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May 24-25-26, 2012
ISTANBUL, TURKEY

May 26, 2012

To Whom It May Concern,

On behalf of the **Eurasia Business and Economics Society (EBES)**, I hereby confirm that *Ozlen Hic Birol* from *Kadir Has Univeristy, Turkey* registered and participated in the EBES 2012 Conference, held in Istanbul, Turkey on May 24-25-26 and presented a paper entitled *"The Past of the Future of Globalization"*.

This is also to confirm that his/her abstract has been published in the Conference Program and Abstract Book. We are honored to receive top-tier papers from distinguished scholars like *Ozlen Hic Birol* from all over the world.

If you have any additional questions, please feel free to contact me by e-mail at demir@ebesweb.org

Sincerely,

Ender Demir
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Evaluating the Possibility of Designing a Calculation Model of Deposit Cost by ABC Method in Agricultural Bank Headquarters in Tabriz, Iran
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Ozlen Hic Birol, Kadir Has University, Turkey

Economic System and Economic Progress in Globalization
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Out of Robotic Constructs and into Realistic Science: A Critique of Conventional Economic Wisdom
Jamil Hammoud, American University of Science and Technology, Lebanon

The Past of the Future of Globalization

Ozlen Hic Birol, Kadir Has University, Turkey

ABSTRACT

The first step towards globalization was the efforts of the Western World following WW2 to have both DCs and LDCs implement free international trade, the signing of GATT and the establishment of the IMF and the IBRD (WB).

But during the years '50s to '70s, most of the LDCs, in their initial years of development at the time, implemented a closed-economy model, protectionism and interventionism. Only starting with mid '70s did most of them opt for market economy and outward orientation. This shift vastly enlargened the space of globalization that started with the '90s. Globalization involves not only free trade and free flow of direct private investments (DPIs) but also free flow of financial funds. Though immigration is legally restricted in all countries, illegal migration surpass legal levels and their remittances back home provide a large source of finance.

Since the '90s, major events took place that largely affected the globalization process. One was the crumbling of the USSR, the shift of Russia to democracy and market economy, and a similar shift of most of the newly independent East European and Balkan countries, with many of them having eventually become EU members. This enlargened the space of globalization further.

Still another was the shift of China away from Marxist central planning to a mixed economy, outward-orientation and encouragement of DPIs. This event still further enlargened the space of globalization. China registered a remarkable economic economic growth to become second only to the USA in terms of total GDP.

The 1997/1998 financial crisis that emanated in the Southeastern countries was quickly overcome and caused only a temporary fall in the process of globalization.

But the September 2008 global financial crisis and global recession was much deeper and its negative effects continued up to the present time. It emanated in the USA, in the financial sectors first, but soon spread to all other DCs and LDCs. Most countries had to implement special programmes to aid the financial sector and also to raise public investments, hence budget deficits in order to avoid, rather, to ameliorate the economic crisis. But, it must be underlined, the measures implemented did not aim to restrain or hinder the globalization process. The stress was on international cooperation in taking the measures against the crisis, using the milieu of the G-20.

The measures implemented, however, brought heavy burdens for the future such as increased external debt, budgetary deficits and balance of payments deficits. In the following years, failure to cope with these problems promptly gave rise to talks about a double dip. But the USA soon raised its external debt limit and accepted a programme of reducing public expenditures. Europe, in particular, the Euro zone, faced graver problems. Firstly Ireland, Portugal, Greece and Spain failed in meeting their external debt payments. The rescue was offered by the IMF,the ECB and also the European Financial Stability Fund (EFSF). The problem faced by Greece was much deeper and required special bail-out programmes by the EU contingent on the implementation of a tight budgetary discipline. The event caused a change of the Greece government. The EU increased the funds at the disposal of EFSF and called for a closer cooperation of financial policies to be followed by Euro

zone members. Dismantling of the Euro, throwing Greece out were not considered alternatives, but neither was creating Eurobonds. The implication for the globalization was again clear; the measures implemented would in no way hinder the process of globalization, but, in fact, strentghen it in future.

THE PAST OF THE FUTURE OF GLOBALIZATION

1- THE FIRST MOVE IN THE DIRECTION OF GLOBALIZATION: ATTEMPT TOWARDS FREE TRADE AFTER WORLD WAR 2

The first move in the direction of globalization was the attempt toward free international trade following the World War 2 (WW2). It should be underlined, that at that time, the main concern was free international trade of goods since foreign private capital flow was meager, flow of financial flows nearly non-existent, and migration of workers prohibited or otherwise restrained tightly by law. In accepting the principle of free international trade (in compliance with the teachings of Adam Smith and David Ricardo), the lesson that was taken into consideration was the 1929 Great Depression. Following WW1 (1914-18) all the European countries had implemented a closed economy model, with import restrictions and export encouragements, with the end-result of a low level of international trade and low economic growth rates for all countries. Moreover, macroeconomic theory, based on *laissez-faire* classical system was ill-suited to deal with the repression. The Keynesian macroeconomic system that advocates financial and monetary policies to avoid depressions and recessions had come into being in 1936, following the 1929-1934 Great Depression.

