make educational and health unaffordable for a large portion of the population. And also the provision of TRIMs under WTO prevents India from imposing restrictions on foreign investment. This may allow MNCs unregulated entry into the Indian market, much to disadvantage of domestic industries in India. While this increase FDI in India but it also carries the danger of exposing domestic industry to international competition. It is a hard fact that domestic industry cannot compete with MNCs, owing to high cost of production, and other factors. Consequently, it is feared that domestic industry will be marginalized causing a shift of domestic demand in favour of MNCs. Small and medium enterprises which are generally labour intensive cannot compete with the MNCs. SMEs are a major employer especially of labour which is semi-skilled or unskilled. Once SMEs become uncompetitive, this would cause spread of unemployment.

So, there has been hardly any developing country in the world which agrees in totality with the WTO proposals. On balance, there are gains and losses. In all scenarios, the importance of trade liberalization is overwhelming. But final results depend on implementation of the agreements and commitments of the developed towards the developing economies.

Check Your Progress Exercise 4

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Make an evaluation of the role of the WTO in contemporary world?

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2) Write a note on WTO and India.

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4.7 CRISIS OF THE LIBERAL INTERNATIONAL ECONOMIC ORDER (LIEO)

Multilateral financial institutions were established in the 1940s when international power configuration was in favour of US and its European allies; they remain same and continue to reflect the ideas of the 1940s only. No wonder, the liberal world order that these institutions underpin is in crisis, if not a full scale threat. Global economic power configuration has changed so has the flow and pattern of global trade. Asia has emerged as the hub of global finance and trade, which

makes commentators to describe 21st century as the 'Asian Century'. Rise of China, India and other dynamic economies of Asia confirm that it is Asia which is the new centre of global finance and trade, and technological breakthroughs. Emerging economies and powers such as Brazil, Russia, India, China and South Africa (BRICS countries) carry both financial and political weight with them in international affairs. Countries of the Global South today trade among themselves more than they ever did. Besides, the emerging and other wealthy economies of the Global South have large surplus capital ready to be invested in other developing economies. Also, countries like India and others have developed specialization and 'competitive advantage' in select areas; for instance, India is highly competitive in information technology and IT-based services.

From around the 1970s, the ideology of neoliberalism shaped the policy outlook and working of these institutions as well as the governments in the rich countries. However, neoliberalism entered a crisis period with the global financial crisis of 2008. Global financial crisis made it clear that neoliberalism was no guarantee of global financial stability.

The rise of nationalist protectionist administration of President Donald, the decision of a nationalist Britain to get out of the European Union, spread of nationalist sentiments in several European countries and the fact that WTO remains stalled – all only confirm the fact the multilateral financial institutions have lost the capacity to respond to these changed circumstances. Rather, emerging economies are floating new financial institutions such as the \$100 billion New Development Bank (NDB) of the BRICS along with a 'mini-IMF' in the form of a \$100 billion strong Contingency Reserve Fund or the China-led \$100 billion Asian Infrastructure Investment Bank (AIIB). This only means that IMF, World Bank and regional development banks all have fallen short of their expectations in providing developmental finance and contingency financial support to the needy countries.

In brief, there has been no shortage of signals that the global economy's institutional architecture needs to be updated. The Asian financial crisis of 1997 pointed to the potential for contagion in an increasingly interconnected financial system. The global crisis of 2008 which began with the subprime crisis in US housing confirmed that global finance operate in a highly complex and not easily decipherable manner; The contagious would spread like a wildfire throughout a complicated and mysteriously working global finance.

Despite these structural shifts in global economy, attempts to reform the Bretton Woods institutions have not met any great success. In 1999, in the wake of the Asian crisis of 1996, the G20 was established as a forum for finance ministers and central bankers of the 20 largest developed and developing economies, in order to expand representation in global economic governance beyond the G8. After the 2008 crisis, the G20 became a leaders' forum, responsible for rethinking the international monetary and financial system. Reform of the multilateral institutions in particular in their governance structure and the quota structure of the IMF was raised in 2010 by redistributing votes and seats to underrepresented emerging economies, especially China. The reforms have had only limited effect. IMF's governance remains dominated by the same main shareholders, with the United States retaining its veto power and Europe de facto guaranteed the managing director job. Nevertheless there are changes also: in the selection of staff at IMF, and in the policy approaches of the Fund. In 2016, the Chinese

renminbi was also added to the basket of currencies that determines the value of the IMF's reserve asset, the Special Drawing Right.

Can the global financial and trading system survive without US. US has long been the global leader and crisis manager who worked from within these institutions. Its quota in the IMF is around \$113 billion; it has contributed some \$23 billion to the World Bank since 2010. NDB and AIIB are there; but they are no match to the size of the IMF and the World Bank. In the first place, these new institutions are there not to challenge the IMF and the World Bank but rather to complement their activities. A nationalist US under a president like President Trump would not withdraw but could reduce its commitment to these multilateral institutions. Also, US might choose the path of bilateralism rather than multilateralism in providing financial assistance, emergency support and trade concessions to other countries. In that case, US could make its own new rules for bilateral relationships outside the multilateral domain arguing that US is protecting only its national interest.

All in all, the global financial and trade architecture continues with crisis and uncertainties; and ability of the institutions to face financial storms is on the decline.

Check Your Progress Exercise 5

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Write a note on the crisis of the International Liberal Economic Order.

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4.8 LET US SUM UP

Trade is as old as human societies. In fact, trade has been the one of the foremost means of interacting with other people and societies. Modern trading system dates back to the era of mercantilism. Mercantile capitalism held the view that exports are necessary to accumulate lots of gold, silver and other rich metals. Gold and silver were the sign of national prosperity. Strong nation states led the process of international trade. In the age of industrial capitalism, trade burgeoned, thanks to the technological inventions and innovations especially in the area of shipping and railways. Overseas colonies came in handy. A division of labour emerged. Industrialized economies were competitive with high rates of production and productivity. Colonies constituted the markets and were also the supplier of raw materials. Adam Smith advocated the principle of comparative advantage. A liberalized trading system could work on the principle of comparative advantage to the benefit of all.

Four about four centuries, Europe dominated the global trade. As trade expanded, trade-related norms and rules also came to be agreed upon; for instance in the

areas of weight, measurement etc and the exchange value of different currencies and the use of gold to prescribe the amount of a national currency in circulation.

The two world wars and the Great Depression of 1929 brought to an end the global trading system. Countries became protectionist and discriminatory in their trade dealings. After the end of the Second World War, one of the biggest challenges was to establish a global financial and trading system which would promote trade and financial flows with minimum hindrances. Countries could choose domestic economic policies but as far as trade is concerned, a rule-based trading order would benefit all.

Bretton Wood institutions came into existence. Some 730 delegates from 44 Allied nations and led by the US set up the International Monetary Fund (IMF) for monetary stability and the International Bank for Reconstruction and development (IBRD), the World Bank, to provide finance for development. A consensus could not be arrived at for the creation of an International Trade Organization (ITO). US took the lead and General Agreement on Tariffs and Trade (GATT) was launched in 1948 as an interim arrangement to promote trade among nations. The purpose of GATT was to reduce tariffs on trade. In subsequent rounds, new subjects came to be added: anti-dumping, trade in manufactures, trade in services and intellectual property rights, etc.

