WINNERS OF GLOBALIZATION

Dilip K. Das

CSGR Working Paper 249/08
August 2008

Winners of Globalization
Dilip K. Das
CSGR Working Paper 249/08
August 2008

ABSTRACT:

In itself globalization is neither good nor bad. Its economic impact can be both welfare-enhancing and dislocating. This paper dwells on the former, that is, the positive and constructive impact of the contemporary phase of globalization. It examines the evidence for its beneficial effect on several country groups as well as over the global economy. Without making any assertions of universality of positive impact of globalization, this article provides wide ranging evidence of its being a definitive transformative force for several economies and groups thereof. By successfully exploiting market-led outer-oriented development strategy and climbing the ladder of development by first producing and exporting labor-intensive manufactures and then switching to exports of capital- and technology-intensive manufactures several country groups integrated with the global economy and have commendable results to show. Global economic and financial integration on balance yielded rich dividends for many economies as well as the global economy. It concludes that, going by the available evidence, globalization on balance is a welfare-enhancing force.

Contact Details:
Dilip K. Das
Toronto, Canada
Dilip.Das@sympatico.ca

WINNERS OF GLOBALIZATION

CONTENTS

1. Globalization a Welfare-Enhancing Munificent Force?
    1.1 Genesis of the Contemporary Phase of Globalization
    1.2 Global Economic Integration through Upgradation of Policies and Institutions
2. Some Frontrunners of Globalization
    2.1 Ascent and Economic Integration of East Asia
    2.2 Ascent and Economic Integration of China and India
    2.3 Ascent and Economic Integration of the BRICs
    2.4 Ascent and Economic Integration of the Emerging-Market Economies
    2.5 Former Non-Market Economies
3. Globalization and Poverty Alleviation
    3.1 Analyzing the Globalization-Poverty-Alleviation Nexus
    3.2 An Insight beyond the Controversial Assertions
    3.3 Contribution of Domestic Policy and Institutional Development
    3.4 Does East Asia Have a Lesson?
    3.5 China and Vietnam: Case Studies of Poverty Reduction
4. Globalization Gains for the Industrial Economies
    4.1 Offshore Outsourcing
5. Proliferation of Globally Networked Production and its Benefits
6. Discernible Benefits for the Global Economy
7. Silent Revolution: A New Breed of Multinational Companies
8. Summary and Conclusions

WINNERS OF GLOBALIZATION

> Globalization is here to stay, one cannot back away from that fact, but today's new order can be tapped for the advancement of the entire world economy through peaceful economic efforts.
>
> ~Lawrence R. Klein (2005)
> Nobel Laureate 1980

> Globalization is neither good nor bad in itself; in the long-run it is a step towards efficiency; in the short-run, however, it involves all kinds of painful social and cultural adjustments. Every country has to meet the challenge of globalization in its own individual way.
>
> ~ Robert A. Mundell (2000)
> Nobel Laureate 1999

1. Globalization a Welfare-Enhancing Munificent Force?

The preceding three decades were a period of unprecedented integration of the global economy. Globalization became a vigorous driver of epoch-making structural changes in the national, regional and global economies. Some consider it the most powerful transformative force in the global economy. It has been influencing the evolution of several national economies in a consequential manner. It enabled a group of developing economies to what is known as 'income convergence'. China's globalization and vertiginous growth—and moving to the center of the global economic stage—is one such example (Das, 2008a). Without denying the challenges and policy constraints that it imposes, it is just to say that economic globalization is a source of dynamic change and has myriad of positive, innovative and dynamic traits. Although it is reflected in the increasing volume and value of international trade in goods and services relative to world output and expansion in short- and long-term capital flows, there is much more to it than that. A large body of literature established that liberalizing an economy for trade raised both aggregate income and growth rates.[1] Trade and financial integration can play catalytic roles for a range of economic benefits. That said, one cannot ignore that neither everyone benefited from globalization, nor economies that benefited did so evenly.

A noteworthy quantitative and qualitative transformation in the global living standards took place over these decades. By strengthening and advancing *inter alia* specialization, divisional of labor and competition as well as promoting an efficient use of factors of production, globalization became a compelling source of welfare enhancement. Facilitating foreign direct investment and technology transfer were two of the other channels through which globalization impacted economies. Its benefits gush through both static and dynamic channels to the globally integrating economies.

[1] See Berg and Krueger (2003) and Hallaert (2006) for literature surves, Topalova (2004) for a case study on India and Amiti and Koning (2005) for one on Indonesia.

As global integration of economies progresses and grows more intense, it causes rising efficiency of resource and input utilization in the world economy as countries and regions specialize in line with their comparative advantage and produce goods and services at their lowest opportunity costs. In 2007, volume of multilateral trade in goods and services added up to $16.9 trillion, which was 33.91 percent of the global GDP. This proportion was a historic high. Multilateral trade in merchandise pierced the threshold of 30 percent of global GDP for the first time ever in 2007 (WTO, 2008).

As in the days of yore, declining transport and communication costs are among the factors advancing rapid globalization. Global integration unleashes pro-growth forces like liberalization-generated enhancement in productivity of domestic firms (Arnold *et al,* 2007). It eliminates price distortions and promotes efficient resource allocation in the domestic economy, leading to increases in total factor productivity (TFP). TFP measures the improvement in technology quality as well as that of labor and capital. Empirical studies associate integration of the global markets and economies with TFP increases (Winters, *et al,* 2004). Also, empirical evidence shows that capital account liberalization leads to increase in real wages in the domestic economy (Henry and Sasson, 2008). Casual empiricism reveals that the phenomenon of economic globalization has worked as a transformative force for several economies and groups thereof. It has produced enormous *aggregate* benefits for the global economy and dramatic rise in standard of living around the world. In particular, it has profited those who had products and services, skills and resources to market worldwide. A munificent and benign force that has generated so much of value-added and tangible wealth must be protected from harm and nurtured, so that its positive aspects can be gainfully harnessed.

An oft-cited illustration of economic gains and tangible benefits of globalization is the much-vaunted economic achievements of the East Asian economies (Das, 2005a). It was followed by rapid clip growth and global integration of Southeast Asian economies and recently by China's rise as an emerging economic superpower (Das, 2007a).[2] Fischer (2006, p. 178) regards it as the "most critical" global development of the recent economic history. India is the latest economy to gradually join this high performing group (Das, 2006). Global economic and financial integration on balance yielded rich dividends for this sub-group of Asian economies. Vietnam seems to be another economy that is likely to join this dynamic group in the medium-term. Since it liberalized its economy to the outside world and launched market-oriented reforms in 1986, it has achieved strikingly rapid and equitable growth. Vietnam took many strategy lessons from China's success; official policy commitment to export-led growth and accelerated global integration is exceedingly high. Over the 1997-2007 period, its average annual

[2] Until 1980 China was grouped with the poorest countries in the world. It recorded double digit long-term real GDP growth over the 1980-2000 period, doubling its per capita income every decade. For the six-year period, between 2002-2008, its real GDP growth was higher than 10 percent per annum. This long-term growth performance does not have any historical parallel.

growth rate was 7.5 percent in real terms. By 2007, it had emerged as the principal destination for foreign direct investment (FDI) in manufactures in Asia.[3] It has become a favorite of foreign investors and transnational corporations (TNCs), which are regarded as agents of economic globalization. Intel invested $1 billion in a microchip factory near Hanoi. Not too long ago, Vietnam was not able to feed itself; the economy slid into famine in 1980. However, soon it turned into one of world's principal provider of farm produce and a large rice exporter. It also grew into a substantial exporter of textiles, shoes, furniture and other labor-intensive products. With trade to GDP ratio of 160 percent in 2007, it is one of the most open economies in the world.

1.1 Genesis of the Contemporary Phase of Globalization

The naissance of contemporary phase of globalization took place around 1980, when the political and policy climate changed in favor of neo-liberal economic strategies. The meaning of the term neo-liberal has been under dispute. It is used more by the opponents of neo-libralism than by its supporters. I use it to convey that globalization necessitates the adoption of free-market policies. Several important policy measures that promoted and advanced global integration were taken in important countries around this period (Rachman, 2008). These policy measures come under the rubric of neo-liberalism. To name the important ones, China launched its macroeconomic reform program at the end of 1978 with an objective to turn from Maoism to markets. In 1979, Margaret Thatcher came to power in Britain and Ronald Reagan in 1980 in the United States (US). Neo-liberal economic policies were implemented and deregulation and tax cuts were promoted in both the economies, giving a substantial boost to pro-market ideology. In the mid-1980s, the European Union (EU) made a commitment to create a single market. With the collapse of the Berlin wall in 1989 and disintegration of the Soviet Union, a large number of East European economies and the newly created countries after the break up of the Soviet Union launched into the onerous task of turning their centrally-planned economies into the market-economies, so that they could eventually integrate globally.

During decade of the 1980s, protectionist strategies in the Latin American economies fell out of favor. Also, under pressure of a major macroeconomic crisis India decided to give up its socialist economic structure and launched a major macroeconomic restructuring. Inspired by the success of the East Asian economies with outer-oriented development strategy during the 1970s and

---

[3] In 2007, Vietnam attracted investment pledges worth over $20 billion, which was a surge of 70 percent compared to the pledged in 2006. Since the beginning of 2007, almost 1,500 new projects were licensed. Most of them focused on construction, electronics production, telecommunications and other high-technology areas. Vietnam's low labor costs and young, industrious and literate workforce have made the country a popular manufacturing hub in Asia.

1980s, a good number of developing economies began their economic turn around during the 1980s by adopting economic liberalization. Many developing economies incessantly improved various aspects of their external policy. Most-favored-nation (MFN) tariff rates on an average declined from 14.1 percent during1995-99 to 11.7 percent during 2000-04 and further to 9.4 percent in 2007, which is a total decline of 33 percent (WTI, 2008). In addition, a significant proportion of world trade began to be conducted at zero MFN tariffs, or under various preferential tariff arrangements. Consequently, several industrial, developing and especially emerging-market economies (EMEs)[4], began a steady process of integration into the global economy. This mindset among policy makers influenced the other channels of global economic integration.

Over the preceding three decades, multilateral trade flows expanded dramatically, usually faster than the global output growth. This rate of growth accelerated since the mid-1990s. Between 1995 and 2006, global merchandise trade more than doubled, increasing from $5.17 trillion to $11.98 trillion. Merchandise trade increased further to $13.57 trillion in 2007 (WTO, 2008). During this period, not only international trade in manufactures and commodities grew as a proportion of GDP in various sub-groups of economies but they also became increasingly open to capital inflows, particularly FDI (IMF, 2008).[5] The membership of the GATT/WTO system steadily increased and reached 153 in July 2008, when Cape Verde, an archipelago located in the Atlantic Ocean, acceded to the WTO. This rush for membership began in the mid-1980s, before the Uruguay Round of multilateral trade negations was launched in September

[4] The term emerging-market economy (EME) was coined in 1981 by Antoine W. van Agtmael of the International Finance Corporation, the private sector arm of the World Bank. The developing countries in this category vary from small to large, even very large. They are regarded as emerging because they have adopted market-friendly economic reform programs, resulting in sounder macroeconomic policy structures. China is the largest and most important EME, along with several smaller economies like Tunisia. The common strand between these two economies is that both of them embarked on reform programs and consequently recorded rapid GDP growth. Both of them have liberalized their markets and are in the process of emerging onto the global economic stage. Sustained rapid clip GDP growth is the first indispensable characteristics of an EME. Many of them are in the process of making a transition from a command economy framework to an open market economy, building accountability within the system. The Russian Federation and the East European economies that were part of the Soviet bloc in the past fall under this category. Secondly, other than adoption of an economic reform program, an EME builds a transparent and efficient domestic capital market. Third, it reforms its exchange rate regime because a stable currency creates confidence in the economy and investors in the global capital markets regard it as fit for investment. Fourth, a crucial feature of an EME is its ability to integrate with the global capital markets and attract significant amount of foreign investment, both portfolio and direct. Growing investment—foreign and domestic—implies rising confidence level in the domestic economy. Global capital flows into an EME add volume to its stock market and long-term investment into its infrastructure. For the global investing community the EMEs present an opportunity to diversify their investment portfolios. Investing in the EME gradually became a standard practice among the global investors who wished to diversify, although they added some risk to their portfolios.

[5] See Chapter 5, *World Economic Outlook*, April, 2008, for a detailed analysis of latest trend in global integration.

1986, and continued thereafter. Membership of the GATT/WTO system makes significant contribution to an economy of a member country through *inter alia* the twin fundamental GATT/WTO principles, namely, the MFN and the national treatment. The first requires a country not to discriminate among its trading partners, and in return it cannot be discriminated against by its trading partners. The second principle requires that a country must treat imported and domestic goods and services the same, once the tariffs have been paid. While empirical evidence exists that demonstrates that the GATT/WTO system's endeavors to reduce trade barriers have expanded trade among the member countries, a consensus on this issue is elusive. Subramanian and Wei (2007) concluded that the positive effect of the GATT/WTO membership did exist but only for some member countries and in selected sectors. They found that the positive impact of membership resulted in 120 percent of additional multilateral trade. Likewise, Tomz, Goldstein and Rivers (2007) found a positive overall impact on trade of the members if the definition of "participation" is broadened. An empirical study by Martin, Anderson and Pham (2007) came up with the most positive impact. It was focused on the Asian economies that were GATT/WTO members. During the 1950-2000 period, these economies traded 380 percent more than they would have without the membership of the GATT/WTO system. Ceteris paribus, pairs of GATT/WTO members with one in the Asia Pacific and one outside were found likely to trade 30 percent more with each other than if both were non-members. As opposed to these empirical studies, Rose (2004) had found no significant positive impact of the GATT/WTO membership on trade.