Mindful of these past adverse experiences of restricting free international trade, the Western World, led at the time by the USA and Great Britain (GB) did not want to fall into the same mistake after WW2. Therefore, they devised special institutions to ensure free international trade. GATT (General Agreement on Tariffs and Trade) was signed in 1947. In addition, IBRD (International Bank for Reconstruction and Development) later called the World Bank (WB) and IMF (International Monetary Fund) was established by the Bretton Woods Agreement signed in 1944. IBRD first aided the European countries in their reconstruction following the WW2, and after this mission was completed, turned its attention to LDCs for their development. IMF was to take care of short-term balance of payments problems of both developed countries (DCs) and less developed countries (LDCs) that joined the Western World.

Another important development in Europe in the same direction of globalization following WW2 was the establishment of the European Economic Community with the 1957 Rome Treaty. It was later further deepened as well as enlargened, and called the European Union (EU). The EEC (EU) implemented all the principles of globalization (free trade, free direct private investments, free flow of financial funds as well as free flow of workers) only

on a scale of member countries. Similarly, later attempts at regional free trade agreements such as NAFTA, the ASEAN are also lighter moves in the same direction.

It should be underlined at this point that after WW2, market economy and open economy model (free international trade) was advocated not only for the DCs but also for LCDs. The DCs enjoyed on the whole, relatively high rates of growth practically void of business cycles and depressions after WW2. But, it was, on the whole quite a different story for LDCs. The move of LDCs towards market economy, outward-orientation and globalization is taken up at more lengh in the following section.

2- THE CASE OF LDCs AND THEIR MOVE TOWARDS MARKET ECONOMY, OUTWARD-ORIENTATION AND GLOBALIZATION

2.1. The Years '50s and '70s Close Economy, and Protectionism in LDCs

As noted above Less Developed Countries (LDCs) which joined the Western World were required to follow "liberal" economic policies, implying encouragement of private enterprise and of foreign private capital flow, that is, direct private investments (DPIs). It was foreseen that developmental credit from the WB to LDCs would not be sufficient and had to be supplemented by DPI flows. While WB credit was indeed insufficient, DPIs flowing to LDCs was also meager. Hence, the USA tried to fill this shortage by means of additional aid programmes, such as Marshall Aid and Truman Point 4. The move towards the market economy LDCs and newly industrializing countries (NICs) however, started not after WW2 but since mid '70s and and '80s while the move towards globalization started since '90s. Attention was focused on economic development of LDCs and development economics, on the other hand, after WW2. The actual direction of developments in most of LDCs after WW2 was interventionism, protectionism and statism, assigning a large role for the state in terms of both public investments as well as macro and micro interventions.

Although free trade and liberal economic policies were advocated by IMF, most of the post WW2 literature on economic development, as was surveyed by Hiç (2001), stressed at the time that the markets in LDCs were not competitive. In addition, external economies also existed. Therefore, prices in LDCs were not good indicators for channelling investments to most productive fields. The new discipline, "development economics" that came into being after WW2, therefore, advocated some extent of interventions at the sectoral level, including channelling of investments in addition to interventions to be undertaken at the macro level to attain a steady growth rate within relative price stability. The latter necessitated taking measures to balance the budget as well as encouragement of savings. In addition to micro and

macro interventions, governments of LDCs were also eager to introduce measures and interventions to improve the distribution of income among social groups.

The pioneers of the new discipline, "development economics" were Rosenstein-Rodan (1943) and Arthur Lewis (1954). Kingleberger (1958) noted that price mechanism in LDCs did not work satisfactorily. Later Ranis and Fei (1961), like Arthur Lewis (1954), also stressed the dual economy character of the LDCs. Nurkse (1953) stressed the importance of developing the agricultural sector to induce development of industry. Myrdall (1957) stressed the importance of ameliorating the differences of development between regions within a country, Singer (1952) and Coale and Hoover (1958), on the other hand, cautioned the adverse effects on development of high population growth rates. To do justice to this early school of development economists, none encouraged or called for extensive and intensive interventionism and absolute protectionism. But, in actual practice and implementation most of the governments of LDCs fell into excessive interventionism, protectionism and statism.

The model implemented by the LDCs was aptly described later as inward-looking or closed economy model aimed at import-substitute industrialization. Major policy instruments below will shed more light on the properties of the model used:

- Absolute protectionism by means of quantitative restrictions and prohibitions on imports; high and differentiated customs taxes with lower taxes on investment goods, differentiated export tax rebates and premiums.

- Fixed exchange rates, leading over time to over-valued currency (under-valued foreign exchange) because of much higher inflation rates compared to DCs from which imports are obtained.

- Low nominal interest rates in order to encourage investments despite high rates of inflation, sometimes leading to negative real interest for investments.

- Relatively high wages despite abundance of labor or relative scarcity of capital, with the purpose of improving the lot of workers which, however, affected employment negatively.

- Chronic budget deficits due to the desire of the governments to increase (public) investments as well as social expeditures on the one hand, inability or unwillingness to increase taxes on the other. The budget deficits were, in major part, financed by Central Bank credits leading to increases in money supply and inflation.

- Since private savings and investments were not forthcoming at the desired high levels, public investments were generally increased, leading to a high ratio of public sector in total fixed investments.

In some countries public investments were considered as complementary to private investments and were directed to those areas not taken up by the private. Thus, though they went to some super-structure in addition to both productive and social infra-structure, they were not *de facto* competing with, but were actually aimed at encouraging private investments and production by providing the required basic industrial and agricultural inputs and intermediary commodities. In some countries, however, the tendency was to prefer development and industrialization based in large part on the public sector as opposed to the private.