Uruguay round lasted from 1986 until 1993. Uruguay Round agreed to extend GATT trade rules to areas which until then were exempt from negotiation; they were found to be subjects that were either very difficult or very sensitive to negotiate. The main objectives of the Uruguay Round were: to reduce agricultural subsidies; to lift restrictions on foreign investment; to begin the process of opening trade in services like banking and insurance; and to include the protection of intellectual property. It was really very ambitious and expansive in its scope; and affected almost every other rule under GATT. Uruguay Round created the WTO which came into effect in 1995.

The WTO launched the Doha round of negotiations in 2001 at its fourth ministerial conference. The Doha Development Round is an ambitious effort to make globalisation an inclusive force; and to help the world's poor by eliminating farm subsidies and other barriers. Doha Development Round has remained stalled; and attempts to revive it have failed. EU and US want to keep their agricultural subsidies and other trade distorting practices against agricultural exporting developing countries while, at the same time, forcing developing countries such as India to open its economy to agricultural imports.

WTO sets the framework for trade negotiations i.e. it lays down rules for trade negotiations. It does not control the outcome of trade rounds. GATT worked on certain principles which came to be incorporated into the working of WTO. By now there are several agreed upon rules of international trade e.g. the principle of most favoured nation (MFN) and reciprocity in trade matters. WTO has its several organs and mechanisms for instance the ministerial conference which meets every two years. An important WTO organ is its dispute settlement mechanism. Analyses indicate that volume of global trade has continuously increased since the formation of the WTO. However, developing countries also express their dissatisfaction. WTO decisions in the end serve more the interests of the rich and developed economies – often at the expense of developing countries.

Liberalization of trade in agriculture hurts countries like India. WTO rules require that Indian farmers buy patented seeds and knowhow from big MNCs, which hugely hurts especially the small farmers.

Multilateral financial and trade organizations continue to reflect the power distribution of the 1940s while the world has changed a lot in the meanwhile. Asia has risen; today there are scores of emerging economies and powers; US and Europe are backtracking on their liberal commitments and have become inward-looking and nationalist. In this regard, it is appropriate to say that the multilateral system is in crisis.

4.9 SOME USEFUL REFERENCES

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4.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) Your answer should include early periods of global trade, the period between the two world wars, and the need to establish a Liberal International Economic Order (LIEO) after the end of Second World War.

Check Your Progress Exercise 2

- 1) Your answer should cover various rounds of the GATT negotiations in particular focusing on the Uruguay Round and the formation of the WTO.

Check Your Progress Exercise 3

- 1) Your answer should cover the various objectives, features and functions of the WTO

Check Your Progress Exercise 4

- 1) WTO, the developing world and India

Check Your Progress Exercise 5

- 1) Highlight aspects of changing global power distribution and the rising capabilities of the emerging economies.



UNIT 5 WORKING OF MNCs AND TNCs*

Structure

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Concept and Characteristics of MNCs and TNCs
- 5.3 Evolution of TNCs and the Global Economy
- 5.4 TNCs in the Global Economy
- 5.5 Relationship of TNCs with the Home and the Host Countries
- 5.6 Let Us Sum Up
- 5.7 Some Useful References
- 5.8 Answers to Check Your Progress Exercises

5.0 OBJECTIVES

In this Unit, you will be studying about the multinational corporations (MNCs) and the transnational corporations (TNCs). After going through this Unit, you should be able to:

- Define the concept and characteristics of MNCs and TNCs;
- Examine the evolution of MNCs and TNCs;
- Discuss the role of TNCs in the global economy; and
- Study the impact of TNCs on the home and the host country.

5.1 INTRODUCTION

The emergence of Multinational Corporations (MNCs) or Transnational Corporations (TNCs) is not a new phenomenon in the world economy. However, since the fag end of 20th century and the beginning of the 21st century, they have become more important and prominent in the global economy. The process of globalisation, based on fast changing technology, has propelled the emergence of MNCs and TNCs. Globalisation has come to revolutionize the global economy wherein the distinction between economic (non-state) and political actors (state) has become blurred. The global economy has come to be driven by powerful private actors which include both financial corporation (bank and other financial firms) as well as non-financial corporation involved in the global production network (MNCs/TNCs). These transnational corporations have come to exercise unprecedented influence in the global economy so much so that they are considered as key pillars of economic activities and markets. Along with it, the TNCs have also grown in their size so much so that they have become an integral part of daily lives of people across countries. Their presence and significance in human lives finds manifestation in their profound role in economic and political realm. They have become extremely powerful institutions in possession of resources far in excess of many of the nation states in the world. These corporations have become centres of power having the capability to exert influence in the international organizations, nation states, and the relations among them,

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and domestic economy of countries. In short, the MNCs and TNCs have come to define the global economy of 20th and 21st centuries, particularly because of the expanding role of Foreign Direct Investments (FDI) and technological innovation in international trade. Just look at the following to understand and gauge what can kind of weight and influence MNCs and TNCs carry in global economy;

- i) Of the 100 largest economies in the world, 51 are now global corporations; only 49 are countries;
- ii) the top 200 corporations' combined sales are bigger than the combined economies of all countries minus the biggest 9; that is they surpass the combined economies of 182 countries; and
- iii) the top 200 corporations have almost twice the economic clout of the poorest four-fifths of humanity.

5.2 CONCEPT AND CHARACTERISTICS OF MNCs AND TNCs

As the process of globalisation became intense, many terms that came into use to describe the multinational firms are Multinational Corporations (MNCs), Multinational Enterprises (MNEs) and Transnational Corporations (TNCs). However, while some scholars do not distinguish between the term MNC or TNC and normally use the terms interchangeably, there are other scholars who make a distinction between the two terms. Those who distinguish between the two terms argue that MNCs are companies that operate in one or two countries with single ownership, essentially by one country, while TNCs have operations in multiple countries, and are mostly based on co-ownership from two or more countries. However, the distinction has become blurred as most multinational companies operate from several countries with a large number of subsidiaries in different countries. Therefore, the term is used interchangeably in contemporary times.

MNCs are defined as “a company that has its headquarter in one country (which is the home country), and which operates in at least one foreign (host) country”. (Wilkins, 1991). TNCs are defined as “incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates.” What is a parent enterprise? A simple definition is an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. And what is a foreign affiliate? A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise (UNCTAD, 2018).

Based on profit motive, these MNCs or TNCs seek to maximize profit in more than one country with an aim to expand sales, to acquire resources, to diversify sources of sales and supplies and to minimize competitive risk.

What is an MNC and what are its attributes like? MNCs is “Any firm that has a large portion of its operations devoted to activity that is not limited to one country is a multinational firm.” (Hayes, 1972). In other words, an international business, multinational enterprise, transnational corporations that involves a company

making foreign investments and establishing stakes abroad, under the control of the parent firm, is an MNC. Importantly, MNCs/TNCs engage in foreign direct investment (FDI) and own or control value addition activities in more than one country.” Further, Robert Gilpin highlights the aspect of management. To him, an, MNC “is a firm that owns and manages economic units in two or more countries. Most frequently, it entails foreign direct investment by a corporation and the ownership of economic units (services, extractive industries, or manufacturing plants) in several countries. Such direct investment (in contrast to portfolio investment) means the extension of managerial control across national boundaries.” In simple and broad terms, an MNC/TNC is a foreign firm based in one country with operating branches and subsidiaries in a number of foreign countries.