This rapid multilateral trade expansion has advanced trade-driven globalization. It was provided an impetus not only by lowering of tariff and non-tariff barriers but also by increase in FDI through trade and investment negotiations. Many EMEs and developing economies undertook macroeconomic policy measures, like autonomous unilateral trade reforms, which promoted trade-driven globalization. Declining costs of transport and information communication had the same effect. Trade-driven globalization has changed the economic geography of the world. In addition to the advanced industrial economies, a dynamic group of developing and emerging-market economies has emerged, which has become an increasingly more significant engine of world trade and investment. In addition, intra-developing country trade, also known as South-South trade, in goods, services and commodities is on the rise. Pace and scope of trade-driven globalization has reached an unparalleled level (UNCTAD, 2008b).

Information and communication technology (ICT), a general-purpose technology, has had a pervasive impact over the global economy during the contemporary phase of globalization. It owes a great deal to the post-1980 advances in the ICT, which introduced a new paradigm for the configuration of global economic activities. Externalities generated by the ICT sector went a long way in influencing the global production pattern and economic development. They created new modes of organization of production of goods and services as well as altered manufacturing patterns in industries and consumption patterns in

households. The final result was wide-ranging cost-reduction and faster and better communication between economic agents, which in turn had enormous global impact. The most notable was the opportunity for a group of developing economies to diversity production activity and become a part of the global value chains. Conceptualization and creation of production networks was not feasible without ICT innovations. In addition, it because of advances in the ICT that a lot of commercial services that were regarded as non-tradable, such as accounting, can now be provided from afar. Countries like India have remarkably succeeded in developing their ICT sector and providing commercial services. India has emerged as world's largest exporter of ICT services. In 2006, the Indian ICT industry accounted for 5.4% of GDP and 37 percent of total exports (UNCTAD, 2008b). Economies that succeeded in rapid and steady diffusion of ICT, like Hong Kong SAR, the Republic of Korea (hereinafter Korea), Singapore and Taiwan, now straddle the line between developing and high-income industrial countries. The ICT is a dynamic and rapidly growing industrial sector, having enormous growth potential. The positive macroeconomic impact of ICT on GDP growth has been well demonstrated and widely acknowledged. It leads to both capital-deepening and technological progress. As an important productive sector, ICT contributes to both TFP and GDP growth (UNCTAD, 2007).

Several sub-groups of economies that integrated globally during the contemporary phase of globalization benefited markedly from it. Indubitably the extent and pace of trade and financial integration differed for different sub-groups of economies and regions, but the common factor was that trade in goods and services and financial flows continued to progressively integrate national economies with the global economy. Since the turn of the century, surge in globalization coincided with surging world market prices of primary commodities, in particular oil. This was a reversal of the past commodity price trend; it had been on a decline for a couple of decades vis-à-vis manufactured unit value (Cashin and Scott, 2002). The on-going commodity price boom is notable in that its coverage is broad and its duration has lasted for much longer than its predecessors. Long-term supply elasticities of many commodities are large, therefore, this boom would eventually reverse as soon as supply responses pick up momentum. However, probability of an energy price reversal does seem remote, even totally nonexistent.

1.2. Global Economic Integration through Upgradation of Policies and Institutions

The above-mentioned group of dynamic economies benefited from globalization noticeably, in particular from successful exploitation of market-led outer-oriented development strategy and climbing the ladder of development by first producing and exporting labor-intensive manufactures and then by capital- and technology-intensive manufactures. Assisted by their adherence to the outer-oriented economic strategy, they integrated first regionally and then globally, particularly with the mature industrial economies. India climbed the same ladder by exploiting the information and technology enabled services (ITeS) sector. Freeing the market forces and enhancing their legitimacy in the economic system rendered

these economies more efficient, which in turn led to material advancement of these societies.

In the process of globalization, several economies improved their domestic macroeconomic policy structures and institutions. This observation applies to both developing and EMEs, that is, those that essentially export commodities and those that export manufactured goods and services. They pursued external liberalization by dismantling trade barriers, both tariffs and non-tariffs. They also took policy measures to liberalize current account transactions and preliminary measures to liberalize capital account. That is not to say that all restrictions on FDI and other financial flows were dismantled, albeit they were significantly brought down. These economies put in place economic reform programs and markedly improved macroeconomic policies. Instances of large fiscal deficits and current account deficits have dropped to a small number. There has been a discernible improvement in the general quality of economic institutions as well as the depth in their financial markets. As globalization has proved to be an important driver of growth in the developing economies, some spillover effect in adopting internal and external policy liberalization among economies cannot be denied.

A large econometric exercise undertaken by the International Monetary Fund (IMF, 2008) analyzed data for a broad sample of 80 countries over a long period (1970-2005) to examine several aspects of global economic integration. The econometric framework essentially consisted of cross-sectional and panel regressions. It came up with several valuable inferences. In brief, export volumes as a proportion of GDP grew for the sample countries by an average of 30 percent between 1980 and 2005. Improvement in institutional and financial frameworks accounted for as much as 25 percent of this increase. Another quarter of this increase was accounted for by reduced policy distortions. They included loosening of exchange restrictions, dismantling of tariff barriers and reduction in currency overvaluation. Thus, with progress in globalization, policy and institutional environment and performance has been undergoing marked up-gradation in a large number of economies.

Recent rise of the BRIC economies, which is an acronym for Brazil, the Russian Federation, India and China, is credited to launching of economic reforms and adoption of restructuring policies in these economies. They espoused market-oriented liberal policy framework, which in turn was instrumental in relative closer integration of this sub-set of economies with the global economy.[6] The same policy framework is considered responsible for the growing salience of twenty-plus EMEs on the global economic stage. Sub-groups of developing and emerging-market economies that benefited during the contemporary phase of globalization are divided into several overlapping country groups. For instance, other than the four BRIC economies, the seven largest EMEs (China, India, Brazil, the Russian Federation, Indonesia, Mexico and Turkey) is one such

[6] See Goldman Sachs 2005 and Goldman Sachs 2003.

group, while the EMEs that are the non-Group-of-Seven (G-7)[7] members of the Group-of-Twenty (G-20)[8], is another such group. It is a group of systemically significant countries that account for close to 90 percent of the global economic production. The non-G-7 members of G-20 have lately begun to play a meaningful role in the global economic policy making and governance. The Soviet Union broke down in 15 independent countries. Some of these economies along with the East European economies, which were satellite of the Soviet Union, have transformed into market economies and democracies. They have made valiant attempts to turn into EMEs and integrate with the global economy. Globalization also succeeded in poverty alleviation of impressive order and integrating global economy by production networks, which rendered far-reaching benefits to the global economy.

These developments of the latter half of the 20th century, particularly of the preceding three decades, have not only bolstered globalization but also markedly changed the economic geography of the world economy. The winners of globalization denote that it is a benign and productive force and was instrumental in improving living standards in many countries, albeit not worldwide, and that there is serendipity in it. How does globalization work as a welfare-enhancing, munificent mechanism? Economists' response is uncomplicated and direct: globalization enhances the economic opportunities of a country by allowing it to sell its goods and services in a much larger market, have access to a great deal bigger capital market to finance its growth and development process and have a larger opportunity to import technology and knowledge, which eventually enhances TFP. Thus viewed, the direct consequence of increased economic opportunities is tangible economic benefits and enhanced well-being for the globalizing economy. According to the classical economists like David Recardo, the basis of these welfare gains is theory of comparative advantage based on differences on factors of production and technology. Exploitation of comparative advantage allows production of more goods and services with the same resources because firms produce at lower opportunity costs. While the modern

---

[7] The Group-of-Seven (G-7) comprises the seven largest mature industrial economies, namely, United States (US), Japan, Germany, France, United Kingdom (UK), Italy and Canada. In 1976, Canada was the last to join the G-7.

[8] The inaugural meeting of the Group of Twenty (G-20) took place in Berlin on 15-16 December 1999. It was jointly hosted by the German finance minister Hans Eichel and chaired by the Canadian finance minister Paul Martin. The G-20 had been set up on the recommendation of the G-7 finance ministers (in their report to the economic summit in Cologne on strengthening the international financial architecture) and was confirmed by them and the central bank governors in their joint communiqué in September 1999. The members of the G-20 are the finance ministries and central banks of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi-Arabia, South Africa, Turkey, the United Kingdom and the United States. The 20th member is the European Union, represented by the Council presidency and the European Central Bank. To ensure that the G-20's activities are closely aligned with those of the Bretton-Woods institutions, the managing director of the IMF and the president of the World Bank, plus the chairpersons of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in the talks as ex-officio members.

theory of international trade attributes the welfare gains to economies of scale. They also occur due to mobility of factors of production, which makes than far more efficient than when they are static.

In the following section, we shall take a broad and comprehensive look at how these sub-groups of economies benefited from globalization during the contemporary period.

2. Some Frontrunners of Globalization

Once the short recession if 2001, caused by the bursting of dotcom bubble ended, global economy picked up notable momentum. The 2002-07 period is regarded as one of robust growth of the global economy. This section identifies several country groups and highlights the evidence that they provide regarding globalization being a force for enhancing economic welfare and a premise for wellbeing. Given the appropriate macroeconomic policy structure and supportive institutions, globalization can indeed be a benign and creative force.

2.1 Ascent and Economic Integration of East Asia

The East Asian economies provide the strongest evidence in favor of the positive effect of globalization on an economy. The East Asian economic miracle was squarely premised on globalization, in the form of export-led or trade induced growth. Their outer-oriented growth was instrumental in closing the technology gap between them and the mature industrial economies.[9] "These countries managed globalization: it was their ability to take advantage of globalization, without being taken advantage of by globalization, that accounts for much of their success" (Stiglitz, 2006; p. 32). Japan had become the second largest economy in the world by 1968. The four East Asian economies followed Japan and turned into the much admired dragon economies. These dynamic economies were followed by South East Asian economies and more recently by China. This was the so-called "flying-geese" pattern of shifting comparative advantage (Ljungwall and Sjoberg, 2007).

Sustained GDP growth of this sub-group of economies was achieved simultaneously with remarkable stability; some of them did not have a single year of negative growth in a span of two decades, for some this period was extended to a quarter century. The outer-oriented economic growth and rapid global integration benefited and improved the economic lot of virtually the entire East Asia. A noteworthy feature of globalization of these economies was the benefits of globalization were widely shared in the economy. Annual average rate of per capita incomes shows that they did not go to only a small segment of these societies. Policy makers focused on maintaining economic stability and ensuring that fresh employment is generated as the new entrants enter the labor force (Stiglitz, 2006). In their rapid growth period, what Asian dragon economies achieved in a decade was achieved in the past by rapidly growing advanced industrial economies in a century. This phenomenon has been copiously

[9] For detailed treatment see Krueger (1995) and Stiglitz (1997).

analyzed by the economic profession. Chronologically, the first to launch into rapid growth were the four Asian newly industrialized economies (ANIEs), namely, Korea, Hong Kong, Singapore and Taiwan. They were followed by the four larger members of the Association of Southeast Asian Nations (ASEAN), namely, Indonesia, Malaysia, the Philippines and Thailand. These economies has been making overtures since the latter half of the 1990s to come together as a common market and form a formal regional economic bloc, somewhat on the lines of the European Union (EU), complete with a unified financial system and a Euro-like common currency. The concept was blessed by Robert A. Mundell (2002), widely regarded as the conceptualizer of the Euro. While these developments will take time, a good deal of market-driven economic integration and regionalization of the East Asian economies successfully took place over the preceding two decades. The East Asian economies have succeeded in slicing the value chain and building efficient production networks covering several regional economies (Das, 2005b). Although China and Japan can play a leading role in bringing about a formal institutionalized East Asian economic union, the two East Asian giants, China and Japan, have had a troubled past. A future Sino-Japanese reconciliation may become a driving force and play a constructive role, identical to one played by France and Germany in bringing about the EU structure.

What is feasible and being attempted is an institutionalized ASEAN-Plus-Three (APT) regional grouping, comprising the ten members of ASEAN, plus China, Korea and Japan (Das, 2007b). The Asian crisis of 1997-98, which pushed some of the most successful of the developing countries into unprecedented recessions, imparted urgency to this endeavor and official attempts to co-operate were launched in earnest after 1997. In November 2007, the 10th anniversary of the APT co-operation was commemorated in Singapore by the thirteen member countries. They reaffirmed their commitment to the Chiang Mai Initiative and Asian Bond Market Initiative as well as to the establishment of the APT Regional Foreign Exchange Reserve Pool in the near future so that regional financial stability can be enhanced. A plan for a regional financial facility, proposed at the time of the Asian crisis, did not pan out but it has not been abandoned. These developments will engender interesting politics between the two East Asian giants, China and Japan. The former is slated to surpass the latter at some point in the not too distant future. Consequently, China will also expect to take a leadership position in the regional institutions in the future. Since 2005, another larger regional grouping has been in an embryonic state. It was a pan-Asia forum and comprised the ten ASEAN members, plus six other countries (Australia, China, India, Japan, Korea and New Zealand). In November 2007, on the heels of the ASEAN conference, the third East Asia Summit (EAS) was organized. The EAS has not produced tangible results so far.

2.2 Ascent and Economic Integration of China and India

Until the early 1980s, both China and India were considered among the most impoverished economies in the world. In most tables of economic and social

indicators they were near the bottom. Rapid growth in the recent past and global integration of China first, and of late that of India, has had a marked favorable impact over these two economies. They are considered different from other developing, emerging-market or transition economies because not only they are large, populous economies but also have become the most rapidly growing economies in the world.. Their rapid growth spell made them into prime catch-up candidates, therefore, they are frequently referred to as the ‘mega-emergers’. In 1980 they accounted for a paltry 2 percent of global output, which almost quadrupled to 7 percent in 2005. It is well within the realm of probabilities that these two economies achieve a good bit of convergence with the mature industrial economies in the foreseeable future (Section 2.2). However, notwithstanding the rapid growth, their per capita incomes are still low. According to statistics published by the World Bank in 2008, China’s per capital income was $2,360 in 2007, while that of India $950. These per capita incomes are far lower than those of the United States ($46,040), United Kingdom ($42,740), Japan ($37,670) and Germany ($38,860). In 2007, average per capital income of the Euro Zone economies was $36,329.[10] This income disparity between China and India on one hand and the industrial economies on the other portends to the possibility of large gains from trade for both China and India. They could earn large benefits from the gap in wage levels, adjusted for productivity. The two economies have recently started exploiting these possible gains from trade.