It should be granted here that some degree of protectionism, some degree of interventionism, some relatively high ratio of state investments and basically some degree of import-substitute industrialization strategy were unavoidable particularly during the initial years of development as in the '50s and '60s. But the important point is that LDCs went to excesses in these strategies. And the main reason for the excesses lied with the prevalent opinion at the time that USSR was recording a fast economic growth with the strategy of state investments, soviet central planning, closed economy model and import-substitute industrialization, concentrating on establishing heavy industries first. Many LDCs were obviously impressed. India, for example, tried a development model (Mahalonobis model 1955-61) similar to Russian central planning, which, however did not work. In Turkey many preferred a "mixed economy" in which state investments would exist side by side with the private for the foreseable future.

Whenever LDCs met with balance of payments difficulties, inability to pay their external debt or else to pay for their import requirements, they had to apply to the IMF and the WB. IMF, in turn, advised a large-scale devaluation, plus a stabilization programme to eliminate or reduce inflation, and stressed more reliance on private investments and DPIs instead of public. But, after having passed through the difficult periods of economic crisis, the governments of LDCs soon fell into the same mistakes of over-valued currency practices, enlargening budget and balance of payments deficits, and again had to have recourse to IMF and WB aid and credit.

The exceptions were S.Korea, Taiwan as well as Singapore and Hong Kong. The latter two city-countries were, because of their position, international finance centers of the region.

The former two countries, on the other hand, implemented a strategy based on export-encouragement instead of import-substitute industrialization. But they could do this because DPIs from USA flowed extensively to these countries, taking advantage of low wages, and imported the cheaply manufactured goods to the USA. Such an opportunity did not exist for most other LDCs. Otherwise, both S.Korea and Taiwan, like Japan, were interventionist and protectionist, with interventions and protections geared to export instead of import-substitute industries. In addition, they deliberately implemented under-valued currency (over-valued foreign exchange) to boost exports and prohibit imports. Hence, they were not implementing "market economy" as it is conceived today. But they had good governance and attained significantly high rates of growth, distancing themselves in time from other LDCs in terms of *per capita* GNP levels.

The net results of the policies of other LDCs, however, were low growth rates due to frequent balance of payments crises and worsening income distribution due to inflation.

2.2. Mid '70s till '90s: The Move of LDCs Toward Market Economy and Outward Orientation

Starting since '70s, many observers and economists, having become aware of the excesses of closed-economy import-substitution industrialization, excess interventionism, and protectionism in LDCs and NICs blamed the "Classical" development economics for the faults incurred in practice. "Classical" here means not *laissez-faire* but allowance of some degree of interventionism and protectionism due to market and price imperfections in these countries. Many of these economists argued that for LDCs and NICs as well as for the DCs, the optimal economic policy model should be "Neo-Classical", implying non-intervention and non-protection in the *laissez-faire* sense. Some in this group argued that in LDCs and NICs even though market imperfections may be met in some sectors, the governments trying to correct it would cause greater disruptions due to the intervention. Hence, they argued, a hands-off by the government is the better policy. Some economists went further and argued that there was no need for development economics as a separate discipline on its own. As Toye (1993) succintly surveys, the pioneer critic was Bauer (1972), most vociferous critics were D.Lal (1983) and S.Lall (1981); pathbreaking studies include Little, Scitovsky and Scott (1970), Little and Mirrless (1974), Bhagwati and Srinivasan (1975) amongst many others.

At a more realistic level, a group of economists including those from the WB argued in narrower sense in favor of discarding the closed-economy model, import-substitution

industrialization, interventionism and protectionism. Instead, they advocated a move towards market economy, outward-orientation of the economy, encouragement of export-industries, and foreign-exchange-earning sectors, reliance on private enterprise, and encouragement of DPIs. The more prominent members in this group include Balassa (1971, 1983) and Anne O.Krueger (1974, 1983) both from the WB and both of whom have accentuated free trade for LDCs and NICs.

The IMF and the WB also endorsed this view; urging the LDCs and NICs to move towards the market economy and outward orientation. What was more important was that the public opinion in most of the LDCs and NICs by mid ‘70s and ‘80s had become aware of problems faced with the former development strategies and were willing to actually shift permanently in favor of the strategies advocated by IMF and WB.

Thus, we witnessed serious efforts in most Latin American countries, as well as Turkey, India and Southeastern Asian countries to move towards the market economy and outward-orientation. This required the implementation of policies and measures below:

- Encouragement of private enterprise.
- Encouragement of DPIs; free (or freer) flow with respect to bureaucracy, sectors and the participation rate.
- Less public investments, and preferably only in the fields of productive and social infra-structure, leaving super-structural fields to private investments; and also allowing private enterprise to the former two fields.
- Privatization programme, to sell the existing public enterprises to the private, including to foreign capital.
- Getting rid of excessive interventions on prices, such as high agricultural support prices, low prices on basic industrial and agricultural inputs produced by public enterprises, with agricultural and other prices in general to follow world prices at the going exchange rate.
- Discarding fixed exchange rate regime and implementing, instead, flexible exchange rates, to be determined at the world markets.
- Liberalization of imports, removal of quantitative restrictions and prohibitions on imports, reductions in customs taxes and elimination of multiple exchange rates on imports.