From the above descriptions, one can draw following main characteristics of MNCs: (i) First, it accesses, organizes and coordinates multiple value added activities across national boundaries. (ii) Second, it internalizes at least some of the cross-border markets for the intermediate products arising from these activities. That is, MNCs involve in both cross-border production and transaction. (iii) Third, an MNC tends to be oligopolistic in nature where ownership, management, production and, sales activities extend over several national jurisdictions. It is comprised of a head office in one country with subsidiaries in other countries as well as large pool of managerial talent, financial assets, and technical resources. (iv) Fourth, the MNCs intend to secure the least costly production of goods for the world markets, mainly by acquiring the most efficient locations for production facilities or obtaining tax concessions from the host governments. Foreign Direct Investment (FDI) is the mainstay of the functioning of MNCs.

Check Your Progress Exercise 1

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

3) Define the MNCs/TNCs and describe their main characteristics.

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5.3 EVOLUTION OF TNCs AND THE GLOBAL ECONOMY

MNCs have a long history of evolution. They have transformed over the years on account of internationalization process, rapid liberalization, globalisation and technological change especially in information and communication technology (ICT). As a result both the scale and scope of MNCs have enlarged. Accordingly, they have largely evolved in terms of motives; the way companies integrate and expand their business around the world.

The major reasons for TNCs becoming the 'engine of growth' of the world economy are embedded in the following developments:

- 1) An increasing emphasis on market forces and a growing role for the private sector in nearly all developing countries.
- 2) Rapidly changing technologies that are transforming the nature of international production and the organization and location of such activity.
- 3) The globalisation of firms and industries whereby production chains span national and regional boundaries.
- 4) The rise of services to become the largest single sector in the world economy.
- 5) Regional economic integration.

The modern MNCs or TNCs developed in the decades after Second World War. However, the origin of multinational enterprises can be traced back to the emergence of early signs of international trade. Some says that the roots of the modern multinationals can be traced back to as early as the second millennium B.C. associated with the businesses operated by the ancient Assyrian colonists, Phoenicians, Greeks and Romans to that of medieval Europe. Others finds resemblance in the established companies of East India Company (1600) and the Dutch East India Company (1602), Royal African Company (1660) which was chartered to trade in gold and slaves from Africa, and the Hudson Bay Company (1670) which was chartered to trade in fur and colonization of North America.

However, it was not until late 18th and the early 19th century, coinciding with the Industrial Revolution, that corporations, on the line of the contemporary ones, emerged. The emergence of new production processes on account of changes in the production processes and technological development led to the emergence of modern corporations, with characteristics similar with the modern TNCs. However, it was only in the beginning of the 20th century that large enterprises managed by qualified professionals, particularly modelled on the United States corporate economy emerged.

In the two decades after the Second World War, US TNCs dominated economic activities, particularly foreign direct investments. The value of US direct investment increased from \$11.8 billion in 1950 to approximately \$ 233.4 billion by 1984. The share of US FDI was more than two-fifths of the world's FDI in 1981. There was also marked change in the direction of FDI post-Second World War. From Latin America, US investment shifted to Canada, Western Europe, and other industrial regions. Sector-wise, large chunk of investment went into advanced manufacturing industries i.e. advanced industrial sectors (automobiles, chemicals and electronics). Meanwhile by the early 1970s, European and Japanese Multinational Corporations also emerged, along with the ones in Newly Industrialised Countries (NICs) such as Brazil and India, and in eastern bloc communist countries. It is important to note that technological advancement, political uncertainties and the dramatic rise of trade barriers in both developed and developing countries resulted in the establishment of foreign subsidiaries or joint ventures with local firms. This in turn led to intensified competition among the MNCs of many countries by the fag end of 20th century. In the late 1990s and beginning of 2000s, international mergers and acquisitions (M&A) became the preferred mode of overseas investment by multinational companies, accounting for the bulk of FDI in the developed world and for increasing shares in the

developing world. According to World Investment Report, 2002, cross-border M&As rose from \$ 100 billion in 1987 to \$ 720 billion in 1999. The ratio of cross-border M&As to world FDI flows reached 80 per cent in 1999. Due to the various changes in the world economy induced by the processes of globalisation, accelerated by advances in technology and communications, the role for TNCs has become far more significant having economic, social and cultural implications.

You should know that Mergers and Acquisitions (M&A) are part of strategic management of business firms. M&A are transactions in which the ownership of companies, other business organizations, or their operating units are transferred or consolidated with other entities. With M&A, companies grow, downsize or even disappear. M&A also result in the change and the nature of firms' businesses or competitive position.

In simple terms, a merger is a consolidation of two entities into one entity; whereas an acquisition means that a firm has taken over ownership of another entity's stock, equity interests or assets. In commercial terms, both types of transactions generally result in the consolidation of assets and liabilities under one entity; hence the distinction between a "merger" and an "acquisition" remains blurred.

In the evolutionary process, global strategies of TNCs to tap foreign markets have also seen changes: The five different means to engage with the world markets are:

- 1) No direct investment by serving the market by exports or licensing local firms.
- 2) Invest directly by a greenfield venture.
- 3) Invest directly by acquiring a local firm.
- 4) Invest directly by merging with a local firm.
- 5) Enter into a strategic alliance with a local firm.

Check Your Progress Exercise 2

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

- 1) Explain the phenomenon of Merger & Acquisition (M&A) in the global economy.

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5.4 TNCs IN THE GLOBAL ECONOMY

The role of TNCs have become far more entrenched and complex in the world economy over the years. Their all encompassing role is not only evident in their scale and reach, but also in the intertwined nature of their activities.

Number of TNCs is on the increase: In the early 1990s, there were an estimated 37,000 TNCs in the world, with 170,000 foreign affiliates. Of these, 33,500 were parent corporations based in developed countries. This increased to 77,000 TNCs, with more than 770,000 foreign affiliates in a span of 15 years. Further, more than 90 per cent of all TNCs were headquartered in the developed world and less than 1 per cent originated from Central and Eastern Europe in the early 1990s. Developing countries accounted for approximately 8 per cent of all parent corporations. In a span of 15 years, around the year 2005, parent corporations from developing economies accounted for a quarter of all TNCs and five of them ranked among the 100 largest in the world.

TNCs revenue base is strong and large: According to the value of revenue, the top 10 largest corporations, including the state-owned enterprises, in 2016-17 were: Walmart (US) with a revenue of \$485 billion; State Grid (China) \$315 billion; Sinopec Group (China) \$267 billion; China National Petroleum (China) \$262 billion; Toyota Motor (Japan) \$254 billion; Volkswagen (Germany) \$240 billion; Royal Dutch Shell (Netherlands) \$240 billion; Berkshire Hathaway (US) \$223 billion; Apple (US) \$215 billion; and Exxon Mobile (US) with \$205 billion revenues. According to the *Fortune* Global 500 companies, the world's 500 largest companies generated \$27.7 trillion in revenues and \$1.5 trillion in profits in 2016. Together, they employed 67 million people worldwide and were represented by 34 countries in 2016-17.

As per market capitalisation, the top 10 global corporations were from the US in 2016. However, companies from Hong Kong and China, such as China Mobile Ltd, ICBC Ltd and Petro China, made to the top 20 companies in the world, particularly in the field of telecommunications, financials and oil and gas.

TNCs and the global value chain: One of the major contributions of TNCs to the world economy is the creation of transnational production networks, supply chains or global value chains whereby a single product is produced at different places across the globe. For example, the Apple iPhone illustrates the fundamental transformation which has come about in the production process on account of the intertwined global production networks coordinated by the TNCs. As of 2014 the components of iPhone 6 were produced by 785 suppliers in 31 countries. The product is designed in the US and assembled in China. While some 60 suppliers were US-based, 349 were China-based. Recognizing such interconnectedness in global production, UNCTAD maintained: "Today's global economy is characterized by global value chains (GVCs), in which intermediate goods and services are traded in fragmented and internationally dispersed production processes. GVCs are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80 per cent of global trade".