In 2007, China’s GDP was $3,280 billion, at market exchange rates, making it the fourth largest economy in the world and India’s GDP was $1,170 billion, making it the twelfth largest economy in the world.[11] When economies of these sizes begin to integrate globally, they are bound to have a large impact on global trade and financial flows as well as the pace of globalization. Indications are that their future roles in the global economy are going to be larger. According to the projections made by Maddison (2005), by 2030 Chinese economy will account for a little more than 18 percent of the global GDP, measured in purchasing power parity (PPP) terms. At this point, it will have overtaken the US economy. In this projection exercise, India’s GDP was about half the GDP of China.

The economic weight of China and its integration into the global economy has been increasing faster than that of India. That China gave the global economy a positive supply-side shock is widely recognized (Das, 2008c). Over the next few decades the growth generated by China and India could make these economies a much larger force in the global economy compared to what they were at the turn of the century. As they integrated more with the global economy, China and India are likely to have an impact over global trade, structure of production, distribution of income and may become important engines of global growth. They have begun swaying not only goods and services markets globally but also flows of savings and investments. With rising prosperity in these rapidly emerging

[10] The source of these statistical data is the *World Development Indicator Database: Quick Reference Tables,* published by the World Bank in July 2008.
[11] Ibid.

economies, millions of consumers will join "the global middle class" (Bussolo, *et al* 2008; p. 2) They will *pari passu* place heavy demands on global commons as well as markets in energy and commodities. Voracious apatite of China and India for energy imports and industrial raw materials has produced a commodity price boom. It helped many developing countries as well as commodity rich industrial countries like Australia and Canada.[12] Energy prices hardened to their historically high level by early 2008; strong Chinese and Indian demand was partially responsible for it. Rapid growth in China and India affects the other economies through a variety of channels. International trade is arguably the most direct and important one (Das, 2006).

In the post 1995 period, the two economies performed far more strongly than the others. Over the 1995-2004 period, China accounted for 12.8 percent of growth in global output, while India 3.2 percent. The motive power for the world economy presently comes from China and India, with the US economy stumbling with its twin deficits and a costly war (Klein, 2005). According to projections made by Winters and Yusuf (2007) for 2005-20 period for the two economies, China's contribution to global growth will rise to 15.8 percent and India's to 4.1 percent. In 2007, growing at rapid rates of 11.4 percent and 9.2 percent,[13] respectively, China and India proved these projections too modest to be correct. In 2007, China alone contributed close to 25 percent to global growth (IMF, 2008).[14] The spread of tertiary education and growth in the number of college graduates and trained engineers as well as growth in savings, investment and physical capital in the two economies portend to a promising economic future. TFP growth in the two economies since 1995 was respectable at 2.5 percent per annum (Winters and Yusuf, 2007).

By 2007, the two economies had grown to significant size. In PPP terms, China's share of global output was 10.8 percent, while that of India 4.6 percent. The share of the United States, the largest global economy, was 21.4 percent (IMF, 2008). Other economies were concerned about the impact of rapid growth in these two economies on them as well as on the global economy. Research on how to dance with these giants, without getting one's toes stepped on, is burgeoning (Das, 2006). They have become important locomotives of global growth and have begun to make their mark on the global economy.

Both of these economies are among the largest players in the export of ICT goods and services, with China taking the lead in hardware and India in software. Strong growth in this sector contributed significantly to expansion of these two economies. In 2004, China surpassed the US in ICT goods and high technology

[12] The term industrial country has become a misnomer, because some of the emerging-market economies, like China, have become extensively industrialized. Contribution of industrial sector to their GDP is larger than that in the wealthy countries of the developed world, whose economies are overwhelmingly dominated by the services sector. These countries have become large exporters of manufactured products as well.

[13] Source Table 1.1, *World Economic Outlook* 2008.

[14] See chapter 1, *World Economic Outlook* 2008.

exports. India became world's largest exporter of ICT services and ICT-enabled services. It is also one of the principal suppliers of business process outsourcing (BPO). Offshore outsourcing by advanced industrial economies played an important role in the rapid GDP growth of these two economies (Section 4.1). Both of them are in the process of shifting their economic structure from labor-intensive to technology-intensive and knowledge-intensive goods and services. It is reasonable to expect that their domestic markets will soon be huge and they in turn will become important markets for the other economies, developing and industrial, in their own right. Gradually they will become innovators and producers of new knowledge and technology, which will further contribute to the on-going global shifts in ICT production, trade and employment (UNCTAD, 2007).

On many key indicators of growth, China's economic performance is superior to that of India. In brief, China is far more open to trade and FDI, has a better record of macroeconomic stability and has invested much higher in education and infrastructure. China's macroeconomic reforms and restructuring are also some two decades ahead of India's. A detailed comparison of the two economies is available in Das (2006).

The APT, noted above, could be reasonably regarded as a sub-regional economic block dominated by China and Japan. A reasonable-size regional cooperation bloc called the South Asian Association for Regional Cooperation (SAARC) has emerged in South Asian and Indian is expected to play a central role in it. It has plans for having a free trade agreement, but due to largely political reasons progress has been slow. Substantial regional integration will only take place after further economic growth leads to increased complementarity in the economic structures of the seven south Asian member economies (Das, 2007c). The dynamics of this economic bloc, if and when it comes into existence, will necessarily be different from those of the East Asian bloc indicated above.

2.3 Ascent and Economic Integration of the BRICs

Other than China and India, Brazil and the Russian Federation are part of the BRIC grouping. At market exchange rate, according to 2007 statistics, China is the 3rd largest economy in the world, followed by Brazil the 10th largest, the Russian Federation the 11th largest and India the 12th largest.[15] In per capita income terms, the Russian Federation ($7,560) and Brazil ($5,910) are much better off economies than China ($2,360) and India ($950).[16] The first Goldman Sachs (2003) BRIC study focused on the growth generated by these large developing and transition economies and concluded that they could become a much larger future force in the global economy than they were believed to be. By using a formal framework to generate long-term forecasts, they demonstrate that India's economy could be larger than that of Japan by 2032 and China's larger

[15] The source of these statistical data is the *World Development Indicator Database: Quick Reference Tables,* published by the World Bank in July 2008.

[16] Ibid.

than that of the US by 2041. Assuming reasonably successful development and adherence to sound policies in the BRICs, the combined size of the four economies has been projected be larger than that of France, Germany, Italy, Japan, the UK and the US together by 2039. If they fulfill their growth potential, in a matter of decades, the BRICs could become critical to the global economy. Together these economies have begun playing a proactive role in the multilateral trade governance (du Preez, 2007; Das, 2007d).

The second Goldman Sachs (2005) study was a mea culpa. It revealed that all the four BRIC economies turned in stronger growth performance than the projections made in the first study. These economies were playing a critical role in how economic globalization was evolving. The methodology of projections was refined and projections were revised to a shorter time span than those in the first study. A case was made for including them into global policy-making and economic governance. The update also proposed inclusion of Korea and Mexico into the category of BRICs because their future role in the global economy was expected to be of the order comparable to the BRICs.

There is a slightly different grouping put together by Nayyar (2008), which includes China, India, Brazil and South Africa (CIBS). He contends that they already are the new engines of growth. Rapid growth in these large EMEs has begun affecting the balance of economic power in the global economy and changing the locus of the global economic activity. In future these economies could provide technologies for growth and resources for investment. The BRIC or CIBS economies is not the end of the end of the list of large emerging economies. There are other economies that have a near-BRIC status and are jostling to be grouped with then. This group includes Korea, Mexico and Taiwan.

2.4 Ascent and Economic Integration of the Emerging-Market Economies

A much-extolled achievement of globalization is rapid economic growth during the last two decades of the last century in twenty plus developing countries, known as the EMEs, that came to be better integrated into the global economy. These EMEs are low-to-middle per capita income countries. They discernibly and measurably benefited from globalization. Some of the EMEs are large like China, while others small, like Tunisia. The EMEs comprises those economies that reformed and liberalized their economic structure and markets and consequently reaped the benefit of sustained high growth rate. An EME is usually more open to the global economy than other developing economies. Economic liberalization, which included liberalization of both trade and financial sector, and global integration in the EMEs improved the welfare of the citizen of these economies as well as those in the mature industrial economies through gains from trade. In aggregate terms, macroeconomic payoff from globalization has been high to these two groups of economies.

The EMEs seem to be catching up with the industrial economies by *inter alia* consciously promoting scientific and technological advancement of their economies, particularly the industrial and services sectors, and by maintaining rapid and sustained endogenous growth. It should be cautiously added that adoption of the so-called Washington consensus[17] also contributed to their economic performance. Liberalized trade, macroeconomic stability and getting prices right were the mandatory under it. Under the tutelage of supranational institutions like the Bretton Woods twins many developing economies regarded it as high-priority macroeconomic policy tool. Their macroeconomic reform programs on the one hand and efficiency and transparency in the capital markets on the other were responsible for stronger growth performance than in the past. Because of reforms of external sector and exchange rate regime, these economies were able to attract foreign investment, both direct and portfolio. The decades of 1980s and 1990s was the period of brisk GDP for the EMEs and helped them establish their distinct identity. Following two principal channels, the EMEs also integrated well with the global economy. The first was integration through the real sectors of the economy, that is, through trade expansion and inward flows of FDI. Inflow of foreign capital reflected the fact that the EMEs were successfully building international confidence in their economies. The second channel was financial sector or attracting financial inflows through portfolio investment.

The McKinsey Global Institute (MGI) studied the impact of FDI on fourteen industrial sectors in China, India, Brazil and Mexico. Sample industries included both manufacturing and services sectors. Their research concluded that irrespective of the policy regime, industry or time period, FDI was good for the host economy. Thirteen out of fourteen case studies found that FDI improved productivity and output in the sector in which it was made, raising national income. It lowered prices and improved quality and selection for consumers. Foreign investors were also found to pay higher wages than the local firms. The efficiency-seeking investment, made by foreign firms seeking lower costs, consistently improved sector productivity, output, employment and standards of living in the host countries. Market-seeking investment, made by foreign firms that sought to expand markets, resulted in mixed impact on employment. Also, benefits came at the cost of less productive incumbent firms. When Wal-Mart

---

[17] John Williamson reasonably argued that the set of policy reforms that would serve the developing economies, particularly those of Latin America, well should encompass the following ten propositions: emphasis on fiscal discipline, a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure, tax reform (to lower marginal rates and broaden the tax base), Interest rate liberalization, a competitive exchange rate, trade liberalization, liberalization of FDI inflows, privatization, deregulation (in the sense of abolishing barriers to entry and exit) and secure property rights.

entered into the Mexican food market, average profit margin of the local firms was driven down (Farrell, 2004).

The EMEs did not come into their own abruptly and unannounced. They had an understated, if subtle, preparatory phase. In a tentative and inchoate manner they were under formation during mid-twentieth century. They had knowledge and experience of manufacturing industries at this point in time and were producing silk, cotton textiles, food stuff and light consumer goods. This familiarity and knowledge of medium-technology manufactures prepared them to subsequently move into high-technology sectors. These economies were China, India, Indonesia, Korea, Malaysia, Taiwan and Thailand in Asia; Argentina, Brazil and Mexico in Latin America and Turkey in the Middle East. All of them later on acquired the status of EMEs. Some of these economies went further than others in becoming knowledge-based economies. China, India, Korea and Taiwan began to invest heavily in their own proprietary national skills. This helped them in not only developing medium-technology industrial sectors but also invade high technology sectors. Leading national firms had become capable of that.

Of the seven largest EMEs (China, India, Brazil, the Russian Federation, Indonesia, Mexico and Turkey) some like China, India and the Russian Federation, were almost closed economies in the past. They have progressively liberalized and globalized. Their economic performance has gained marked momentum and their GDP is growing rapidly. In keeping with the economic growth theory, Hawksworth (2006) used Cobb-Douglas production function with constant returns to scale and constant factor shares to estimate the size of GDP in these EMEs in 2050. His long-term projections concluded that measured in current dollars at market exchange rates, by 2050 their combined GDP will be 25 percent larger than the present members of the G-7 industrial economies. In PPP terms they have been estimated to be 75 percent larger. Measuring GDP in PPP terms is a better indicator of average living standards, or the volume of output and input. However, measuring it in dollars at market exchange rate is a better measure for estimating the size of the markets for export purposes and for investors operating in hard currencies. At present the seven largest EMEs are merely 20 percent of the size of the G-7 economies at market exchange rates and 75 percent of the G-7 economies size when measured using PPP. The sensitivity analysis suggests that these projections are susceptible to assumptions regarding trends on educational levels, net investment and the pace of catch-up. Rapid growth and GDP expansion in the EMEs would inevitably reduce the relative share of the G-7 economies in the global economy, albeit their per capita incomes will continue to be much larger than those of the EMEs. Rapid growth in EMEs will create major new market opportunities for the G-7 economies and will boost their income levels in absolute terms. Larger global markets will enable firms in the G-7 economies to specialize more closely in their areas of their comparative advantage as well as benefit from low-cost imports from the EMEs.

Other than the seven largest EMEs, there were several that turned in admirable economic performances and integrated with the global economy. A majority of them successfully used the external sector as a level for growth and globalization.

2.5 Former Non-Market Economies

As these economies were regressing, failure of the non-market economic system had become obvious for a long time. Fall of the Berlin wall in 1989 and breakdown of the former Soviet Union in 1991 and disintegration of the socialist bloc economies were epoch-making events. With the collapse of this economic system, a group of transition economies was born that was eager to make up for their economic mismanagement under the centrally planned non-market system. Their need for progressing towards their growth potential was pressing. They attempted to adopt the neo-classical economic principles and modernize their economies, which put them on the long road to globalization. The Russian Federation and some of the East European economies have made some progress in this direction. This sub-group of transition economies has dome better than the rest of the transition economies. Centrally planned system not only suffered from egregious allocative inefficiencies but also created dislocation and isolation. During their centrally-planned period they had limited their economic relations with the rest of the world and followed an inward-oriented economic strategy. Their objective was to develop cohesive economic ties with each other and focus on the domestic economic growth by import-substitution.