- Elimination or reduction of export tax rebates and export premiums; reliance on the flexible exchange rates for the encouragement of exports – plus export credits – and elimination of multiple exchange rates in exports.
- Market economy and reliance on market forces and prices necessitated that LDCs and NICs should prevent inflation and attain price stability. Hence, the need for a balanced budget was most important. Privatization, restriction of public investments, control of wage rises, raising of interest rates, shedding high agricultural support prices and of price subsidies on the products of public enterprises, all went to decrease the budget deficit. But these did not obviate the need to implement tax reform and attain tax increases along with tax equity.

The important point that should be stressed at this point is that gradual shift of LDCs away from closed model model, protectionism and *dirigisme*, towards market economy and outward orientation by the '70s has vastly expanded the space of globalization which, in proper sense, started since the '90s.

Since the '50s, LDCs had shown a conspicuous differentiation in their development and growth over time and some had begun to be categorized more aptly as NICs. The more developed NICs, on the whole, could adopt these policies with less tensions because their industrial base had developed sufficiently to take on the shift towards export-orientation and shedding of the excesses of import-substitution. Thus, many countries did adapt themselves to the new economic strategies. The case of most of the African (Sub-Saharan) countries, on the other hand, remained as an economic, political and social catastrophe all throughout.

It should be mentioned at this point that many Latin American economists, called the "structuralists" continued to remain opposed to the move towards market economy and freer trade. The pioneer was Prebisch (1988, a later work); other notable economists included Cardoso and Faletto (1979), amongst many others. They argued that LDCs and NICs had different economic structures from DCs and were in need of permanent and intensive interventionism and protectionism. In the "center and periphery model" they devised, they tried to stress that if not intervened and protected, free trade would work to the advantage of the "center economy" (*i.e.* USA) and to the disadvantage of the "periphery" (*i.e.* Latin American countries). They pleaded, however, for international trade and for the encouragement for their exports of indusrial goods, that is, encouragement measures to be implemented by DCs (the USA) for industrial imports from Latin American countries,

instead of merely receiving aid from the USA. Hence they were not advocating a socialistic model.

3- GLOBALIZATION AND MAJOR RELATED EVENTS SINCE THE ‘90s: THE CRUMBLING OF THE USSR, THE 1997 FINANCIAL CRISIS AND CHINA’S MOVE TOWARDS A MIXED ECONOMIC REGIME AND OUTWARD ORIENTATION

The years ‘90s, on the other hand, witnessed several pathbreaking developments. The first to be mentioned is the move towards globalization. Globalization encompasses international relations far more extensive compared to outward orientation. The latter includes free trade, that is, free movement of commodities as well as free movement of DPIs, Globalization, however, also involves, in addition, free flow of financial capital, short term and longer term. And as P.Kennedy (1993) has underlined, the amounts involved dwarfs total credit lent by IMF and WB. Globalization was enabled, no doubt, by technological developments involving the computer and the internet, but obviously it is, in essence, a policy option taken by the mutual consent of both LDC and DC governments and business circles.

Interestingly, free flow of labor is conspicuously absent in globalization as well as the market economy. Immigration is generally legally limited in many countries, foremost the USA. To fill the economic void, however, illegal emigration takes place extensively from poor countries to the richer. This includes illegal emigration to the USA from Latin American and other countries, illegal emigration to UK, continental EU countries, particularly to France and Germany, and emigration even to Turkey. Emigration to the latter country comes from Moldova, Bulgaria, Azarbaijan, Armenia Georgia and, Turkic countries in Asia.

Another important development was the crumbling of USSR in 1991 and the emergence of independent East European and Balkan states. The newly emerged Russia chose democracy and market economy, also encompassing outward orientation and globalization. Though there are serious defects in her implementation of both democracy and market economy, a return of Russia back to communism or even a closed-economy model is not in the works. Most of the East European and Balkan countries after gaining their independence during 1989 and 2001, also chose democracy and market economy; they also chose to become and were accepted as candidate and later as full members of EU. According to the Copenhagen economic criteria, EU members are required to implement an “operational” market economy. And they would have to enter a “customs union”, implying

eventually zero customs on imports from other EU countries and applying Common Customs Tariffs to third countries. Thus, East European countries chose, *per force* to enter the market economy and globalization (or regional free trade) as well. The crumbling of the USSR was a major event that has widened the space of globalization. The EU, on the other had, has become number one in terms of total GNP, pushing the USA to 2nd place. By the addition of new member countries in the Balkans and East Europe, the total number of members reached 27. But in terms of military potential and political influence, EU needs much to be achieved compared to the USA.

Still another important event was the global financial crisis that emanated in the Southeastern Asian countries in 1997 and encompassed the world. In addition to Southeastern Asian countries, Russia, Argentina and Turkey also fell into severe economic crises, and many more were on the brink, including S. Korea, Brazil, and even Japan. Many of the countries were saved by strict adherence to IMF and WB recipes and credits. Some, including Malasia and Russia, however, tried to get over the crisis single-handedly, but still by implementing strong austerity measures. Although the crisis reached worldwide proportions, thanks to the strong US economy at the time and the efforts by IMF and WB, it was relatively short-lived for most of the countries and subsided by 1998. As a consequence, however, there was a drop in the volume of financial funds flowing to the LDCs and NICs from DCs. But globalization continued, in essence, with short-term financial flows at a lower level. Soon, however, globalization figures reached new high levels.