The advancement and expansive use of information and communication technology (ICT) has significantly transformed the international operations of TNCs, and have greatly impacted their foreign affiliates in host countries as well as affected the international production. According to UNCTAD Investment Report 2017, between 2010 and 2015, the number of tech companies in UNCTAD's ranking of the top 100 TNCs more than doubled. The assets of these TNCs increased by 65 per cent and their operating revenues and employees grew by about 30 per cent. The adoption of digital technologies – including internet

platforms, e-commerce and digital content firms – in global supply chains across all industries also had profound effects on international production. Digital TNCs accounted for about 70 per cent of their sales abroad, with only 40 per cent of their assets based outside their home countries.

TNCs from developing world are coming of age: One of the major features of post- 2008 Global Financial Crisis (GFC) is the growing prominence of TNCs from the developing countries, particularly state-owned TNCs. As many TNCs suffered a setback during the GFC of 2008–2009, a number of State-owned TNCs (SO-TNCs), based in developed and emerging and developing countries, assumed a major role in the world economy. In 2012 the developed economies suffered the biggest fall in FDI inflows accounting for only 42 per cent of global flows, while developing economies absorbed 52 per cent of global FDI flows. Developing countries also provided almost one third of global FDI outflows. As per the estimates of a 2017 report by UNCTAD there are close to 1,500 SO-TNCs, with more than 86,000 foreign affiliates, operating around the globe and which represented around 1.5 per cent of the TNCs and close to 10 per cent of all affiliates. Their impact is evident from the fact that out of the top 100 non-financial TNCs, 15 were state-owned TNCs. Out of these 100, 41 of the top TNCs were based in developing and transition economies, particularly China, Malaysia, South Africa and the Russia.

State-owned TNCs are a dominant feature of global economy: In terms of total assets, non-financial SO-TNCs from Germany, Italy and France dominated in 2016. The Volkswagen Group of Germany held the first rank with a total asset of US\$ 432 billion followed by Enel SpA of Italy (total asset of US\$ 164 & US\$ 131 billion respectively), Deutsche Telekom AG of Germany (US\$ 156 billion), EDF SA (US\$ 296 billion) and *Engie* (US\$ 167 billion). In 2016, China and Japan ranked 7th and 10th in the top ten SO-TNCs with a total asset of US\$ 179 billion and US\$ 187 billion respectively.

As far as total assets of financial SO-TNCs are concerned, dominance of Chinese companies was evident in 2016. In 2016, Japan Post Holding Co Ltd held the 4th position in the overall ranking with a total asset valued at US\$ 2592 billion and The Royal Bank of Scotland Group Plc of United Kingdom (UK) held the 7th position with a total asset of US\$ 982.5 billion.

TNCs and FDI: The TNCs are at the centre of the process of integration of world economy through accelerated international trade in goods and services, FDI and transfer of technological knowledge. Thus TNCs promote deeper integration and openness of world economy. One of the indicators of such role is the economic integration through increased FDI. In 2010, the value of global FDI stood at over \$21,288.5 billion and that of TNCs at over 100,000, with foreign affiliates at over 890,000 billion. FDI facilitates the spread of economic activity across borders, boost growth in all countries, and contributes to greater economic efficiency in the global economy by enabling the creation of favourable conditions for doing business. In the process, they create employment, particularly in the host countries. However, it also has its adverse impact, particularly by increasing the dependence of the host countries on such FDI and increased competition, siphoning of profits to home country and control of resources. Sometimes TNCs tend to serve the interest of the home country over the host country. For instance, through the subsidiaries, the home country can isolate the host country economically and politically if it fails to meet its interests. Inversely, the host

country may also confiscate the property of a subsidiary, and put pressure on the home country to reconsider any negative decisions. Changes in the host countries foreign trade and monetary policies could also have adverse implications on the subsidiaries. Civil wars or domestic violence may jeopardize the interests of the TNCs resulting in their withdrawal or suspension of its operations in the host country

TNCs and their developmental role in developing world: The TNCs have given rise to integrated international networks resulting in the fragmentation of value chain activities and their dispersal across borders. Previously, such activities was coordinated under the auspices of one firm and focused primarily on production and operations. However, along with the changes in the global economy, such activities are increasingly being coordinated between independent or, rather, loosely dependent entities. More so, TNCs are also increasingly shaping institutions, and thereby creating the conditions that are conducive to economic activity through collaboration with local civil society partners, and thereby encouraging local entrepreneurship. By providing education, training and supplier linkages, TNCs enable local firms to expand the scale and scope of their operations as well as to upgrade their human resources. Thus, TNCs participation can also help overcome some of the difficulties of expanding the scope of economic activity in countries where social cohesion is low and where the level of education may not be sufficient. TNCs also help the host government in setting national and international standard and industry and firm level self-regulation through public-private partnerships. TNCs are also increasingly involved in the delivery of public services, such as health, education or infrastructure services through public-private partnership for mutual benefits.

Global R&D: TNCs are playing a major role in global Research and Development (R&D), especially in the developing and least developing countries. TNCs provide the source of finance for R&D and facilitate transfer of technology. In order to increase the absorption capacity of the host countries to such transfer of technologies, TNCs also help developing countries to build up their R&D commercialization systems by facilitating their access to global supply and distribution chains and external markets. TNCs contribute a large share of global R&D activities. In 2002, the largest 700 firms worldwide spent \$311 billion on R&D. Between 1993 and 2002 the R&D expenditure of foreign affiliates worldwide climbed from an estimated \$30 billion to \$67 billion. The share of foreign affiliates in business R&D in the developing world increased from 2% to 18% between 1996 and 2002. Another striking development since the early 2000s is the relocation of R&D resources by TNCs to emerging markets or countries with future market potential and low-cost access to exceptional talent and technology, including China, India, Brazil and Russia. Between 2000 and 2015, the number of MNC R&D centres in emerging countries grew by a factor of five.

Check Your Progress Exercise 3

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Briefly describe the idea and importance of global value chain

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2) What factors explain the growth of MNCs/TNCs in the global economy?

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5.5 RELATIONSHIP OF TNCs WITH THE HOME AND THE HOST COUNTRY

The relationship between TNCs with both the home and the host countries is complex. The TNCs can have both positive and negative implications for both the home and host country. Positive implications are as below:

- i) TNCs can and do generate revenues and employment, particularly in the host countries, which can help in poverty reduction and unemployment.
- ii) In the context of globalisation and neoliberalism, TNCs are considered crucial for the stimulation of economic growth by raising exports and bringing in direct foreign investments in the host country.
- iii) There are several international agreements and national laws of developed countries which regulate the working of TNCs. TNCs can facilitate in building transparent framework to conduct economic activities based on standard rules and practices, including environment and labour conditions.
- iv) Governments in developed countries are invariably short of funds and also capacity to undertake meaningful R&D. R&D-related FDI can directly benefit economic growth by stimulating, through the R&D activity undertaken by TNC affiliates, technological efficiency and technological change. This adds to the 'competitive advantage' developing economies do acquire in niche areas. Besides, R&D contributes to employment generation in the host country. However, FDI into R&D may also divert scarce local R&D resources of host countries from local firms and research institutions.