Before the collapse of the Soviet Union, Central and Eastern European countries formed an almost closed trading bloc. The Soviet Union was close to an autarky, with 90 percent of its trade with the Council for Mutual Economic Assistance (CMEA) countries. These economic and trade relations did not readily break down even after the dissolution of the Soviet Union. In order to end their isolation and reintegrate with the rest of the global economy, the transition economies liberalized their trade and payments regimes. Their economic transformation was significantly underpinned by their endeavors to reintegrate into the global economy. The pace and extent of liberalization varied from economy to economy but majority of them removed exchange restrictions for current account transactions within a period of five to seven years.

Many of the transition economies reoriented their trade flows away from their former trade partners during the 1990s. Estonia, the Czech Republic and Hungary were the leaders in shifting their trade away from the CMEA and towards the EU. Gradually more transition economies began to alter their trade structure and replaced it by a balanced and market-determined distribution of trade. The EU economies, being larger and geographically proximate, became their close trading partners. Their reintegration into the global economy began to influence their domestic economies by favorably influencing growth in productivity. These trade links also improved their access to global technological shelf and helped them acquire modern managerial skills. Although multilateral

trade picked up pace, reintegration into the global financial markets was slow. Development and growth of financial relations is determined by an investor-friendly legal system in the host economy, property rights and contract laws, which take time to develop. Besides, a sound domestic financial system and macroeconomic and financial stability are preconditions to development of global financial relations. This is a time consuming process. After these are established, the global investor community develops confidence in the economy and begins to invest.

Progress in reintegration of various transition economies with the global economy differed widely. As a generalization it is correct to state that those transition economies that progressed enough in terms of implementing stabilization and reform policies, tended to make more progress in reintegration with the rest of the global economy. As opposed to this group, many of them lagged and made little progress in reintegrating with the global economy. Slovenia and the Czech Republic have been rated the best performers in terms of reintegration with the global economy through trade and investment. Hungary and Croatia also made impress progress. Slovakia, Romania, Poland and Ukraine were among those that have advanced well in this direction. Performance of the Russian Federation was ranked below these economies (Carter, 2007). This is notwithstanding the fact that Russia had accumulated a critical mass of economic reforms in the first half of the 1990s (Aslund, 2007). As the largest gas and second largest oil exporter, Russia became a major source of energy for the global economy. The former group of non-market economies that succeeded in reintegrating and globalizing has performed better than those that did not succeed, or were slow in doing so.

Disintegration of the socialist economies and the failure of the economic system espoused by them seriously influenced the mindset of the public policymakers in the developing world. They belatedly focused the attention of policy mandarins on the wastefulness and futility of the statist policy regime. The value of the role of market forces and pro-market policy environment was made apparent to anybody willing to see. Watchful and discerning policy-makers in many developing economies realized which set of policies to reject. Countries like India, which had obstinately adhered to the statist policy regime for an inordinate length of time despite its poor consequences, made an unprecedented attempt to change tack in 1991. The end of the era of planned economy and statism encouraged a policy penchant towards open, market-oriented policy regime and global integration.

3. Globalization and Poverty Alleviation

How the present phase of globalization has affected people living in absolute or extreme poverty is another imperative issue. Absolute or extreme poverty entails never having enough money for the necessities of life, malnutrition during childhood, little medical care and therefore low life expectancy, scarcity of potable water and fuel and eking out a miserable livelihood, feeling insecure and

helpless. “Life for people this poor is brutal” (Stiglitz, 2006; p. 10). Little wonder that poverty has become not only a national but also a global concern. The impact of globalization on poverty-alleviation became an ardently debated and intensely researched subject in economic literature. A categorical response to the question whether globalization is positively correlated with poverty alleviation is that it should logically be so. A basic and plausible argument could be that if growth of the real economy is spurred by globalization, then the poor benefit from higher growth by having better housing, nutritional levels, education and other social services. A study of low-income developing economies by Hoekman *et al* (2007) concluded that globalization by way of liberalization and reforms of trade and financial markets has both macro- and micro-level (or household-level) favorable impact, which in turn improves the plight of the absolute poor. This empirical study emphasized the value, relevance and wisdom of adoption of complementary policy measures for these low-income developing economies, when they are implementing their liberalization measures and trying to globally integrate. Its logically supporting argument was that globalization does not take place all by itself. It is a policy-induced process.

As production activity expands as a result of globalization-induced expansion of manufacturing and services sectors, it has a direct and positive effect over employment opportunities for the poor. They leave behind the grinding rural poverty and move to urban areas, where they find far more employment opportunities. This relocation also has a structural effect over the economy; for one it increases labor productivity in the economy. Besides, if globalization lead to higher income, a more equal income distribution can be achieved from a higher income than from a lower income. Does this cause and effect relationship work in the simple and direct manner indicated? Taking a long-term historical perspective, Bourguignon *et al* (2002), found that extreme poverty in the world declined from 84 percent in 1820 to 66 percent in 1910. The definition of absolute poverty was people living at or below $1 a day, measured in 1990 PPP and inflation adjusted.[18] Absolute poverty fell again from 55 percent in 1950 to 24 percent in 1992. Turning to more current period, 450 million were lifted out of extreme poverty between 1980 and 2005 (GEP, 2007).[19] A caveat is essential here. Economies like China, India, Korea, Chile, Mauritius and Botswana, that successfully achieved poverty alleviation did so by not benefiting from the on going globalization alone. These economies also imaginatively tailored their economic policies to their own *sui generis* economic realities. By following pragmatic and eclectic macroeconomic policies and adopting complementary policies, they maximized benefits from the on-going globalization (Rodrik, 2007a)[20].

[18] This international poverty line was recently updated to $1.25 a day in 2005 PPP (Ravallion, *et al,* 2008).
[19] See Chapter 2 of the *Global Economic Prospect 2007*, published by the World Bank.
[20] See Chapter 7, in Rodrik (2007).

Those who contend that globalization has exacerbated poverty around the world ignore all the poverty reduction in economies where it was chronic and concentrated. Numerous globalizing economies support this observation. In countries where liberalization and globalization of the economy has been followed with stable, or declining inequality, the poorest in the population tended to benefit significantly. Vietnam is an excellent example of this fact (Section 3.5), where the share of the population below the poverty line fell markedly, and their average consumption levels improved. Indian efforts to liberalize and globalize present the same scenario, that is, higher rates of economic growth advanced poverty reduction efforts in the economy (Nayar, 2007). China and Thailand, which are two premier examples of rapid globalization during the contemporary period, also demonstrate strong poverty alleviation trends. A detailed World Bank (2002) study asserted that globalization in general decreases poverty because globally integrated economies tend to grow faster and their growth is usually widely diffused among different population groups.

Bourguignon and Morrisson (2002) estimated that 1.4 billion people in the world subsisted on $1 a-day in 1980. China and India were two geographical concentration points of poverty in the world. At least 60 percent of these absolute poor lived in these two economies, particularly in the rural areas. The other areas where a large number of them were trapped in 1980 included sub-Saharan Africa and some large Asian economies, such as Bangladesh, Indonesia, Pakistan and Vietnam. Bourguignon and Morrisson (2002) also show that the number of poor in the world had gone on increasing between 1960 and 1980. Their number grew by about 100 million over this period. After globalization in China and India began, the poor people in these two economies discernibly benefited. However, even at the end of the last century, a large proportion of world's poor continued to live in the rural areas of these two economies. As regards poverty alleviation, China recorded an average GDP growth of 10 percent in real terms during the post-1978 period, and the proportion of poor fell from 31 percent in 1987 to 4 percent in 2000, a remarkable performance by any standard. Similarly, India also experienced acceleration in real GDP growth rate to close to 6 percent per year since economic liberalization began in 1991. The average GDP growth rate for three decades before liberalization began was 3.25 percent in India.[21] The proportion of the poor in Indian population dropped from an average of 50 percent during the 1950-80 period to an average of 25 percent in 2000 (Srinivasan, 2002). This demonstrates that in China and India, global integration and poverty alleviation went hand in hand.

In an acclaimed and influential research paper by Sala-I-Martin (2006), who compared four specific poverty lines for 1970-2000 period for income data for 138 countries, also inferred sharp poverty reduction in the global economy. His

[21] The People's Republic of China adopted the Deng doctrine or the "Gai Ge Kai Feng" program in December 1978. Translated it means "change the system, open the door". As opposed to this, India started its first major economic liberalization program in July 1991. India had earlier tried to unsuccessfully launch liberalization programs in 1984 and 1988 also, which had resulted in some furtive, if superficial, liberalization measures being taken.

first conclusion was that global poverty rates declined significantly over the period under consideration. In 2000, they were between one-third and one-half of what they were in 1970 for all four poverty lines. This is the fastest reduction in extreme poverty in world history. This deduction is supported by the on-going World Bank research on poverty. Recent World Bank statistics from surveys of the living standards of nationally-representative samples of households provide evidence of progress in reducing poverty, particularly after 2000. Over 1981-1999 period, people living below $1 a-day poverty line (measured in 1990 PPP and inflation adjusted) declined from 40.14 percent to 22.10 percent.[22] This proportion fell further to 18.09 percent in 2004. When the second measure of poverty is considered, that is, when the poverty line is moved to $2 a-day, over the 1981-1999 period poverty declined from 66.96 percent to 54.24 percent. It further declined to 47.55 percent in 2004 (Chen and Ravallion, 2007).

There is another distinct possibility, which cannot be disregarded. In reality, the theoretical globalization-poverty-alleviation nexus may not always work in the simple and direct manner suggested above, although instances of it working as it is indicated by theory abound. There are rapidly globalizing economies with weak poverty alleviation records. Brazil, Mexico, Peru and Zambia fall in this category. Chen and Ravallion (2004) reported that while absolute number of poor fell only in Asia, it rose in other parts of the world, particularly in Africa and Latin America. If the poverty line is moved to $2 a day, then the number of poor increased all over the world, significantly in Africa. The anti-globalization movement takes its inspiration from such computations.

3.1 Analyzing the Globalization-Poverty-Alleviation Nexus

As we saw in the preceding section that theoretically it is plausible and rational for globalization to alleviate poverty, but in a real life situation it may work in some cases while not in others. The reason is that it is a complex and heterogeneous relationship and it is simplistic to assume that one leads to or causes the other. It may well be a non-linear relationship, having multiple channels and thresholds. Non-linearity is vital in the transmission mechanism of globalization-poverty-alleviation nexus. Sindzingre (2005; p.1) argues that "institutions constitute a critical factor in creating these threshold effects in the transmission of impact of globalization on poverty". Using a composite index of globalization and cross-country regressions that relate measures of real and financial integration to poverty, Agenor (2004; p. 23) inferred that globalization may have an inverted U-shaped effect on poverty. That is, "at low levels, globalization appears to hurt the poor, but beyond a certain threshold, it seems to reduce poverty—possibly because it brings with it renewed impetus for reform. Thus, globalization may hurt the poor not because it went too far, but rather because it did not go far enough".

[22] It was clarified in the footnote … above that this international poverty line was recently updated to $1.25 a day in 2005 PPP (Ravallion, *et al,* 2008).

Besides, often globalization succeeds in alleviating poverty only when certain economic preconditions are fulfilled. Another explanation for a weakness in the link could be the policy distortions in the globalizing economy. These distortions can weaken the impact of globalization-induced growth on poverty. How exactly the process of globalization affects growth of income and its distribution has been analyzed with the help of different methodologies, but there is little agreement on views and inferences. Globalization can affect poverty through multiple channels. Which ones would be functional will necessarily vary with the case under analysis. As if multiplicity of channels of impact was not enough, they *per se* can be controversial and contentious. Ravallion (2004) noted that impact of globalization on poverty through growth has created both winners and losers of globalization, which in turn affected both vertical and horizontal inequalities. As the "multifaceted channels interact dynamically over space and time, the net effects of globalization on the poor can only be judged on the basis of 'context-specific empirical studies'" (Nissanke and Thorbecke; 2007; p. 25). Only detailed empirical research in country and region-specific context can provide an acceptable insight.

It appears rational and acceptable that growth, induced by global integration, can diminish incidence of poverty. Yet, contemporary phase of globalization is not conducive to structural transformation in the domestic economies which is necessary for engendering and sustaining pro-poor growth. Without creating such a policy structure, distributional consequences of globalization could be unfavorable, and globalization induced growth may not be pro-poor. It is possible, and has been observed, that globalization has often led to adverse distributional results at the national levels. While globalization creates opportunities of pro-poor growth, it is only the appropriate domestic policies that can ensure it. Poverty alleviation is neither a guaranteed outcome of globalization, nor it is its involuntary result. Nissanke and Thorbecke (2007; p. 28) put it aptly that globalization-induced growth could only be achieved by those "countries that create patterns of comparative advantage towards high-skill and high-productive activities will gain significantly from globalization. Passive liberalization may lead to marginalization". If this growth leads to inequality, the poor cannot be expected to benefit in a globalizing economy. Under certain circumstances they can even be hurt by it. This growth could subsequently be converted into pro-poor by modifying and fine-tuning the pattern of growth. Evidently, globalization-induced pro-poor growth would call for a strategy for pro-poor distribution of gains from globalization. Furthermore, a low-level of economic development renders it difficult to benefit from globalization. Economies need to reach a certain threshold of economic development to extract meaningful benefits from global integration. In order to take off and reach that threshold, they need to first invest in agricultural development and, secondly, formulate a fitting structural transformation strategy for their economies.