Many observers criticized the financial flows as “hot money” deserting the country just at a time of economic difficulties and thus compounding the crisis. In fact, however, the real fault lied not with the flight of financial funds but with the governments of LDCs and NICs, including Southeastern Asian, which had plunged into economic crisis not because of the presence of financial flows but on account of economic mismanagement which, in turn, had prompted the flight of foreign funds back. The governments of Southeast Asia, foremost Indonesia, for instance, had not put the short-term financial funds into good use. They had used them in long-term and mosty unproductive fields. Further mismanagement of the economy, corruption, partisanship, cronyism had led the countries in question into economic crisis, in the first place. The crisis was definitely compounded when short term funds wanted to flee the country in view of the economic difficulties.

Hence, conforming with Rodrik’s (1999) assertion, “good governance” or “good economic management” has acquired importance. The IMF and the WB were also careful

from this time on to stress transparency to avoid corruption, partisanship and cronyism. They were also more careful in strengthening the financial structure of the banking system in LDCs and NICs, to make banks stronger for times of economic difficulties. In particular, increases in banks' own capital as a ratio of credits they lent, was increased.

A fourth important development in the '90s and since is the entry of China to the free market system, outward orientation, extensive encouragement of DPI flows and encouragement of exports by foreign capital companies operating in China and taking advantage of low labor wages as well as political stability. Following a long march of implementing pragmatic economic policies as advocated by Deng Xiaping instead of doctrinaire, China finally made the definite shift to a mixed economy and outward orientation by also becoming a member of the World Trade Organization. This radical change of economic regime has enabled China to register unpredecented and very high rates of GNP growth for a very long time. It has thus made China into a big world economic power, the second largest country in terms of total GNP, following the USA. Private capital has flown to China not only from the USA but also from Germany, other European countries as well as Japan.

Similarly, India has also entered the globalization process particularly in computer programming with extensive outsourcing received from the USA and also from Europe. India also seems good in health services and by now has some internationally known big private firms.

Prior to India and China, Ireland, one of the relatively poor European countries of the recent past had adapted its economy successfully to the new economy involving computer programming and has presently become much richer.

Turkey too entered the globalization process with enlargened exports from automotive industry, the whites, electrical appliances and electronics as well as textiles destined mostly to Europe, Russia, the Middle East, and Caucasian and Central Asian Turkic states. It has also a large portfolio of construction undertakings, again in Russia, the Middle East and the Turkic states.

Of the four remaining communist countries besides China, Vietnam is also trying to attract Western private capital flow, just like China. Past-Castro Cuba would likely follow in the same direction in future. Hence, only Laos, a very small communist country and North Korea stand aside and closed to globalization. But, in fact, N. Korea receives a sizeable flow

of private capital and aid from South Korea. Still another country outside of worldwide international relations and globalization is Iran (excepting her relations with Russia, China) Iran is immersed in Islamic (shiite) fundamentalism, remains a severe critic of the USA and the Western World and harbors regional power aspirations merged with religious.

Particularly during the years 2000s, however, this time an interesting reverse was witnessed in some Latin American countries. These countries had to carry a long fight against very wide differences in income distribution. Although they were disappointed with closed-economy model prior to '70s and had shifted towards the market economy and outward orientation, the social problems in many of these countries were not solved sufficiently and satisfactorily. Therefore, many discarded the market economy and outward orientation as "Washington consensus" and returned once more towards socialistic strategies, increased role of the state, protectionism and interventionism. The list of such countries includes Venezuela which has also benefited extensively from the rises in the price of petroleum; and Bolivia; with Argentina also keeping a wide distance from the USA. Brazil, has turned towards center-left, but it has retained a pragmatic approach in its economic policies in stark contrast to Venezuela and allies. Benefiting from these pragmatic economic policies and gobalization, Brazil registered a remarkable growth and is now rated along with Russia, India and China, in the four major (new) economic powers, called the BRICs. Mexico, on the other hand, keeps a free trade agreement with the USA and Canada, thereby retaining the outward-oriented strategy in essence.

Many prominent economists, including. Stiglitz (2002, 2003) has criticized globalization and also the IMF for engaging more in stabilization measures with less emphasis on long-run growth and employment prospects of these measures. Many prominent economists, such as Bhagwati (2004), however, has come to a balanced defense of globalization. One should agree along with Rodrik (1997, 1999) that although globalization brings mutual advantages to all parties concerned and is inevitable, it may also create some economic and social problems; these can be eliminated or ameliorated by all the help of "good governance", that is, good economic management by the governments involved.

Major criticisms levelled against globalization must be taken into account here, albeit briefly, for a sounder evaluation and final word. One such major criticism leveled in the initial years was that globalization benefited the DCs, hence leading to a worsening income distribution among country group; more specifically, DCs benefit from globalization while LDCs lose, implying that globalization is a *zero-sum-game*. But international statistics show

that both DCs and LDCs registered higher rates of growth due to globalization, indicating a *win-win* situation. Even more importantly, the rise in the growth rates of LDCs, including the BRICs and emerging markets, had been greater compared to the rise in the growth rates of DCs, thus actually narrowing the income gap. This trend can be deduced by comparing the WB development indicators for the relevant years (WB development indicators, say for the years 1992 vs. 2008. In addition, both Sala-i-Martin (2002a and 2002b) and also Chen Ravallion (2004) have also shown that the number of people in the world living below the poverty line have decreased along with globalization. This was a general tendency but particularly conspicious for the case of China and India. In contrast, poverty in central African countries that had not entered the globalization process had grown over time.