On the negative side, scholarly analyses complain a lot about the working of the MNCs in the developing world and how MNCs have caused distortions in global economy. (i) it is said that both home and the host countries may use the TNCs to serve their own national interests. Home countries utilize and manipulate the TNCs in order to achieve foreign policy and other objectives by ways of lobbying, advertising and others. Inversely, the host country may also put pressure on the subsidiaries from the home country to (re) consider any negative decisions through confiscation of their subsidiaries. (ii) It is said that MNCs and TNCs are not leading to a global system of free and fair trade. About one third of the global trade today is actually intra-firm trade.

(iii) Foreign Direct Investment may be conceived by important sectors of labour in the home country as a threat to their interests. Similarly, the host country can conceive the penetration of their economies by the multinationals as detrimental to their economic, political, and other interests. (iv) As said before, of the 100 largest economies in the world, 51 are corporations; only 49 are countries. Wal-Mart is bigger than national economies of 161 countries, including countries such as Israel, Poland, and Greece. Mitsubishi is larger than Indonesia. General Motors is bigger than Denmark. Ford is bigger than South Africa. Toyota is bigger than Norway. The bigness is not just in terms of their capital base and earnings; MNCs today own more technologies than a very large number of countries in the world. (v) The worldwide spread of TNCs is a matter of concern. They are considered responsible, among others, for entrenchment of global inequality and poverty. The top 200 companies have almost twice the economic clout of the poorest four-fifths of humanity. Globalisation has resulted in heavy concentration of wealth among the world's rich. According to the United Nations, some 85 percent of the world's GDP is controlled by the richest fifth of humanity; only 15 percent is controlled by the poorest four-fifths. Hence, the poorer 4.5 billion people in the world account for only \$3.9 trillion dollars of economic activity; this is only a little over half the combined revenues of the top 200's \$7.1 trillion. (vi) TNCs don't generate jobs; they in fact destroy the existing employment. World's top 200 firms employ less than 20 million. While, it is estimated that 2.6 billion people make up the global workforce. Thus MNC generated jobs are not even one per cent of world-wide employment.

Check Your Progress Exercise 4

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

- 1) Write a note on the negative impact and implications of the working of MNCs/ TNCs.

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5.6 LET US SUM UP

TNCs have become an integral part of the global economy in the past few decades. The changes in the world economy over the years have transformed the very nature and functioning of TNCs. In the initial years, TNCs was basically dominated by private companies from the developed countries. However, in the past few decades or so, the global economy has come to witness the dynamic growth of corporation in the developing economies, increasingly complementing and enriching the traditional corporations. Simultaneously, the role of the TNCs has also expanded over time adjusting to the changes in the process of globalisation and advancement in technology. From being a major player in the FDI flows, the TNCs are now involved in many other non-economic activities such as delivery of services (health, education etc). The most striking development

at the fag end of 20th century and the beginning of 21st century is the emergence of the SO-TNCs based mostly in the developing countries. As the role of these SO-TNCs, particularly from the emerging economies like China, in the global economy become indispensable, there might be further transformations in the global economy in the future.

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5.8 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) Your answer should include following.
 - Definitions of the MNCs and their main characteristics.

Check Your Progress Exercise 2

- 1) Your answer should include following.
 - Why the phenomenon of Merger & Acquisition (M&A) has become prominent in the global economy?

Check Your Progress Exercise 3

- 1) Your answer should include following.
 - The idea and importance of global value chain.

Check Your Progress Exercise 4

- 1) Your answer should include following.
 - Cover the negative impact and implications of the working of MNCs

UNIT 6 GLOBALISATION – CULTURAL AND TECHNOLOGICAL DIMENSIONS*

Structure

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Globalisation
- 6.3 Culture
- 6.4 Cultural Dimension of Globalisation
- 6.5 Technical Dimension of Globalisation
- 6.6 Impact of Globalisation on Culture with Technological Development
- 6.7 Let Us Sum Up
- 6.8 Some Useful References
- 6.9 Answers to Check Your Progress Exercises

6.0 OBJECTIVES

This unit focuses on globalisation - its cultural and technological dimensions. After going through the Unit, you should be able to:

- Define globalisation, culture and technology
- Discuss the cultural and technological dimensions of globalisation
- Explain impacts of globalisation with technological development

6.1 INTRODUCTION

If you pause for a moment and think, you might feel that globalisation is an irresistible trend. Some scholars claim that globalisation is a recent phenomenon while others would like to make you believe that this is an old and a continuous process which began thousands of years ago with invention of language, writing and wheel. However, we cannot deny the fact that the globalisation has really gained its momentum tremendously in recent times. Historians put this intensification date around the beginning of the decade of 1990s. This decade is symptomatic of tremendous leap in communications sciences and information technology. This change in technological base was also corresponded by a facilitative socio-political international development. This meant the collapse of communist USSR that signaled a victory for liberal capitalist world view. Francis Fukuyama and others who felt victorious at the collapse of Soviet Union felt that the ultimate era of capitalism and democracy has begun. He aptly captured this moment in his book titled 'End of History' arguing that propelled by technology, the capitalist consumerist culture shall henceforth prevail. There would be no more ideological debates and political contestations for a better world; in simple words, best has already arrived.

*Dr. Karuna Hemam Yadav, Research Associate, NCERT, New Delhi

With the end of the cold war, for the first time in history, it seemed the entire world will become capitalist sooner or later. The confusion of history seemed to have ended. Universal international trade rules that were being debated since 1948 saw the conclusion at the altar of liberal-capitalist agreements in Uruguay in 1994 and World Trade Organization (WTO) was established with countries vying for its membership in 1995. (Today, in 2017, 164 countries are members of WTO, legally committed to facilitate trade in goods and services bringing the world together as never before). However, history did not end just yet. This brand of capitalism was criticized by scholars as a homogenizing discourse that is nothing but a camouflaged new version of Imperialism and called it neo-Imperialism and neo-capitalism.

With the fast growing technology, the world is more interconnected and is forming a global village. However, Yi Wang (2007, 84) opines that it may be a global village, but not a global community because the contemporary phenomenon of globalisation is precisely the globalisation of liberal capitalism and materialistic modernity. Because the economic system is the dominant one that controls other social systems, a materialistic and consumeristic culture is being spread through mass media to the people. The natural way of life is changed into a mechanistic and individual one. The gap between the rich and the poor in each country, and between the rich and poor countries is increasing.

There is no doubt that globalisation is a process of interaction and integration among the people, companies, and governments of different nations - a process driven by international trade and investment and aided by information and communication technology. The whole process of globalisation is so effective that it affects not only economy of countries but also the environment, culture, political systems, prosperity and human physical well-being of societies around the world. You may ask the question what are the cause and effects of this process? You may like to understand how globalisation works and the choices an individual and the society has in facing this. With the superfast growth in technology and social networking the entire process has changed during the last three decades and it has had tremendous impact on culture. New cultures have also evolved. Various scholars have analyzed this under a discipline sometimes called 'cultural globalism'. They primarily characterize this process under different heading/thesis like, homogeneity, heterogeneity, polarization, hybridization etc. This seems appropriate as process of globalisation is uneven and affects different people differently. In order to proceed with the discussion, let us first understand the broad meaning of globalisation and culture.

6.2 GLOBALISATION

Globalisation might not be a new phenomenon but it definitely emerged as the buzzword of the 1990s. However, even after three decades, globalisation has remained a hot topic of academic discussion. The Unit – 1 introduced you to the concept and meaning of globalisation including various perspectives and approaches to understand this multidimensional, yet difficult to define, a phenomenon. Once again, let us see a few definitions of globalisation, there is no single and complete definition of it.