Analysts used various standard techniques like cross-country regressions to analyze the globalization-poverty-alleviation nexus. This technique dominated the

empirical research in this area. Cross-country studies are popular among researchers for good reasons; they allow them to draw inference from more than one specific case. Other techniques used included partial-equilibrium/cost of living analysis, general equilibrium simulations and micro-macro synthesis. However, they faced a basic problem of definition and measurement of the two key variables, globalization and poverty. As both of them are broad and multidimensional concepts it is difficult to measure them with any degree of precision. Multiple definitions lend themselves to different measures of each one of these concepts. This made an econometrician's task difficult, and lends her exercise inexact, if not vague. Conducting cross-country studies without precise measurement or indices is a challenging and problematic proposition. Little wonder that some of the empirical studies came up with inferences that seem counterintuitive. For instance, regression analysis by Heshmati (2007) for 62 countries found a weak and negative correlation between globalization poverty and income inequality. Taking a macro-micro view, Ravallion (2007) also concluded that the link between globalization and poverty was tenuous and that liberalization did not lead to poverty reduction. However, his data were suggestive of impact of trade openness on poverty. Under certain circumstances openness to trade could be effective in alleviating poverty. Estimates of income and inequality elasticities of poverty by Kalwij and Verschoor (2007) varied considerably between regions. They found that average income elasticity of poverty was -1.06, but it varied between regions. The range was -0.47 for South Asia and -4.21 for Eastern Europe. Similarly, their Gini elasticity of poverty was 0.21 on an average. But it varied regionally from -0.06 in South Asia and 2.94 in Eastern Europe.

3.2 An Insight beyond the Controversial Assertions

A macro-meso-micro approach of studying how globalization impacts upon poverty was taken by Jenkins (2007). As global supply chains or value chains are an idiosyncratic feature of the contemporary phase of globalization, studying them to come to a conclusion in this regard was indeed a meaningful and valuable approach (Section 5). These value chains integrate large areas of global economic activity. This insightful analysis addresses the issue of globalization-poverty-alleviation-nexus through the intensive study of three value chains in four sample countries, namely, Bangladesh, Kenya, South Africa and Vietnam.

The value chains *per se* have been closely studied in academic literature. In particular, inter-firm relationships, issues of governance and distribution of profits within the chains have been suitably analyzed. How a value chain operates would have "major implications for those who are integrated and who are marginalized as producers and hence who will be the winners and losers from globalization" (Jenkins, 2007; p. 164). The outcome of this research was that that one cannot categorically say whether globalization eradicates poverty or not because globalization processes are completely context dependent. They essentially depend on two things, institutional framework and government policies which interact with the process of globalization. How globalization

interacts with the rest of the policy and institutional environment hold the key to the question whether it will help in eradicating poverty. If institutional framework and government policies are properly crafted, global integration could lead to poverty alleviation. This conclusion is both, realistic and plausible. While global integration does engender opportunities for poverty alleviation, it cannot function as the primary policy measure for achieving the objective of poverty alleviation. Majority of the poor are not generally engaged in production of goods and services for global distribution. Other precise anti-poverty, or complementary, policies are required to reach this target group to alleviate poverty.

These anti-poverty or complementary policies will necessarily be economy specific, responding to a particular distortion or problematic issue. For instance, investment in human capital and improving industrial and agricultural infrastructures are the most frequently needed complementary policies. Providing credit and technological assistance to farmers are another important set. Examples of economy-specific anti-poverty or complementary could be as follows: In India globalization could be far more beneficial to the poor if complementary policies reducing impediments to labor mobility are adopted. In several sub-Saharan African countries, where agriculture is the mainstay of the economies, poor farmers can only benefit from exports if they have access to credit, farm inputs and modern technological know-how. Land reform legislation is another major policy issue. If it is ignored by governments, for farmers in many least developed countries (LDCs) globalization will mean nothing more than a buzz word. The same logic applies to financial globalization as well. It could be pro-poor and have poverty alleviation impact if it is accompanied by good governance, institutional development and macroeconomic stability (Harrison, 2006). While it could assist in eliminating poverty, as an isolated strategy globalization cannot achieve this policy objective.

3.3 Contribution of Domestic Policy and Institutional Development

As a large majority of the poor people in the developing economies does not work in industries and services that are integrated into the global markets, they cannot be expected to accrue direct benefit from globalization. A large proportion of them work on their farms and small household enterprises, eking our meager living. Constraints that this category of people usually faces cannot be eliminated by merely globally integrating. Frequently, they are locked into a low-income equilibrium because of lack of access to credit, absence of physical infrastructure, institutional limitations, corrupt and venal officialdom and insecure land tenancy rights. Corrupt politicians, weak rule of law and inefficient bureaucracies compound these problems further. These domestic economic constraints on the one hand and social and political malaise on the other cannot possibly be cured by mere global integration.

Analyses that delve into globalization and poverty, increasingly stress the importance of institutional development. If domestic policies and institutions are in place and they, first, engineer a structural shift in production towards

marketable goods and services, and second, assist movement of workers into these newly created jobs, globalization will indeed go a long way in directly benefiting the poor population groups. A recent consensus has emerged around the significance of domestic institutions, without which benefits of globalization cannot be properly and advantageously reaped. Among the most important institutions are improved safety nets in the high-income industrial countries and improved governance in the developing ones. Rodrik (2007b) went further and prepared an extensive list of important institutions to be developed and strengthened. It includes enhanced trade adjustment assistance and more progressive taxation in the industrial economies. Institutional reforms required internationally include implementation of the Doha trade agenda, implementation of the World Bank governance agenda, careful IMF surveillance over exchange rate movements, aid-for-trade and international financial codes and standards.

Several examples vividly illustrate the significance and contribution of domestic policy and institutions to economic growth and eventual social prosperity. In the early 1960s, Korea and the Philippines had comparable per capita incomes. However, it was development of a robust domestic economic policy and institutional structure that helped Korea achieve a much higher level of economic performance than the Philippines. The 2006 per capita income of Korea was $17,690, while that of the Philippines $1,420. In 1996, Korea became a member of the august OECD club of industrial nations. Likewise, Mauritius and Jamaica had comparable per capita income in the early 1980s. Since this time point their economic performance diverged. Superior economic policy and institutions and rule of law led to prosperity in Mauritius, whose per capita income in 2006 was $5,450, while Jamaica ignored its domestic institutional development and had a poor record on the rule of law. It stagnated with a per capita income of $3,480. Value of domestic economic policy structure and institutions cannot be overestimated. Expecting globalization to perform economic miracles without endeavoring to streamline domestic policies and build institutions would be futile.

3.4 Does East Asia Have a Lesson?

A striking case of globalization, rapid growth accompanied with impressive poverty alleviation is the experiences of the East Asian economies. This country group had successfully utilized pro-poor policies and institutional organization to eradicate poverty in the process of globally integrating. In keeping with Akamatsu's age old paradigm of "flying geese", Japan was the first economy to grow out of the ravages of the war and grow into a vigorous industrial economy, followed by the four newly-industrialized Asian economies (NIAEs), namely, Korea, Hong Kong, Singapore and Thailand. The ASEAN-4 (Indonesia, Malaysia, the Philippines and Thailand) followed the NIAEs. China and India began climbing the ladder of economic development, with China preparing to be an economic superpower of global proportion. Vietnam is the last to join this country group of dynamic economies. Incidence of extreme $1 a-day poverty first disappeared from Japan. It was markedly reduced in the NIAEs and the ASEAN-4 economies made significant progress in eradicating extreme poverty. Both

China and India reported progress in extreme poverty eradication over the preceding two decades, with China achieving dramatic results.

The distinct manner in which the East Asian economies grew and rapidly integrated with the global economy contributed to poverty eradication. The most important policy element in their growth was their adoption of outward-oriented strategy. They started with utilizing their most abundant resource, unskilled labor, to produce labor-intensive manufactured products for exports because they had comparative advantage in them. In the initial stages, their success in export markets was labor-driven. Production of competitive labor-intensive goods for the world markets provided a useful framework for effective poverty alleviation. While these economies benefited from the growth effect of globalization, their unskilled labor or the poor were benefiting from expansion of employment opportunities.

Having achieved initial success in the world markets, these economies went on moving up the technological ladder in a sure-footed manner as their comparative advantage moved up. Interestingly, poverty alleviation in these economies also followed the “flying geese” pattern. It is reasonable to expect East Asian economies to achieve the UN Millennium Project objective of halving the 1990s proportion of extreme poor by 2015. Some may even meet this target earlier (Das, 2005b; Ozawa, 2006).

3.5 China and Vietnam: Case Studies of Poverty Reduction

China and Vietnam provide two of the paramount examples of how economies can effectively alleviate poverty while globally integrating. Granted correlation is not causation, globalization contributed significantly to the policy objective of poverty eradication in these two economies. If trade-to-GDP ratio is taken as a measure, China is a more open economy than the US. Trade (export + import) accounted for 69.4 percent of the GDP in China in 2006; the corresponding proportion was 39.6 percent in 2000.[23] At the time of launching of the macroeconomic reform program in 1978, China was substantially poorer than Sub-Saharan Africa. Over the last three decades, it moved more people out of poverty than any other country and succeeded in bringing about the largest and fastest poverty reduction in history. Poverty in China was essentially a rural phenomenon. Measured by international poverty lines, absolute poverty in rural areas declined from 250 million in 1978 to 26.1 million in 2004 (OECD, 2005). Incidence of rural poverty declined from 31.6 percent in 1978 to 2.5 percent in 2005. In 2006, it declined further to 2.3 percent (Huang, *et al,* 2008). This is regarded as the largest single contribution in global poverty reduction in the global economy. Lipsky (2007) remarked that “China alone accounted for over 75 percent of poverty reduction in the developing world over the last 20 years.” While poverty has declined, income inequality in China increased. According to the recent (December 2007) revised calculations of PPP by the World Bank, China’s success in poverty alleviation was superior to what old computations showed. Old estimate of $1 per day (measured in PPP and inflation adjusted)

[23] The source of these statistical data is the World Development Indicators 2007.

poverty reduction in China was from 64 percent of the population in 1981 to 10 percent in 2004. The new estimate showed a reduction from something like 74 percent 15 percent over the same time period (CQU, 2008). It is well on track to eliminate $1 a day poverty by 2015 (Dollar, 2007).

At the end of 1986, Vietnam launched the *doi moi* (economic renovation) with an objective to stimulate economic growth. Although Vietnam drew a lot of economic inspiration from China, what it achieved by opening up its economy and globalizing is superior even to the superlative achievements of China. The doi moi reforms brought tangible success, making Vietnam one of the fastest-growing developing economies in the world. From 1996 to 2006 Vietnam maintained an annual growth rate of 7 percent, or higher. In 2007, its GDP growth rate was 8.5 percent, making it the third consecutive year of above 8 percent GDP growth. In 2007, its investment rate reached 40.4 percent of GDP, which was essentially driven by private sector. An exceedingly low-income country, its per capita income in 2007 was $790.[24] Its poverty alleviation efforts are noteworthy. In 1993, 61 percent of its population lived below $1 a day (measured in PPP and inflation adjusted) poverty line. In 1999, this proportion fell to 35 percent and in 2007 to below 20 percent. Between 1985 and 2005, its GDP quadrupled from $14.1 billion to $52.4 billion. Like China, trade played the role of principal locomotive in pulling the economy out of low-growth equilibrium. It acceded to the World Trade Organization (WTO) in 2007, which provided an impetus to its market-oriented reforms. Initially FDI remained at a modest level, but they soon gained momentum. Commitments in 2007 doubled from those in 2006, to $20.3 billion (WB, 2008). Vietnam, a country on the move, seems to be a winner of globalization.

4. Globalization Gains for the Industrial Economies

Economic payoff for the mature industrial economies from globalization was enormous. Due to its enthusiastic "embrace of globalization", Britain is "enjoying a period of extraordinary prosperity" (*The Economist,* 2007; p. 12). On balance, Europe has been a sizeable beneficiary from the on going globalization.[25] Greater trade opportunities, lower barriers to investment, rapid technological diffusion and reforms resulted in greater flows of goods and services, labor, capital and ideas within Europe and between Europe and the rest of the world. Conservative estimates show that "one-fifth of the increase in living standards in the EU-15[26] was the result of integration with the world economy" (CEC, 2005; p. 7).

[24] *Quick Reference Tables,* published by the World Bank in July 2008.

[25] Europe here implies the 27 members of the European Union (EU), as well as Switzerland and Norway. The EU-15 stands for the older EU member states, including the United Kingdom (UK), Ireland, Belgium, Luxembourg, the Netherlands, Austria, Spain, Italy, Greece, France, Germany, Portugal, Sweden, Finland and Denmark.

[26] The EU-15 comprised the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the

That Europe's integration into the global economy is borne out by the fact that trade-to-GDP ratio for the EU-15 economies jumped from 39 percent to 75 percent over the 1860-2005 period. Imports from developing economies increased from 2.7 percent of GDP to in 1990 to 4.9 percent in 2004 in the EU-15. Outward FDI stock from the EU-15 also recorded a sharp increase from 6 percent of GDP in 1980 to 39.9 percent in 2005 (EGW, 2008). The gains from globalization were not evenly shared by workers, firms and communities. Some benefited more than others. Tangible benefits to the European economies included vigorous trade expansion, strong outflows and inflows in FDI, greater technological diffusion, net portfolio inflows, net inflows of labor, downward pressure on inflation and interest rates, employment generation, higher household income and modest increase in wages. All these coalesced to engender higher GDP growth rates. Owing to globalization, Europeans are living better today than they did when the iron curtain fell in 1991.

Uneven distributions of the gains from globalization brought uncertainty and disruption for many. It did have negative impact over many stakeholders, namely consumers, workers, companies, communities and even governments. Some of them succeeded in locating and devising solutions, while others could not and sought to block the advance of globalization.