A second important criticism of globalization is that it gives rise to worsening income distribution in those LDCs and NICs which entered the globalization process; employment also is not increased much. Indeed, depending on a host of factors, this may be witnessed in some LDCs and NICs, in the initial phases of globalization. In these initial years there may be less flow of DPIs to LDCs and NICs directly creating employment opportunities. Instead, DPIs may prefer to buy or otherwise participate in the already existing private companies or public enterprises when these latter are privatized. At that first sales stage there will be no increase in employment; but much depends on how the foreign exchange that entered the country will be used. If the owner of the private enterprise that has sold the company or its share to foreign private capital takes this money outside; then it will evidently result in no increase in employment. But, if the domestic company uses the proceeds to undertake new investments, then in the medium run the benefits of higher growth and increased employment will definitely be registered. In the case of privatization of public enterprises and foreign capital participation in privatization, if the government uses the proceeds in wasteful expenditures then, of course, the transactions will in the end bring no palpable benefits to the economy. But if the government uses the funds say, in productive infra-structure, the end-result in the long-run will be different. Even if the government uses these proceeds to reduce foreign debt, it will be able to reap long-run benefits. Thus, much depends again on "good governance" to go hand in hand with the process of globalization.

4- THE SEPTEMBER 2008 GLOBAL ECONOMIC CRISIS, ITS AFTERMATH AND THE GLOBALIZATION PROCESS

The gravest problem faced because of globalization and hence was a potential threat to the process of globalization was the more recent global financial crisis and global

recession that arose in September 2008. It was the worst ever encountered only next to the 1929 Great Depression, and its negative effects still continue to the present day and will go beyond. The birthplace of the September 2008 economic crisis was the American financial sector and its mis-management. Mismanagement was also witnessed during the current, post-crisis years both in the USA as well as many of the Euro zone countries. This implies that "good governance", using Rodrik's terminology, is a must not only for the governments of LDCs but also of DCs. Since the 2008 global economic crisis and its aftermath was very grave, it has to be taken into serious consideration, however briefly, because we aim to come to a conclusion in this article on the fate of the globalization process.

4.1. The Financial Crisis and Recession in the USA

In the USA, the financial sector had been largely deregulated during the Reagan administration because it was thought that it would increase its speed, hence its efficiency. Only commercial banks were left loosely controlled by the Feredal Deposit Insurance Corporation (FDIC). Mortgage banks, investment banks, hedge funds, on the other hand, were deregulated. This deregulation proved a poor background for the financial crisis that burst out in the mortgage sector. In a milieu of ever rising real estate prices in the USA during early 2000, the demand for mortgage credits from mortgage banks began to swell. Even those householders who had already obtained mortgage credit reapplied to the mortgage banks for an increase in their mortgage credit. Mortgage banks, in turn, were willing to fulfil these applications because, on paper and disregarding that they could become bad debts, the volume of their activities, hence their profits increased. This enabled the CEOs of mortgage banks to increase their salaries or otherwise premiums while shareholders were also happy because they received increased dividends. But the picture changed when real estate prices began to fall, starting in 2006. This fall should have been a warning for both the mortgage banks and also for FED. But they failed to see the danger ahead. Eventualy, due to to inability of mortgage credit-receivers to pay back their credits, some mortgage banks began to show financial strains. At first, however, it was considered a limited "illiquidity" problem. In fact, however, it had swollen into a very serious "solvency" problem. Two giant mortgage banks *Freddie Mac* and *Fannie Mae* became insolvent, they were so big that they could not be allowed to go bankrupt. Hence, as a speedy rescue measure, they were partially nationalized and the public funds they thus received cleared their bad debts (toxic assets) problem. Similarly, a giant institution dealing with insurance to the financial sector

(*American International Group*) also became insolvent, and it too had to be partially nationalized and public money supplied.

But the American financial sector was closely knit, because they all buy the derivaties as well as the shares of mortgage banks and of other banks. Hence the problem of insolvency soon spread to all other financial institutions, including even the hedge funds. This included *Lehman Brothers,* a very big, prestigious investment bank. But neither the FDIC nor the American Treasury could help Lehman Bros. because it had breached stipulations concerning financial insurance. With no one willing to buy off Lehman, it was allowed to go bankrupt in September 2008. Its bankruptcy, however, triggered a very widespread crisis in the financial sector. Hence, September 2008 is generally accepted as the beginning of the global economic crisis.

The crisis in the financial sector, the loss in the income, hence consumption of mortgage credit receivers also caused private consumption to dwindle, private investments also fell, thus giving rise to a serious recession.

The US government and the Treasury as well as the FED started speedily to take radical measures to eliminate or otherwise ameliorate both the financial crisis and the recession. First it was realized that deregulation of the financial sector was not a wise strategy. FDIC concentrated on increasing its controls on banks, even subjecting them to "stress tests". Another measure was the estalishment of a special fund, called the *Troubled Assets Relief Programme* (TARP) in order to buy the bad debts (toxic assets) of banks. To avoid the recession, on the other hand, the following major policies began to be implemented. Firstly, the FED lowered the interest rate, down practically to zero. The aim of this policy was to encourage both private investments and also private consumption expeditures that are carried with bank credits (e.g. credit cards). The FED also created a large special "guaranty fund" to help sustain bank to bank (securitization) credits. In addition, the government created another fund to finance additional public investments so as to partly offset the fall in private investments.