Carnoy (1999) argues that globalisation is not merely a matter of trade, investment, or national economy, but a “new way of thinking about social space and time”

and that this has occurred primarily because the NICTs (New Information and Communication Technologies) have redefined distance and time. One particularly useful definition of globalisation that emphasizes our interdependencies is given by Blackmore (2000) who describes globalisation as “increased economic, cultural, environmental, and social interdependencies and new transnational financial and political formations arising out of the mobility of capital, labour, and information, with both homogenizing and differentiating tendencies”. In most cases, globalisation is considered to be primarily a new and an economic phenomenon, though some critics examine and define globalisation from a variety of social and theoretical perspectives, including discourse theory, gender studies, narratology, and multiculturalism. Globalisation is also studied through different dimensions including economic, political, social, environment, cultural, technological etc.

Therefore, globalisation is a complex process by which the world is becoming a highly interconnected world through economic, political, social and cultural contracts. It refers to the intensification of global interconnectedness, suggesting a world full of movement and mixture, contract and linkages, and persistent cultural interaction and exchange. As a result the world is shrinking in terms of time and space making the world feel smaller and distances shorter. The intensity and momentum of this process are further enhanced by the sophisticated instant communications and over expanding fast travels. In other words, globalisation means ‘integrating and connecting cultures and communities in new space-time combinations, and making the world in reality and in experience more interconnected’.

On the other hand, globalisation has been variously used in both the popular press and academic literature to describe a process, a condition, a system, a force, and an age. Given that these competing labels have very different meanings, their indiscriminate usage is often obscure and invites confusion. Academics exploring the dynamics of globalisation are particularly keen on pursuing research questions related to the theme of social change. Many global studies experts argue that economic processes lie at the core of globalisation. Others privilege political, cultural, or ideological aspects. (Steger, 2017) Therefore, it has been analyzed, explained and interpreted in various ways by experts - from contradictory statements to complimentary statements -based on the world view you bring to visualize it.

According to Manfred B. Steger (2017) in his *Globalisation: A Very Short Introduction*., “globalisation refers to the expansion and intensification of social relations and consciousness across world-time and world-space”. And also given there, the short definition as “globalisation is about growing worldwide interconnectivity”.

Perusal of these approaches convince that globalisation is a multidimensional process which operate simultaneously and unevenly on several levels and in various dimensions like economic, political, social, cultural etc. The forces driving these processes have actually been working for thousands of years since 3500 B.C in Sumer (current southern Iraq) when man for the first time started organizing society on a higher scale and sought communication and togetherness through writing and forging newer technology and long distance communication for trade. Today we are in the high-speed phase of that endeavour.

Check Your Progress Exercise 1

- Note:** i) Use the space given below for your answer.
ii) See the end of the unit for tips for your answer.

1) Define globalisation and its evolution?

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6.3 CULTURE

Grappling with multifarious complexities of its meaning, Raymond Williams (1976, 87) found ‘culture’ as one of the most complicated words in the English language. According to Immanuel Wallerstein (1990) culture provides a means of describing how groups distinguish themselves from other groups. Beyond describing differences between groups, culture provides a means for individuals to understand and interpret the world around them. In this respect, culture represents a collective mode of life, ‘a repertoire of beliefs, styles, values and symbols’ (Anderson 1991, 171). Globalisation has brought these complexities at much larger level. Making sense of world around oneself has become simpler and yet complex when confronted with difficult and painful choices. Clifford Geertz’s (1973, 89) much-cited definition of culture broadens inquiry beyond the belief-based focus into popular and practical activities. He defines culture as ‘an historically transmitted pattern of meanings embodied in symbolic forms by means of which men [sic] communicate, perpetuate, and develop their knowledge about and attitudes towards life.’

From another perspective, Michael Greig (2002, 225) argues that culture remains an important factor in international relations as it provides fundamental basis for human existence and serves to shape all levels of human interaction. Cultural differences can impede the ability of groups and individuals to communicate and cooperate. Historically, cultural differences have provided the basis for some of the world’s bloodiest conflicts. Yet changes in communications alter cultures – expanding, changing, destroying and even creating them. Some scholars have suggested that as communications expands and cultural differences become more pronounced, international conflict will become increasingly severe as disputes develop along cultural/ civilizational cleavages (Huntington 1996). Further, some scholars claimed that advancements in technology in the past few decades have brought more togetherness of culture among people and also people are more conscious about them and uniqueness of their culture. Thus, it is important to understand how changes in communication and technology in the present era of globalisation affects the distribution of cultures in the world.

6.4 CULTURAL DIMENSION OF GLOBALISATION

Globalisation and culture is a well-established theme. It first came up in the work of Ronald Robertson (1992), *Globalisation: Social Theory and Global Culture* in 1992. With the development of technology and communication furthering the horizons of globalisation, culture is being continuously analyzed in its different dimensions. Indian scholars like Appadurai (1996) have analyzed it at three levels of human interaction – the humans relate to nature and life, they relate to symbols and rituals, and their quest for ultimate meanings that offers them goals and motivations. The exploring network of cultural interconnections and interdependencies in the last decades has led some commentators to suggest that cultural practices lie at the very heart of contemporary globalisation. Yet, cultural globalisation did not start with the worldwide dissemination of rock ‘n’ roll, Coca-Cola, or football. Expansive civilizational exchanges are much older than modernity. Still, the volume and extent of cultural transmissions in the 21st century have far exceeded those of earlier times. Facilitated by the Internet and our proliferating mobile devices, the dominant symbolic systems of meaning of our age – such as individualism, consumerism, and various religious discourses – circulate more freely and widely than ever before. As images and ideas can be more easily and rapidly transmitted from one place to another, they profoundly impact the way people experience their everyday lives. Today, cultural practices have escaped the prison of fixed localities such as town and nation, eventually acquiring new meanings in interaction with dominant global themes. (Steger 2017, 81) Robert Holton (2000) analyzed this interconnectedness under three major themes as homogenization, polarization and hybridization. He mentions that under **homogenization**, global culture has become standardized around Western or American pattern. Some scholars called it as McDonalozation. The communications revolution, its rapidity and outreach, has made the world a global village. The multinational companies have made the world one global market. Jet airplanes, cheap telephone service, food chains, email, computers, huge oceangoing vessels, instant capital flows, all these have made the world more interdependent than ever. However, there are also inter-ethnic, inter-cultural and inter-religious conflicts in the world, and with globalisation they have only become more pronounced. People are searching for their cultural roots and challenging the single and homogenizing cultural norm. **Polarization** in that sense provides a more convincing picture of global cultural development with the presence of cultural alternatives and resistance to Western norms. In **hybridization**, cultures borrow and incorporate elements from each other, creating hybrid and syncretic forms. Some address this as glocal or glocalization. Subaltern groups and indigenous peoples are affirming and defending their local cultural and social identities in the new global era. (Wang 2007, 83).

For a culture to be susceptible (vulnerable) to outside influence, the capability for cross-cultural communication must exist. Historically, this ability has been sharply limited. Travel and communications were difficult, costly, and sometimes dangerous, limiting the range of prospective influences. Today, however, advances in communications technology, coupled with an expanding global economic system, have dramatically increased the opportunities for interaction between geographically separated groups. Air travel, international migration, telecommunications, the Internet, and television all provide the means for people

to transcend geographic boundaries and interact with those of other cultures. As globalisation expands and both remote and local communications become instantaneous, the relevance of distance and physical geography as forces that shape culture will decline (Greig 2002, 228-9). However, Yi Wang (2007, 84) argue that sometimes advocates of anti-globalisation overlook the power of people’s subjectivity. Because people are not mere objects of cultural influences, but subjects who can shift various influences and reject or integrate them. For example, Coke and McDonalds may be very popular in the USA; but in India, the few rich can afford them and they become status symbols and in China, traditional Chinese restaurants are still dominant. In fact, in both China and India, even Mc Donald had to cater to local tastes and modify their menu and spices.