Largely due to globalization, Europe continues to be the largest trading entity in the world. Its share of world exports has increased over the last two decades. The net outcome of brisk trade expansion was a boost to real economic growth and to earning of the European firms, which in turn caused growth in employment and income of the workers. Comparable benefits have accrued from Europe's expanding FDI in the rest of the world. Being both a recipient and supplier of FDI, Europe has succeeded in deepening its economic linkages with the global economy. Between 2000 and 2006, it accounted for 64 percent of global FDI outflows and 50 percent of inflows. Europe has been benefiting from two sources of freer labor mobility. First, the intra-EU labor movements, which has been a windfall to both sending and receiving EU countries. Second, high- and low-skilled labor coming into the EU from the rest of the world. Although cross border movement of people has been a contentious issue, the EU economies are net importers of labor, presently importing 9 million annually (Hamilton and Quinlan, 2008).

In the post-war era, Japan pioneered outer-oriented economic policies, which helped it not only globalize but also in catching up with the mature industrial economies of North America and Western Europe. By 1968, it had become not only prosperous but also the second largest economy in the world. It benefited immensely from globalization and will continue to do so. It cultivated close trade and investment relations with both the neighboring East Asian economies and

---

United Kingdom. This was the number of member countries in the European Union prior to the accession of ten countries on 1 May 2004.

the mature industrial economies. Competitiveness of Japanese firms in a significant array of high-technology manufactured goods and electronics in the markets of industrial economies during the decade of the 1980s led to serious trade frictions, leading to strong protectionist tendencies in the large industrial economies. Plaza Accord led to sharp appreciation of the yen in 1985, which provided an impetus to FDI outflows from the large Japanese firms and transnational corporations (TNCs). Their overseas production links expanded. Soon size of overseas production grew larger than the value of Japanese exports. Japanese economy entered an expansionary phase in the latter half of the 1980s, which ended in 1991 and a decade long stagnation followed. Sluggish domestic demand impelled the Japanese firms to the global markets. Looking for low labor costs, they increasingly moved their manufacturing activity into the Asian economies. By the first half of the 1990s, Japan had developed remarkable manufacturing prowess and led the world in production volumes of autos, semiconductors and a large array of high-technology products. Several global Japanese firms like Sony and Toyota, grew at an unprecedented pace and became a force to reckon with. The economy bottomed out of stagnation in 2002.

Although Japan is a major global economic power, its influence over the East Asian economies has been even more decisive. Many of their economic lessons were learned from the Japanese economic experiments and experiences during its rapid growth era. Adopting outer-orientation and taking initiative to globally integrate were among the lessons learned by the East Asian economies. As manufacture of a large number of goods was moved first to the East Asian economies and then to China, Japan began to run considerable trade deficit with these economies. The challenge for the Japanese firms is to maintain comparative advantage in technology- and knowledge-intensive industries.

Over the years, the US became increasingly integrated into the global economy. In terms of trade and FDI flows, it has been a highly globalized economy. US firms produce in and do business with the virtually all the small and large economies in the world. The US firms and TNCs have been among the largest investor in the world. What is often ignored is that it has also been the largest recipient of FDI. Granger causality test of FDI inflows found strong evidence of favorable FDI effects on output and employment in the US. Most notably, the result of Granger causality running from FDI stocks to the GDP was found to be robust (Ajaga and Nunnenkamp, 2008).

Measured in terms of trade-to-GDP ratio, the US was a fairly closed economy until 1970, when this ratio was 10. The economy steadily opened to trade and its trade-to-GDP ratio doubled to 20.6 in 1980 and further increased to 28 in 2005. US firms, including the TNCs, have expanded abroad ever more and have increased their reliance on offshore inputs. It can do business with the whole world in its own currency. Growth in the global expansion of the US financial markets was nothing short of explosive and it continued to be the largest recipient of inward FDI. According to the rankings of the *Global Competitiveness*

Report 2008, the US economy topped the global competitiveness index league table. The US championed the cause of liberalization of multilateral trade and investment in the post World War II era. Its abstemious and clear-headed leadership was behind the creation of the General Agreement on Tariffs and Trade (GATT) in 1948, after the International Trade Organization (ITO) was still born. Policy makers were convinced of static and dynamic gains from trade. The US liberalized its markets and provided an example for the other countries to follow. Trade expansion with the global economy resulted in substantial benefit to the US. The halcyon period of broad-based economic expansion in the US was the quarter century following the War. At this point, industrial capacity in Japan and Western Europe was decimated. As opposed to this, in the US the manufacturing sector was not only left unscathed but was also scaled up for the wartime production. The US economy was in a strong position to meet growing domestic and global demand. Several studies that quantified gains, without exception found that they resulted in substantial past and potential future payoffs. The strength of the dynamic US economy lay in its flexibility and adaptability. Bradford *et al* (2006) found that post War trade liberalization provided between $800 billion to $1.4 trillion worth of gains to the US economy. In terms of gains per household, globalization payoff was estimated to be between $7,000 and $13,000. Additional gains from removing trade barriers ranged from $400 billion to $1.3 trillion. In terms of gains per household, they came to between $4,000 and $12,000. These gains are worth almost 10 percent of the US GDP. As these benefits permanently raise national income, these gains accrue annually. Aldonas *et al* (2007) computed similar gains to the US economy from global engagement. The all round economic gains to the US economy are worth $1 trillion annually from the liberalization of trade, investment and immigration. This translated into average gains of at least $10,000 per US household per year. Hufbauer (2008) confirmed that computations based on liberalization of principal channels of growth opened by policy liberalization and technological innovation resulted in $1 trillion annual globalization payoff for the US economy. As for the future, Hufbauer (2008; p.4) states that "total policy liberalization by the US and all its commercial partners would add another $500 billion annually to the US economy".[27]

4.1 Offshore Outsourcing

During the contemporary phase of globalization, the basic concept of trade posited by David Ricardo (in 1817) has undergone a fundamental transformation.[28] Globalization of labor has led to the creation of a new economic dynamics. Increasing integration of low-wage countries into the global labor force—and therefore global division of labor—has created new ways of

---

[27] These computations and results are not free of controversy. Several empirical studies challenged them and others came up with considerably different results. For instance, see Rodrik (2007b), Bivens (2007), Schwab (2007) and Anderson *et al* (2006).

[28] The classical theory of comparative advantage is attributed to David Ricardo who explained it clearly in his 1817 book *On the Principles of Political Economy and Taxation* in an example involving England and Portugal. In the earstwhile Portugal it was possible to produce both wine and cloth with less work than it takes in England.

organizing production and trade. Advances in ICT, noted in section 1.1, made offshoring cost-efficient. Investment-led trade in goods and services coalesced to create large offshore outsourcing from firms in the advanced industrial economies[29] to those in the developing economies and the EMEs. Consequently, the makeup of multilateral trade has changed spectacularly.

Offshore outsourcing grew at a rapid pace over the last quarter century. It became a feature of the contemporary globalization that was as emotionally charged as it was misunderstood. As it created job migrations in the industrial economies, it became a politically sensitive issue and caused a huge stir in the industrial economies. It was indignantly criticized, strongly resented and accused of creating the losers from globalization. It became a raucous political issue at election times, both in the EU and the US. Fear of shipping jobs abroad became a public platform and political parties exploited it. Several thousand websites angrily debated over the injurious impact of offshore outsourcing for the domestic economies. Conservative politicians, like Senator Charles Schumer of the US, repeatedly admonished about offshore outsourcing converting industrial countries into developing ones. It has given a fresh lease of life to emotionally charged debates on neo-protectionism.

As the trend of offshore outsourcing picked up momentum, it reshaped the structure of the global economy. It led to both major macro- and microeconomic benefits. It enabled firms in the industrial economies to achieve significant bottom-line savings and improve profits. Not only the firms benefited from it but also the consumers and economies gained. A Ventoro survey of 5,000 firms in the EU and the US indicated that firms achieved cost restructuring and quality improvement by offshore outsourcing. They could also access intellectual property and wider skill sources by offshore outsourcing. Intra-firm operations were redesigned by firms which reduced time to market. Offshore outsourcing facilitated taking advantage of time zones and operating around the clock, in the process using productive resources and technology more efficiently.[30] Competently handled, offshore outsourcing considerably enhances TFP and competitiveness of firms. In the Ventoro survey, firms unequivocally reported that the largest benefit of offshore outsourcing was saving made by way of cost reduction.[31] Given these benefits, if a firm chooses not to innovatively offshore, it

[29] I prefer to use the term offshore outsourcing instead of “offshoring” or “outsourcing”. The former implies the tasks or processes that were previously being undertaken domestically or in-house by a firm have moved to another country and being done at arm’s-length prices. The latter means that the tasks performed in-house previously are being performed by another firm at arm’s-length, not necessarily in another country. A clearer meaning emerges from offshore outsourcing. This means a firm in another country is performing tasks and processes that were being executed domestically by the outsourcing firm in the past. This could entail both, having part of manufacturing process done by a firm in another country, or employ them for providing certain services digitally from their home base.

[30] Ventoro is an organization founded by business executives from the Offshore Outsourcing world, in Portland, Oragon. The study entitled *Offshore 2005 Research* is available on their website. It can be accessed at http://www.ventoro.com/Offshore2005ResearchFindings.pdf.

[31] Ibid.

is sure to become uncompetitive. The macroeconomic benefits that emerged from offshore outsourcing included control of inflation, improved returns on capital, larger investment and export growth. Competitive prices result in increase in real income of consumers. Thus, from an economic perspective it is a win-win situation.

Offshore outsourcing has accelerated the pace of structural change in the global economy. Manufacturing sector took the largest advantage of this practice; its popular utilization succeeded in reshaping global manufacturing activity over the last two decades. In comparison to two decades ago, an auto plant in Detroit has an entirely different production structure today. These plants no longer produce cars from start to finish. A large number of globally scattered firms participate in building them. The services sector followed the manufacturing sector into the offshore outsourcing in a big way. The latest development is routine offshore outsourcing of services operations by the manufacturing sector in the industrial economies. In Belgium, the Netherlands, Austria and Denmark manufacturing firms tended to offshore the largest proportion of their manufacturing and services operations. Conversely, manufacturing firms in France, Germany, the UK and the US offshored to a lesser degree, but the volume of offshore outsourcing in these economies is large because these are large economies (OECD, 2007).

In the manufacturing sector, offshore outsourcing changed the production structure in the industrial economies from a vertically integrated one to a fragmented one, and in the process provided a large cost advantage to firms in the industrial economies. Fragmentation of the production process was not economical in the past. It was made feasible by the ICT advances and declining freight charges. Manufacturing in the US has not debilitated due to offshore outsourcing but if anything became stronger. If job losses occurred in some manufacturing industries due to offshore outsourcing, new ones were created in many other manufacturing sectors, which were higher up the technology ladder. The economy had comparative advantage in these new higher-technology and higher-value-added sectors. If productive resources, in particular labor, are mobile and move to these new industrial sectors, offshore outsourcing results in greater prosperity for the economy. This kind of industrial dynamism is not only beneficial, but also necessary for long-term growth and affluence. Manufacturing production in the industrial economies has risen over the past decade. It has also become more productive and efficient than before. The proportion of workforce employed in the manufacturing sector declined because of the on-going structural changes in the economy, that is, expansion of the services sector and shrinking of the manufacturing sector. This was not unique to industrial economies. It has been happening in all the economies, developing and industrial, that were growing.

Trade in commercial services inputs was low initially. Services were regarded in the past as a non-tradable activity. An old dictum was that what cannot be

packed, cannot be traded. No more. Lately offshoring intensity increased in commercial services. Due to the ICT revolution, a large variety of services have become tradable. As set out in Section 1, multilateral trade in services is not only sizable and extensive but it is regarded as the most rapidly growing component of global commerce. In 2007, world commercial services exports rose by 18 percent, to $3.3 trillion, compared to 12 percent growth rate of merchandise trade (WTO, 2008).

In spite of rapid growth in services outsourcing, it is still very low. In the US the international outsourcing of services accounted for less than 1 percent total intermediate service inputs (Amiti and Wei, 2005a). Besides, all the major advanced industrial economies are major net exporters of intermediate service inputs, that is, 'insourcing' of services is far greater than outsourcing (Amiti and Wei, 2005b). Future liberalization of trade in services promises a large payoff. Several developing economies have succeeded in expanding their export of services markedly; as a group their exports of services increased from $54 billion in 1984 to $400 billion in 2004. High-technology giants like the IBM routinely outsource many of their software programming needs to India; it was a well calculated business decision having consequential financial implications. Although India has grown into one of the largest providers of offshore ICT-enabled services, East European countries, the Russian Federation, Portugal and Spain have also been active players. In a number of industrial economies imports of services increased substantially, this included Canada, Germany and the Netherlands.

Many of the East European and Central Asian economies have benefited from opening up to the global economy and merging with the EU; the tertiary sector in these economies grew rapidly. A large contribution to the rise in developing-country's service exports over the last two decades was made by these economies. Industrial countries like Australia, Canada and Ireland are also identified as offshore locations that are responsible for large services exports. Exact statistical measures of individual tradable services trade is often difficult to determine because they are not methodologically maintained or compiled. However, offshore outsourcing of services has gained considerable momentum and importance since the mid-1990s. Growth of this market has been dynamic; double-digit annual growth rates have been common (DBR, 2004). Offshore outsourcing is here to stay and is projected to expand. This applies *a fortiori* to the lower-skill services.

EU and US firms that are winners of offshore outsourcing successfully took advantage "of potentially very large cost savings". The mechanism functioned as follows: By offshore outsourcing and exporting some jobs firms were able to keep many businesses profitable, which enabled them to preserve other jobs in the domestic economy. Higher TFP and profitability allowed these firms to invest more "in new technologies and business ideas" which in turn created new jobs in the higher-value-added sectors (Hamilton and Quinlan (2008; p. 96).

The efficiency gains from outsourcing of services are nothing short of revolutionary. Those who stress the specter of displaced workers are remiss in ignoring the efficiency and cost benefits from outsourcing of services. The kind of jobs that can be moved abroad at low costs digitally will continue to be moved. This does not imply that the services sector jobs will disappear from the industrial economies. However, one consequence of offshore outsourcing would be that the proportion of workforce in these services jobs will shrink, which will lead to a structural change in the economy as well as societies. The workers freed from the services sector jobs in the industrial economies, as noted above, will move to other gainful employments. Furthermore, offshore outsourcing need not result in large unemployment.