At the sectoral level, in addition to the vast aid channelled *per force* to the financial sector, the only other sector that received governmental credit and aid was the automotive, although all the sectors of the economy had been negatively affected. The special problem in the automotive sector was that the GM needed to implement structural reforms and wage restraints while Chrysler had to be prepared for sales to a foreign automotive firm.

4.2. The Spreading of the Economic Crisis to Other Developed Countries and Measures Taken

The financial crisis and recession that emanated in the USA soon spread to other DCs, Europe and Japan. Firstly, most banks in Europe and Japan held shares, bonds or derivatives of US banks which had become nearly worthless, thus giving rise to a financial crisis in these countries. The financial crisis, in turn, gave rise to recession.

The measures taken in the DCs to combat the financial crisis and recession were similar and paralel to those implemented in the USA. Many countries, including Britain, Germany, Denmark and others had to speadily nationalize insolvent banks. Secondly, funds were established (similar to TARP) to buy bad debts of banks to prevent their insolvency. Thirdly, the European Central Bank (ECB), after a short lag, also began to reduce the interest rate. Central banks of Britain, Japan, Switzerland also followed the same line. To fight the recession, special public investment funds were also established to compensate the fall in public investments. To boost private consumption expeditures, in addition to the fall in the interest rate, taxes falling particulary on the low-income groups were lowered in order to boost their net disposable income and hence the private consumption. The automotive sector in most of the DCs were also encouraged by special credits and aid lent to buyers of new cars.

4.3. The Spreading of the Economic Crisis to LDCs

The economic crisis the USA and other DCs experienced also spread to all LDCs, including the BRICs and the emerging markets. The major reason was the recession the USA and other DCs experienced. As a result, there was a drastic fall in the volume financial funds and bank credit flowing from DCs to LDCs. Similarly, DPIs also fell precipitiously. Since exports of LDCs were directed mostly to DCs and the recession in the latter countries had reduced their demand of imports, the volume of exports of LDCs fell significantly. Therefore, LDCs were faced with recession as well as balance of payments deficits.

4.4. Major Country Differences

Different DCs and LDCs with different traits and different economic policies pursued before the economic crisis, naturally felt the pain in different degrees. For the USA, one major economic trait was the low private savings propensity. This was a factor that deepened the crisis the USA experienced. The fact that the dollar is used as an international reserve currency, on the other hand, facilitated the financing of the special programmes and funds to

fight the financial crisis and the recession. But it was at the big expense of increased external borrowing which created economic problems later.

Those countries, DCs or BRICs that had sizeable foreign exchange reserves at the time the economic crisis erupted, including Germany, Japan and China could, in turn, more easily finance their programmes by using these reserves. While the USA has to increase her propensity to save and reduce her propensity to consume, in contrast, China should have to do the reverse and rely less on export-led growth and rely more on increased domestic consumption propensity. China should also have to adjust the *yuan* upwards for a more balanced international trade and trade balance, a policy the Chinese government is very reluctant to implement. In general, those LDCs, or emerging markets, or BRICs which had followed a policy of over-reliance on flows of financial funds, say by keeping their interest rate level well above world averages suffered most due to the sharp fall in the flow of financial funds and DPIs following the global crisis.

4.5. Observations Concerning Policies Implemented to Fight the Global Economic Crisis and Their Relevance to the Process of Globalization

Some important observations can be made about the stand of governments of both DCs and LDCs and the policies they implement to fight the global economic crisis. These observations are highly relevant to the future of the globalization process.

It should first be noted that the monetary and fiscal policies that were implemented were basically Keynesian, advised by Keynes to fight depressions and recessions. Secondly, the measures implemented obviously brought a great economic burden both for the present and for the future. Rising external debt or else dwindling of foreign exchange reserves for those countries which held such reserves, budget deficits, balance of payments deficits come out as the most important burdens. The governments of DCs were aware of these serious problems. But they calculated that if they did not take these measures, the resultant fall in the level of GDP, the increase in unemployment would have created even a worse situation, again both for the short and the long run.

It was most interesting to observe that despite the eruption of the 2008 September global economic crisis, despite the burdens undertaken to fight the crisis, neither the DCs not the LDCs, in general, considered to stop or opt out of the globalization process and revert to closed economy, protectionism and interventionism. Instead, the main focus of the governments was increased cooperation in fighting the global economics crisis. Indeed, while

the central banks (the FED, ECB and others) implemented similar monetary measures, the governments and the Treasury or the Ministries of Public Finace put into effect similar public finance policies. Since the G-7 was considered insufficient in terms of the number of member states, the G-20 became the preferred organization to discuss the problems faced and polices. And many meetings of G-20 were organized to carry out this cooperation. It was the right move because the 6-20, in addition to the largest DCs; also included as members BRICs and many emerging markets, for instance Turkey. They too had become important players in the process of gobalization.