By considering all the factors, we can say that the homogenization brought about by globalisation is superficial and is limited to the material level of the consumer goods used by people and a certain consumer culture that is artificially promoted by the media. It does not affect how people relate to each other and how they find meaning and purpose in life. It leaves largely untouched the freedom and agency of the subjects in the creating and changing culture, both as individual and as groups. (Friedman, 1994). Because it is ultimately we who are going to decide what to accept and what not to. In case of homogenization of culture, people agreed to see more of its impact in food, fashion, music etc. Instead of homogenization, polarization, and heterogenization, people are more comfortable with hybridization.

Check Your Progress Exercise 2

Note: i) Use the space given below for your answer.

ii) See the end of the unit for tips for your answer.

1) Discuss cultural dimensions of globalisation?

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6.5 TECHNICAL DIMENSION OF GLOBALISATION

Technological developments are conceived as the main facilitator and driving force of most of the globalisation processes. Technology can be defined as the socialized knowledge of producing goods and services. We can further describe this definition with five important elements: **production** (of technology), **knowledge** (of using technology), (market availability of technology) **instruments**, (capacity of) **possession** of the instruments and (experiencing) **change**. Information and technology has meant not only the obliteration (destruction) of the tyranny of distance but also the creation of a global virtual reality, in which time presents no fundamental barrier to social exchange. (Holton 2000, 141). Digital

technologies have opened the way towards global networks. Global networks are the networks in which all information and knowledge – also the ideology – necessary for the realization, maintenance and the reproduction of the system – basically the capitalist system – flourishes as reality. The term “New Economy” is the clearest explanation of how all these information, knowledge and ideology are in close relation to capitalism. Internet and especially e-commerce are the terms that are basically used for justifying the recent approach of techno-globalism. Techno-globalism can be summarized as the ideology which rationalizes globalism on technological grounds. This whole process presents dramatic creation, expansion, and acceleration of worldwide interdependencies and global exchanges that have occurred since the 1990s. The best way of characterizing this latest globalisation wave would be to call it ‘the great convergence’ – different and widely spaced people and social connections coming together more rapidly than ever before. Indeed, the deregulation of national economies combined with the ICT Revolution kicked globalisation into a new gear. The unprecedented development of horizontal networks of interactive communication that connected the local and global was made possible through the worldwide diffusion of the Internet, wireless communication, digital media, and online social networking tools. Sophisticated social networking by means of Facebook, Instagram, and Twitter has become a routine activity for more than two million people around the globe. (Steger, 2017).

As the Spanish sociologist Manuel Castells has pointed out, the creation of a global network society has been fuelled by ‘communication power’, which required a technological revolution powered chiefly by the rapid development of new information and communications technologies. Proceeding at breakneck speed, these innovations are reshaping the social landscape of human life. The techno-globalists, most of them live in the Anglo-Saxon countries claim that technology makes globalism irresistible. Therefore, techno-globalists wishing to dismantle all worldwide barriers to economic or technology flows, suggest a “liberal” global economic system on technologically improved infrastructure.

However, it would be wrong to assume that this all is due to fast growing technology in the past few decades. Globalisation has been a dynamic and diverse process. As we see it starts from pre historic period. The spatial expansion of social relations and the rise of the global imagery are gradual processes with deep historical roots. The engineers who developed personal computers and supersonic jet planes stand on the shoulders of earlier innovators who created the steam engine, the cotton gin, the telegraph, the phonograph, the telephone, the typewriter, the internal-combustion engine, and electrical appliances. These products, in turn, owe their existence to much earlier technological inventions such as the telescope, the compass, water wheels, windmills, gunpowder, the printing press, and oceangoing ships. And these inventions were the collective achievement of humans in all regions of the world, not just in one privileged geographic ‘centre’ that is the West. Yet, it would be foolish to deny that these new digital technologies have played a crucial role in the compression of world-time and world-space. The Internet, in particular, has assumed a pivotal function in facilitating globalisation through the creation of the World Wide Web that connects billions of individuals, civil society associations and governments. Since most of these technologies have been around for less than three decades, it seems to make sense to agree with those commentators who claim that globalisation is, indeed, a relatively new phenomenon. (Steger 2017, 18)

Check Your Progress Exercise 1

- Note:** i) Use the space given below for your answer.
ii) See the end of the unit for tips for your answer.
- 1) Explain technological dimensions of globalisation?

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6.6 IMPACT OF GLOBALISATION ON CULTURE WITH TECHNOLOGICAL DEVELOPMENT

Whenever we see the impact of globalisation on us, especially our culture, one question which may strike us is that whether globalisation should be considered a ‘good’ or a ‘bad’ thing. Does globalisation make people around the world more alike or more different?. Market globalists frequently connect their arguments to the alleged benefits resulting from trade liberalization- rising global living standards, economic efficiency, individual freedom, and unprecedented technological progress. But when market dynamics dominate social and political outcomes, the opportunities and rewards of globalisation are spread often unequally, concentrating power and wealth amongst a select group of people, regions, and corporations at the expense of the multitude. The same market logic also applies to access to information via digital technology. While answering the above questions, we can discuss it in two groups-pessimistic and optimistic.

The ‘pessimistic’ globalizers argue and suggest that we are not moving towards a cultural rainbow that reflects the diversity of the world’s existing populations. Rather, we are witnessing the rise of an increasingly homogenized popular culture underwritten by a Western ‘culture industry’ based in New York, Hollywood, London, Paris, and Milan. Referring to the diffusion of Anglo-American values and consumer goods as the ‘Americanization of the world’, the proponents of this cultural homogenization thesis argue that Western norms and lifestyles are overwhelming more vulnerable cultures. Although there have been serious attempts by some countries to resist these forces of cultural imperialism – for example, a ban on satellite dishes in Iran, and the French imposition of tariffs and quotas on imported films and television programmes – the spread of American popular culture seems unstoppable. (Steger 2017, 82). One particular thoughtful analyst in this group of pessimistic globalizers is American political theorist Benjamin Barber. According to him, in order to expand markets and make a profit, global capitalists are developing homogeneous global products targeting the young and wealthy throughout the world, as well as turning children into consumers. Thus, global consumerism becomes increasingly soulless and unethical in its pursuit of profit.