Blinder (2006, p. 116) went so far as calling offshore outsourcing the "third industrial revolution". "The world gained enormously from the first two industrial revolutions, and it is likely to do so from the third—so long as it makes the necessary economic and social adjustments" (Blinder, 2006, p. 117). As long as firms in the industrial economies retain high levels of skills and reposition their businesses for higher levels of productivity on the one hand and the workforce remains flexible and mobile on the other, the high-value-added services will remain at home. The petrifying visions of high unemployment being created by offshore outsourcing will be belied.

Protectionists who accuse offshore outsourcing of job migration in the industrial economies take only a narrow view and restrict themselves to an incomplete picture. Its impact can be decomposed into labor-supply effect, relative price effect and productivity effect. Two empirical exercises demonstrated that it is the productivity effect that dominates the other two. Offshoring of lower-technology and lower-skill jobs tends to raise domestic wages of workers. The same logic applies to offshoring of white-collar jobs; it ends up increasing the salaries of white-collar workers. Advancements in the ICT may eventually "boost the wages of domestic workers" who performed the tasks that cannot be moved offshore (Grossman and Rossi-Hansberg, 2006a; p. 14). Offshore outsourcing eventually results in a factor augmenting technological process. When some tasks or processes can be performed more economically abroad, the offshoring domestic firm that had used domestic labor intensively for these tasks or processes gains. The augmented profitability gives such a firm incentive to expand faster relative to the firms that did everything domestically, using in-firm resources. Faster expansion by the firms that offshore selected operations and products eventually results in increasing the demand for domestic labor. In addition, offshore outsourcing enables producers and consumers to capture the traditional benefits, in the Ricardian sense, from trade and specialization, plus additional gains that are generated when tasks or production processes are located where they can be performed most cost efficiently. Furthermore, offshore outsourcing is "equivalent to technological progress that augments productivity" (Grossman and Rossi-Hansberg, 2006b; p. 94). The effect of offshore outsourcing on wages and

employment is the same as technological advancements and productivity improvements. If the adversaries of globalization are not critical of technological advancements and productivity improvements, why should they be averse to offshore outsourcing?

5. Proliferation of Globally Networked Production and its Benefits

Manufacturing firms in the past were usually vertically integrated and their production was centralized. They typically undertook all of the production operations within their premises. Jay Forrester (1958, p. 37) is credited with foreseeing the advent of a new trend in production and making a prescient statement over half a century ago. In a *Harvard Business Review* article he prophesized, “Management is on the verge of a major breakthrough in understanding how industrial company success depends on the interactions between the flows of information, materials, money, manpower and capital equipment. The way these five flow systems interlock to amplify one another and to cause change and fluctuation will form the basis for anticipating the effects of decisions, policies, organizational forms and investment choices”. Forrester conceived and identified what the contemporary business literature refers to as supply chain management (SCM). As skills, capabilities and demand rose, the old mode of production was transformed. Subcontracting operations expanded profusely to supply parts, components and sub-systems competitively. This is known as build-to-order supply chain (BOSC) strategy and has been successfully implemented in many large business corporations.[32]

The BOSC succeeded in launching a veritable revolution. Gigantic manufacturing firms like Airbus and Boeing increasingly rely on BOSC and risk-sharing partner firms, some of which remain involved from the design stage to production of components, sub-assemblies and entire sections of the aircrafts. For the last two decades, China’s aviation industry has been producing increasingly sophisticated components and parts for both Airbus and Boeing. Doors, airframes, tailfins, rudders for A320, A350, 737 and 787 Dreamliner are made by aviation Chinese firms in a highly cost-effective manner. Falling costs of transport and communication encouraged globalization of production. Sub-contracting firms that are part of the BOSC are often scattered globally. Globalization of production has acquired significant dimensions and large business firms, particularly TNCs, consider it routine. BOSCs have become the principal instrument of globalization of production of goods and services.

Typically these sub-contractors were not one-batch suppliers but they endeavored to develop long-standing relationships with their customer firms. As the trade barriers and transport costs fell over the last quarter century and transport and communications costs fell drastically, manufacturers and services suppliers were increasingly exposed to global competition (Hummels, 2007). However, the dissenting voice of Anderson and van Wincoop (2004) must be noted about the implicit trade costs still being large. They measured them at

[32] Gunasekaran and Ngai (2005) provide a literature review of BOSC.

about 170 percent in the advanced industrial economies and higher in the developing economies.

With reduction in the global life cycle time of products and services, firms were forced to adopt new decentralized modes for their products and services. This impelled manufacturing and services operations to disperse geographically and become increasingly globally networked. A broad pattern of cross-border activities of firms evolved. It entailed global investment, trade and collaboration for the purpose of product development, production and sourcing and finally marketing. The global value chains that evolved, soon became the new paradigm of production as well as international trade. Assembly operations migrated to lower-wage economies. Progressively more trans-border transactions began to take place within firms and within integrated networks of production. Firms' abilities to disaggregate the production processes and geographically disperse production also grew. Trade in parts, components and sub-assemblies enlarged to form an ever increasing share on international trade. Efficiently operating networked production activities enabled firms to enter new markets, exploit their technological and operational advantages as well as reduce their costs and risks. Increased mobility of factors of production was essentially driven by the liberalization of markets.

In networked production, firms tend to focus on a single activity in the value chain. Typically they adapt and engage in one or some links in the value chain, that is, from R&D through production to service provision. How to choose operations for in-house production and outsourcing is a complex process, which depends upon the maturity and complexity of the product and intricacy of its production processes. A thorough understanding of the value chain and the link between activities provides a significant advantage. Managing a geographically spread out value chain is demanding, particularly in areas where technology is changing rapidly and relationship with suppliers is constantly shifting.

Co-ordinating across full value chain provides firms an opportunity to capture a large value from integrated operations. For instance, in 1995 Hewlett-Packard designed and manufactured PCs in Europe and the US for the two markets. No more. By 2008, designers, assemblers and marketers are scattered geographically across a large number of firms. Another example is Apple Computer, which focuses on product design and co-ordinates across a large value chain. The 450 parts of its latest iPod video player are outsourced to subcontracting firms in Japan, China and other Asian countries. The chip that controls the player is outsourced from a US company, which in turn licenses microcircuit from another company in the UK. In emerging industries, where production is linked to science-based knowledge and sophisticated production is linked to R&D, firms can capture significant value from such production activities.

Globally networked production and value chains have resulted in persuasive interdependence of economies, lower production costs, lower prices for the

consumers and higher profits for the firms. Several economies and regions exploited the opportunity to be parts of the globally networked production and value chains and in the process benefited from hastening the economic catch-up and received welfare gains. These benefits were widespread. In particular, Asian economies, principally China, remarkably succeeded in creating and expanding sophisticated production networks. The BOSC linked the production and trade networks of the Asian economies to China. These networks nurtured and increased China's trade in high technology products. This trend has reorganized production in Asia and made it progressively global. A triangular trading pattern developed, that is, firms in Asian economies, particularly in advanced ones like Hong Kong, Korea, Singapore and Taiwan, used China as their export base. Instead of exporting finished goods to the advanced industrial economies, they tend to export intermediate products to their affiliates in China, where they are turned into finished products for export to the industrial countries (Gaulier, *et al,* 2007).

The achievement of this group of economies in managing and running the BOSC is nothing short of commendable. Due to increase in vertical specialization, intra-industry trade rose sharply in East Asia. Share of this region in total world trade reached 34 percent in 2006, up sharply from 21 percent in 1990 (IMF, 2007). Globalization of marketplace resulted in supply chains facing more and more challenges in the form of global issues those are critical of their success. Complexity of supply chains gradually went on increasing. With increasing complexity, risk of production disruption also increased. While lean supply chain operations increase efficiency of production operations and save inventory costs, they also make production susceptible to natural disasters and other non-economic disruptions like pandemics. Efficient supply chain operations created complaints of price discrimination.

6. Discernible Benefits for the Global Economy

The 20th century was so productive that the value of goods and services produced during this period exceeded the cumulative total of output over the preceding recorded human history (IMF, 2002). Britain, the leading economy of the 19th century, managed an average per capita annual growth rate of 1.5 percent. In comparison, in the post-World War II period, several rapidly growing economies managed to grow between 6 percent to 8 percent annually in per capita terms (Krueger, 2003). Between 1900 and 2000, global GDP at constant prices soared 19-fold (DeLong, 1998). Undoubtedly, this growth was far from evenly distributed. In another context, I have noted that economic growth in the latter half of the last century was much faster than in the earlier half, in fact during any earlier centuries. Average annual global economic growth rate was 3.9 percent during the latter half, compared to 1.6 percent for the first half (Maddison, 2001). According to Maddison (2003), this was the half century of rapidest economic growth since the birth of Christ (See Tables 1-3, and 8-b in Maddison 2003).

Economic growth and global integration expanded contemporaneously during the latter half of the last century. The forces of globalization in many economies were supported by institutional innovation that took place in them, which enhanced both legitimacy and efficiency of markets. Relatively easy access to a buoyant international market greatly facilitated faster growth for a group of rapidly growing economies. The so-called dragon economies of East Asia and the EMEs benefited from the experiences of the mature industrial economies. The manner in which it was possible for these groups of economies to exploit their comparative advantage and division of labor was not possible for the rapidly growing economies of the 19th century. "This process led average global per capita income to more than triple in the second half of the last century" (Kohler, 2002)[33]. Over the 1980-2005 period, it doubled (GEP, 2007).[34] In effect, global economic growth in the latter half of the 20th century was so much better and qualitatively different from any earlier periods in history that a "new perspective of the world economy was needed to comprehend it" (Lucas, 2000, p. 159). For North America, Western Europe, Japan this period was one of unmatched prosperity. The miracle economies of East Asia and China followed the industrial economies and attempted valiantly to catch up. According to Krueger (2007, p. 337), the acclaim for the economic performance of the latter half of the twentieth century goes to "the open multilateral system, which has enabled the emergence of a truly international financial system, reciprocal reduction of trade barriers, and the emergence of many previously poor countries into the status of 'emerging markets'…"

A caveat will be in order, that is, not all the economies gained from globalization during the latter half of the 20th century. The winners of globalization benefited from globalization *inter alia* by participating in the competitive global economy. Therefore, the winners are limited only to those economies, or firms, that participate in the ongoing globalization process. Also, protected sectors of the economy—and firms and workers in them—evidently cannot possibly gain from globalization. If anything, they stand to lose a great deal from globalization. Countries and regions that did not participate in the ongoing globalization lagged behind. Some of them were unable to do so because they had failed to improve their investment climate, had problems with enacting corporate law and protection of property rights. Myanmar, Nigeria, and Pakistan are the cases in point.

Pace of globalization picked up during the decade of 1990s and the 2000s, leading to technological transformations and structural changes in the global economy. Several economies began turning from industrial to innovative, which made a discernible contribution of global economic growth rate. Trans-border

[33] Horst Kohler, Managing Director, International Monetary Fund, Strengthening the Framework for the Global Economy, a speech given on the occasion of the Award Ceremony of the Konrad Adenauer Foundation, Berlin, November 15, 2002. Available on the Internet at http://www.imf.org/external/np/speeches/2002/111502.htm.

[34] See Chapter 2 of the *Global Economic Prospect 2007*, published by the World Bank.

flows of trade and finance, particularly FDI, maintained strong momentum and the global economy demonstrated strong resilience to high oil prices and increases in interest rates. Until the sub-prime mortgage crisis precipitated financial turmoil in the US and adversely affected the global economy in 2008, global economic growth rate was exceedingly impressive. Few periods of comparable sustained global growth rates can be found during the post World War II period.

7. Silent Revolution: A New Breed of Multinational Companies

A new breed of EME-based multinational corporation (MNCs) is emerging that produces low cost, appealing world-class products or services and modern facilities and systems. Forces of globalization are providing impetus to this new and fundamental trend. In a more open and globally integrating world economy the EMEs are spawning their own giant firms. It is sure to lead to a new shape of global business. As the MNCs from EMEs invest in both developing and industrial economies, investment increasingly flows from south to south as well as south to north. The business world woke up to the presence of this new breed of MNCs in 2004, when the Lenovo Group of China bought IBM's PC business and when Mittal, an international steel group owned by an Indian expatriate family in London, bid for Arcelor in 2006, the biggest steelmaker in Europe and succeeded against severe French opposition. Firms from Brazil and Mexico have also been going global in an impressive manner in industries ranging from cement to consumer electronics to aircraft manufacture. These MNCs bring not only finances but also managerial and entrepreneurial talent. Airbus and Boeing "may have learnt a thing or two from the global supply chain of Brazil's Embraer" (*The Economist,* 2008; p.63).

MNCs from EMEs are successfully selling their products and services in the global markets. As this movement unfolds, the incumbent global leaders will face strong competition from these EME-based firms and MNCs. The two will not only compete for markets but also for talent, resources and innovation. This silent revolution is transforming the global industrial landscape. While this poses a threat to the incumbent global leaders, it also offers opportunities for partnering and cooperation. A good number of EME-based globally ambitious firms are on the move and have been making their felt. Some of the most prominent ones include Haier and Lenovo Group of China, Infosys and Wipro of India, BYD Company of China, Cemex of Mexico and Embraer of Brazil. Boston Consulting Group (BCG) identified 100 MNCs from 14 EMEs in 2007, from a pool of 3,000, that have acquired global status. They are at the leading edge of their businesses. Of these, 18 have assumed global leadership position and are successfully competing with industrial-country firms in their own lucrative markets (BCG, 2006 and 2007). These MNCs are at varying stages of globalization and have different strategies of globalization.