4.6. Economic Problems Carried to the Present Day; The USA and Euro Zone Countries

Both the USA and Europe, in particular, some Euro zone countries sufferred deeply from the burdens of the September 2008 global economic crisis. So much so that the continued recession and inability of politicians to act determinately gave rise to the possibility of a double dip, another dip to follow the September 2008.

i) The USA

For the case of the USA, the major problems or burdens carried to the present from the September 2008 economic crisis were continuing recession along with balance of payments and budgetary deficits, and the very high external debt; all in addition to the structural problem of low propensity to save. There were two catches in the problems faced presently. Firsty, high levels of external debt had been already reached, hence there were limits this time in increasing the external debt in any substantial way. Secondly, to fight both against the recession but also to apply budgetary discipline required measures in the opposite direction.

To counter the recession, the FED promised to continue with the policy of low interest rate and monetary expansion. But problems arose when the political parties, hence the Senate and the Congress failed to agree prompty on a programme of increasing the limit of the external debt and that of reducing public expenditures, both running in trillion dolars. This delay caused Standard and Poors to diminish the credit rating of the USA in early august 2011, for the first time, from AAA to AA+. This may have caused the Senate and the Congress to finally agree on the details of the two programmes. Hence, by mid August 2011 the debt ceiling was raised while a concrete budget discipline, and a programme of reduction of public expenditures were agreed upon. If the debt ceiling had not been raised, the USA

would have become unable to pay back its already accumulated heavy external debt and also finance the present balance-of-payments deficit.

ii) The Euro Zone

The problems faced by the Europe, in particular, the Euro zone countries seemed graver. Firstly, Ireland, Portugal, Greece and Spain all faltered in paying back their external debt. They were aided by the IMF and austerity programme were imposed. In addition to the IMF, the ECB also purchased the debts (government bonds) of Greece and Spain. In addition, the European Financial Stability Fund (EFSF) also aided Portugal, Ireland and Greece.

But the problem with Greece proved worst and persistent, necessitating a special bail-out and austerity programme (110 billion Euros, as the first programme) by the EU. It constituted not only a sizeable financial aid but also a writing-off of a major part (50%) of Greece's external debt, all on condition that Greece conforms with a tight stabilization programme to reduce budget and balance of payments deficits. In fact, it became apparent that another package of financial aid was also required to make Greece stand on her feet. But the severity of the stabilization programme created a political problem and a change of Greek government. In adition to the Greek problem that continued to persist, more recently external debt and budget deficits began to create alarms also for Italy which is considered too big to be saved. (Italy's external debt far exceeds the total funds available with the EFSF) France also showed economic strains. Both the Italian government and the French, swifty implemented austerity measures. In Italy too, there was change of government.

Many prominent economists, including Joseph Stiglitz argued in favor of a creating "eurobonds" to solve the problems of the Euro zone. But this policy option was rejected by Germany (A. Merkel) on grounds it would slacken the efforts in Greece – or other countries facing similar economic crises – from taking adequate domestic action. And there may be an element of truth in this reasoning. Instead, Germany (A Merkel) and France (N. Sarkozy) preferred the following measures. Firstly, the funds at the disposal of EFSF were raised. Secondly, a closer economic cooperation of the Euro countries was envisaged. The 17 Euro-countries were to meet twice a year to institutionalize the government of the Euro, centralization of fiscal policy and budget discipline. For the case of Greece, this also meant the present set-up of aid conditional to budget discipline to continue. But Germany (A. Merkel) openly declared that the option of throwing Greece out of Euro is out, since it could usher in greater problems for the Euro. Time is needed for the Euro zone countries to pull themselves out. But supposing the worst scenario comes out, which would be throwing out

the indisciplined countries out of the Euro zone, this would not restrain the globalization process; they would still retain their EU membership.

5- CONCLUSIONS: THE FUTURE OF GLOBALIZATION

The conclusions to be drawn about the future of globalization from the above historical survey of worldwide relevant economic developments from post WW2 up to the present, in the opinion of the author of this article, is positive. Despite serious problems encountered, particularly the 2008 gobal economic crisis and its aftermath, and despite criticisms leveled at globalization, despite some lapses in its implementation, globalization will be here to stay and continue. Nearly the whole world, including all the DCs and an overwhelming majority of LDCs have already entered the globalization process, a retrieve back to closed economy or a communist regime is unthinkable. Statistics have shown that globalization raises the growth rates of both groups of countries, with greater benefits accuring to the LDCs, including BRICs, NICs and newly emerging markets.

The adverse negative effects of the September 2008 global financial crisis and global recession still continue at the present. But it is also most meaningful that following the global crisis there were no attempts on the part of the governments of DCs and LDCs to turn away from practicing globalization. Instead, efforts were focused avoid the negative effects of the global crisis. One such measure was to act in cooperation to avoid policy mistakes; and the vehicle for cooperation was G-20 rather than the smaller G-7. Another set of measures included raising the financial sources of IMF and, in addition, that of EFSF for the case of EU. All these the moves were in the direction of avoiding “bad governance” and of providing financial aid to countries, and to banks in need of such help.

In short, the final lesson we can deduce from this brief historical survey of globalization is the following. Globalization is already deeply entrenched and will continue in the future. The reason is that is benefits all the countries that enter globalization, the LDCs more compared to the DCs. But at the same time, when an economic crisis occurs in any one country it is deepened because of the flights of financial funds and DPIs. Or if the crisis takes place in a large economy or a large group of countries, then it quickly spreads and acquires global proportions. The means to reduce these risks lie in good governance and closer cooperation among countries to prevent such crises.

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