It must be recognized, however, that for all the successes of globalisation, it has simply not lived up to its promise for many developing countries (as well as for

Russia). As a matter of fact, during the same time that the total world income increased by an average 2.5 percent annually, the actual number of people living in poverty has increased by almost 100 million. Globalisation, which has helped to create wealth and improved living conditions for many, has simultaneously been the context for the growing divide between the haves and the have-nots. Under globalisation, increasing numbers of people have been left in dire poverty, living on less than a dollar a day. (Globalisation: What is it?). Optimistic globalizers agree with their pessimistic colleagues that cultural globalisation generates more sameness, but they consider this outcome to be a good thing. Sociologist Ronald Robertson, for example contends that global cultural flows often reinvigorate local cultural niches. Rather than being totally obliterated by the Western consumerist forces of sameness, local difference and particularity still play an important role in creating unique cultural constellations. Arguing that cultural globalisation always takes place in local contexts, Robertson rejects the cultural homogenization thesis and speaks instead of glocalization – the complex globalisation dynamic involving the interaction of the global and local. The resulting expressions of cultural ‘hybridity’ cannot be reduced to clear-cut manifestations of ‘sameness’ or ‘difference’. The processes of hybridization have become more visible in fashion, dance, film, food, sports, and language. (Steger 2017, 86)

It is also argued by optimistic globalizers that globalisation has helped to produce an explosion of new technologies, an abundant production of goods and services, and increasing levels of wealth for millions. As a result of globalisation, more people are living under democratic systems, more societies are recognizing the importance of human rights, and never before in world history have so many people had so many opportunities for education and knowledge. Further, because of globalisation, a number of developing countries have grown far more quickly than they could have otherwise. Because of international trade and export-led economic growth, for instance, millions of people in East Asia are now far better off now than they were just a few years ago (and being “better off” is not just a function of a larger GNP, but also includes citizens living longer and living healthier).

But the respective arguments of globalizers and sceptics are not necessarily incompatible. The contemporary experience of living and acting across cultural borders means both the loss of traditional meanings and the creation of new symbolic expressions. Reconstructed feelings of belonging coexist in uneasy tension with a sense of placelessness. Indeed, some commentators have argued that modernity is slowly giving way to a new ‘postmodern’ framework characterized by a less stable sense of identity, place and knowledge.

According to Manfred B. Steger, given the complexity of global cultural flows, one would actually expect to see uneven and contradictory effects. In certain contexts, these flows might change traditional manifestations of national identity in the direction of a popular culture characterized by sameness; in others they might foster new expressions of cultural particularism; in still others they might encourage forms of cultural hybridity. Those commentators who summarily denounce the homogenizing effects of Americanization must not forget that hardly any society in the world today possesses an ‘authentic’, self-contained culture. Those who despair at the flourishing of cultural hybridity ought to listen to exciting Bollywood pop songs, admire the intricacy of several variations of Hawaiian

pidgin, or enjoy the culinary delights of Cuban-Chinese cuisine. Finally, those who applaud the spread of consumerist capitalism need pay attention to its negative consequences, such as the dramatic decline of traditional communal sentiments as well as the dramatic commodification of society and nature. (Steger 2017, 87)

Michael Greig (2002) further mentioned that, although globalisation may yield a greater cultural similarity among peoples, this similarity tends to develop not through the imposition of one set of cultural values on another. Instead, cultural similarity tends to develop through the mixing of a diversity of cultural values, moving closer to Pieterse's (1995 and 2015) "cultural melange" than cultural hegemony. Indeed, we can see how this mixing of cultural values occurs throughout the world today as the expansion of communications promotes the opportunity for people to gain exposure to new cultural forms. Culture is dynamic, not static. The impact of expanding communications on cultural change cannot be adequately confined to a simple distinction between homogeneity and heterogeneity. Instead, the expansion of communications provides new opportunities for cultural interaction while also limiting others. As cultural values shift and change, new opportunities and challenges will likely develop in the international system (Greig 2002, 242). Today's cultural fault lines may evolve into broader areas of similarity, making communication and cooperation less difficult. In contrast, new cultural fault lines are also likely to develop, dividing peoples in new and unexpected ways and providing new sources of conflicts and disagreements.

Michael Greig (2002) further argues that, globalisation functions to both increase the level of cultural homogeneity in the system and the rate at which hybrid cultures develop. Yet, the expansion of communications also reduces the degree to which cultural traits that were the most prominent before interaction tend to predominant after interaction. In this respect, these results suggest that globalisation fosters the development of a homogeneous hybrid culture rather than the imposition of a particular set of cultural values. In addition, under the right set of circumstances, the expansion of communications can foster the development of areas of local cultural diversity by encouraging the development and maintenance of cultural diasporas.

However, in the new era of globalisation, people become much more concerned about the uniqueness and particularity of their own culture. Cultural identity provides the global significance of local knowledge and the sense of self, community and nation. Deng (2005) points that cultural identity answers the questions of "Who am I?", "Where are we going?" and "What do we Have?" Since people construct their identities through their cultures, they will defend them. Actually, globalisation brings much more awareness of cultural identity than before. In a deeper sense, globalisation enhances cultural identity and people become much more concerned about the uniqueness or the particularity of their culture. If we look at it negatively, globalisation may lead to hegemonic control. But looked positively, globalisation may lead to a sense of "togetherness". The planet is our lifeboat and we are all in this boat together. Globalisation can also lead to a sense of "deeply-rooted-in-one's-culture," and the global significance of local knowledge. These two dimensions can form a very fruitful interaction. Therefore, togetherness is not at all in conflict with diversity. The world becomes more diverse and also more "together".

When we view globalisation in terms of science and technology, we'd better notice that people are not passively accepting the influence of globalisation. They have great subjectivity and freedom to change and create culture. With the development of science and technology, people are closer than before. They become much more concerned about their cultural identity. They are constantly searching for their cultural roots and defending them. If we can respect the diversity of peoples and their cultures in this new era, it can lead to global community marked by unity in pluralism. The cultures may no longer be local in the traditional sense, but still different and plural. This will lead to a new kind of globalisation that will not be homogenizing.

In the two decades following 9/11, the ideological struggle over the meaning and direction of globalisation has shown no signs of dissipating. Perhaps the three most daunting tasks facing humanity in the 21st century are the reduction of global inequality, the preservation of our wondrous planet, and the strengthening of human security. Other success stories such as the worldwide reduction of absolute poverty and the formation of an international alliance dedicated to the joint exploration of outer space suggest that the solution to our global problems is not less but more (and better forms of) globalisation (Steger 2017, 133-34). Without question, the years and decades ahead will bring new global crises and further challenges. Humanity has reached yet another critical juncture – the most important in the relatively short existence of our species. Unless we are willing to let global problems faster to the point where violence and intolerance appear to the only realistic ways of confronting our unevenly integrating world, we must link the future course of globalisation to a profoundly reformist agenda. These transformative social processes must be guided by the ethical polestar of cosmopolitanism: the building of a truly democratic and egalitarian global order that protects universal human rights without destroying the cultural diversity that is the lifeblood of human evolution.

Check Your Progress Exercise 4

- Note:** i) Use the space given below for your answer.
ii) See the end of the unit for tips for your answer.

1) What are the impacts on globalisation on culture?

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6.7 LET US SUM UP

After analyzing various concepts and ideas of known scholars/ experts in this field, we can summarize that globalisation is as historic as human beings and the process has been growing steadily on the back of technology. The greatest boost to this march may also be argued to have happened in last three decades. It can also be asserted that cultural consequences of globalisation may be seen with special reference to three theses of analysis by various scholars and experts - as

homogeneity, heterogeneity/ polarization and hybridization. Because globalisation is the multidimensional, dynamic, diverse and complex process and involve various other factors/ elements/ forces like economic, political, social, environment, human prosperity and well-being, these three processes may run simultaneously.

6.8 SOME USEFUL REFERENCES

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6.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

- 1) Your answers should include definitions of globalisations, three phases of globalisation.

Check Your Progress Exercise 2

- 1) Highlight on interconnectedness, homogenization, polarization, and hybridization.

Check Your Progress Exercise 3

- 1) Your answer should highlight on rapid and fast growing technologies that gives a dynamic and diverse process in globalisation which is far different from the past.

Check Your Progress Exercise 4

- 1) Highlight both negative and positive impact of globalisation on culture