The latest BCG 100 are based in 14 EMEs, namely, Argentina, Brazil, Chile, China, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Poland, Russia,

Thailand and Turkey. Asia is home to 66 MNCs and Latin America to 22. Maximum number of MNCs (41) comes from China, followed by India (20) and Brazil (13). Other than expanding sales and profit maximization, the motive for globalization for the BCG 100 includes continued growth, long-term viability, increasing the scale of production, acquiring intangible assets, such as, brands, and experimenting with new business models. They typically enjoy a set of compelling competitive advantages that they leverage in various ways to pursue global growth. They have been expanding their global market share, making major acquisitions and emerging as important customers.

8. Summary and Conclusions

The phenomenon of globalization is neither good nor bad in itself. Its impact can be both salutary, constructive and welfare-enhancing on the one hand and injurious, destabilizing and dislocating on the other. In this article, I delve into the positive impact of the contemporary globalization and examine the evidence for its beneficial effect on several country groups as well as over the global economy. This article provides wide ranging evidence of its being a definitive transformative force for several economies and groups thereof.

No claim has been made of universality of positive impact of globalization. Global economic and financial integration on balance yielded rich dividends for many of them. Evidence is available to demonstrate that globalization on balance is a welfare-enhancing force. By successfully exploiting market-led outer-oriented development strategy and climbing the ladder of development by first producing and exporting labor-intensive manufactures and then switching to exports of capital- and technology-intensive manufactures several country groups integrated with the global economy and have commendable results to show. In a succinct manner this article provides an account of how various groups of economies benefited from globalization.

The rapid economic growth of the global economy during the latter half of the 20th century is attributed to the on-going globalization. This period is justifiably regarded as the paramount half century of global economic growth ever. Contemporary globalization also provides evidence of impressive advances in poverty alleviation and development of vertically integrated production networks. The supply chains thus created produced a global manufacturing revolution of their own.

References

Ajaga, E. and P. Nunnenkamp. 2008. “Inward FDI, Value Added and Employment in US States: A Panel Co-integration Approach”. Kiel, Germany. Kiel Institute for the World Economy. Kiel Working Paper No. 1420. May.

Akamatsu, K. 1961.”A Theory of Unbalanced Growth in the World Economy”. *Weltwirtschaftliches Archiv.* Vol. 86. No. 2. pp. 196-215.

Aldonas, G.D., R.Z. Lawrence and M.J. Slaughter.2007. “Succeeding in the Global Economy”. New York. The Financial Services Forum. Policy Research Paper. June.

Agenor, P.R. 2004. “Does Globalization Hurt the Poor?” *International Economics and Economic Policy.* Vol. 1. No. 1. pp. 21-51.

Amiti, M. and J. Koning.2005. “Trade Liberalization, Intermediate Inputs, and Productivity: Evidence from Indonesia”. Washington DC. International Monetary Fund. Working Paper WP/05/146.

Amiti, M. and S.J. Wei.2005a. “Service Offshoring, Productivity and Employment: Evidence from the United States”. Washington DC. International Monetary Fund. Working Paper WP/05/238.

Amiti, M. and S.J. Wei.2005b. “Fear of Service Outsourcing: Is it Justified?” *Economic Policy.* Vol. 20. No. 42. pp. 308-347.

Anderson, J. and E. van Wincoop. 2004. “Trade Costs”. *Journal of Economic Literature.* Vol. 42. No. 3. pp. 691-751.

Anderson, K., W. Martin and D. van der Mensbrugghe.2006. *“Doha Merchandise Trade Reform: What’s at Stake for Developing Countries”.* Washington DC. The World Bank. Policy Research Working Paper No. 3848. February.

Arnold, J.M., B.S.Javorcik and A. Mattoo. 2007. “Does Services Liberalization Benefit Manufacturing Firms?” Washington DC. World Bank Policy Research Working Paper No. 4190. January.

Berg, A. and A.O.Krueger.2003. “Trade, Growth and Poverty: A Selective Survey”. Washington DC. International Monetary Fund. Working Paper WP/03/30.

Bussolo, M., E.D. Rafael, D. Medvedev and D. van der Mensbrugghe.2008. “Global Growth and Distribution: Are China and India Reshaping the World?” Washington DC. The World Bank. Policy Research Working Paper 4392.

Aslund, A. 2007. *Russia's Capitalist Revolution.* Washington DC. Peterson Institute for International Economics.

Bivens, L.J.2007. "The Gains from Trade: How Big and Who Gets Them?" Washington DC. Economic Policy Institute. Working Paper. December 17.

Blinder, A.S.2006. "Offshoring: The Next Industrial Revolution?" *Foreign Affairs.* No. 85. No. 2. March/April. pp. 113-128.

Boston Consulting Group (BCG). 2007. "The 2008 BCG 100: New Global Challengers". December.

Boston Consulting Group (BCG). 2006. "The New Global Challengers". Boston. May.

Bourguignon, F. and C. Morrisson. 2002. "Inequality among World Citizens: 1820-1992". *American Economic Review.* Vol. 92. No. 4. pp. 727-744.

Bourguignon, F., D. Coyle, R. Fernández, F. Giavazzi, D. Marin, K. O'Rourke, R. Portes, P. Seabright, A. Venables, T. Verdier, and L. A. Winters.2002., "Making Sense of Globalization," *CEPR Policy Paper No. 8,* London: Centre for Economic Policy Research.

Bradford, S.C., P.L.E. Grieco and G.C. Hufbauer. 2006. "The Payoff to America from Globalization". *The World Economy.* Vol. 29. No. 7. pp. 893-916.

Carter, J.K.2007. "After the Fall: Globalizing the Remnants of the Communist Bloc". *Economic Letter.* Dallas. Federal Reserve Bank of Dallas. Vol.2. No. 2. pp. 1-8.

Cashin, P. and A. Scott. 2002. "Booms and Slumps in World Commodity Prices". *Journal of Developing Economies.* Vol. 69. No. 4. pp. 277-96.

Chen, S. and M. Ravallion.2007. "Absolute Poverty Measures for the Developing World, 1981-2004". Washington DC. The World Bank. Policy Research Working Paper No. 4211. April.

Chen, S. and M. Ravallion.2004. "How Have the World's Poorest Fared since the Early 1980s?" Washington DC. *World Bank Research Observer.* Vol. 19. No. 2. pp. 141-170.

China Quarterly Update (CQU). 2008. Beijing. The World Bank. January.

Commission of the European Communities (CEC). 2005. *The EU Economy: 2005 Review.* Brussels. Directorate General of Economics. November.

Das, Dilip K. 2008a "Repositioning the Chinese Economy on the Global Economic Stage". *International Review of Economics.* Vol. 55. No. 4. December 2008. (forthcoming)

Das, Dilip K. 2008b.*The Chinese Economic Renaissance: Apocalypse or Cornucopia.* Palgrave Macmillan Ltd. Houndmills, Hampshire, UK.

Das, Dilip K. 2008c. "Suspension of the Doha Round of Multilateral Trade Negotiations and the Need for Its Resuscitation". *The Estey Journal of International Law and Trade Policy.* Vol. 9. No. 1. April. 2008.

Das, Dilip K. 2007a. "China's Inexorable Climb to Economic Domination". Sydney. Macquarie University. Center for Japanese Economic Studies. CJES Research Paper No. 2007-04. December.

Das, Dilip K. 2007b *Shifting Paradigms of Regional Integration in Asia.* University of Warwick, UK, Center for the Study of Globalization and Regionalization, CSGR Working Paper No. 230/07. http://www2.warwick.ac.uk/fac/soc/csgr/research/workingpapers/230/wp23007/pdf. June. 28 pp.

Das, Dilip K. 2007c. "Integration of South Asian Economies: An Exercise in Frustration?" *Asian-Pacific Economic Literature.* Vol. 21. No. 1. pp. 55-68.

Das, Dilip K. 2007d. *The Evolving Global Trade Architecture.* Edward Elgar Publishing, Inc. Northampton, MA, USA.

Das, Dilip K. 2006.*China and India: A Tale of Two Economies.* London and New York. Routledge.

Das, Dilip K. 2005a. *The Anatomy of a Crisis: Asia as Ground Zero.* Sydney. Macquarie University. Center for Japanese Economic Studies. CJES Research Paper No. 2005-4. October.

Das, Dilip K. 2005b.*Asian Economy and Finance: A Post-Crisis Perspective.* Springer Publications. Cambridge, UK and New York, USA.

DeLong, J. B. 1998. "Estimating World GDP, One Million B.C. –Present." Department of Economics, University of California, Berkeley. Available: http://econ161.berkeley.edu/TCEH/1998_Draft/World_GDP/Estimating_World_GDP.html.

Deutsche Bank Research (DBR). 2004. "Digital Economy and Structural Change". Economics Research Paper No. 45. Frankfurt. September 27.

Dollar, D.R.2007. “Asian Century or Multi-Polar Century?” Washington DC. The World Bank. Policy Research Working Paper 4174. March.

du Preez, M.L.2007. “Is Three a Crowd or a Coalition? India, Brazil and South Africa in the WTO”. Unpublished dissertation at the University of Stellenbosch.

The Economist. 2008. “The Challengers”. January 12. pp. 62-64.

The Economist, 2007; “You’ve Never Had it So Good”. February 3. p. 12.

Europe in a Globalized World (EGW). 2008. Munich. Germany. European Economic Advisory Group. CESifo. February 2008.

Farrell, D.2004. “The Case for Globalization”. *The International Economy.* Winter. pp. 52-56.

Fischer, S. 2006. “The New Global Economic Geography” in *The New Economic Geography: Effects and Policy Implementations*, Kansas City. KA. The Federal Reserve Bank of Kansas City. pp. 177-194.

Forrester, J. W.1958. “Industrial Dynamics: A Major Breakthrough for Decision Makers”. *Harvard Business Review.* Vol. 38. No. 3. pp. 37-66.

Gaulier, G., F. Lemoine and D. Unal-Kesenci.2007. “China’s Integration in East Asia: Production Sharing, FDI and High-Tech Trade”. *Economic Change and Restructuring.* Vol. 40. No. 1-2. pp. 27-63.

Global Competitiveness Report 2008. Geneva. World Economic Forum.

Global Economic Prospects (GEP). 2007. Washington DC. The World Bank.

Goldman Sachs. 2005. “How Solid are the BRICs?” New York. Global Economics Paper No: 134. December.

Goldman Sachs. 2003. “Dreaming With BRICs: The Path to 2050”. New York. Global Economics Paper No: 99. October.

Grossman, G.M. and E. Rossi-Hansberg, 2006a. “Trading Tasks: A Simple Theory of Offshoring”. Cambridge. MA. National Bureau of Economic Research. NBER Working Paper No. W12721. December.

Grossman, G.M. and E. Rossi-Hansberg, 2006b. “The Rise of Offshoring” in *The New Economic Geography: Effects and Policy Implications.* Kansas City. KA. The Federal Reserve Bank of Kansas. pp. 59-102

Gunasekaran, A. and E. Ngai.2005. Build-to-Order Supply Chain Management: A Literature review". *Journal of Operations Management.* Vol. 23. No. 2. pp. 423-451.

Hallaert, J.J.2006. "A History of Empirical Literature on the Relationship between Trade ad Growth". *Mondes en Developpement.* Vol. 34. No. 1. pp. 63-77

Hamilton, D.S. and J.P. Quinlan. 2008. *Globalization and Europe: Prospering in the New Whirled Order*. Washington DC. Center for Transatlantic Relations. The Johns Hopkins University.

Harrison, A. 2006. *Globalization and Poverty.* Cambridge. MA. National Bureau of Economic Research.

Hawksworth, J.2006. "The World in 2050: How Big Will the Major Emerging Market Economies Get?" London. PriceWaterhouseCooper. March.

Henry, P.B. and D.L. Sasson. 2008. "Capital Account Liberalization, Real Wages, and Productivity." Cambridge MA. National Bureau of Economic Research. Working Paper No. 13880.

Heshmati, A.2007. "The Relationship between Income Inequality, Poverty and Globalization" in M. Nissanke and E. Thorbecke (eds) *The Impact of Globalization on World's Poor.* Palgrave Macmillan Ltd. Houndsmills. Basingstoke. Hampshire, UK. pp. 59-93.

Hoekman, B.M., M. Olarreaga and E. Zedillo.2007. *Global Trade and Poor Nations.* Washington DC. Brookings Institution Press.

Huang,J., Q. Zhang and S. Rozelle.2008."Economic Growth, the Nature of Growth and Poverty Reduction in China". *China Economic Journal.* Vol. 1. No. 1. pp. 107-122.

Hufbauer, G.C.2008. "Answering the Critics: Why Large American Gains from Globalization are Plausible". Washington DC. Peterson Institute for International Economics. Available on the Internet at http://www. iie.com/publications/papers/print.cfm?doc=pub&ResearchID-929.

Hummels, D. 2007. "Transportation Costs and International Trade in the Second Era of Globalization". *Journal of Political Economy*. Vol.2. No. 3. Summer. pp. 131-154.

The International Monetary Fund (IMF). 2008. *World Economic Outlook.* Washington DC. April.

The International Monetary Fund (IMF). 2007. *Asia and Pacific: Regional Economic Outlook*. Washington DC. October.

The International Monetary Fund (IMF). 2002. *World Economic Outlook.* Washington DC. April.

Jenkins, R. 2007. "*Globalization, Production and Poverty"* in M. Nissanke and E. Thorbecke (eds) *The Impact of Globalization on World's Poor.* Palgrave Macmillan Ltd. Houndsmills. Basingstoke. Hampshire, UK. pp. 163-190.

Kalwij, A. and A.Verschoor.2007. "Globalization and Poverty Trends across Regions" in M. Nissanke and E. Thorbecke (eds) *The Impact of Globalization on World's Poor.* Palgrave Macmillan Ltd. Houndsmills. Basingstoke. Hampshire, UK. pp. 94-113.

Klein, L.R.2005. "South and Southeast Asia: Leading the World Economy". The thirteenth Raul Prebisch Lecture delivered at the UNCTAD, Geneva, on November 2.

Kohler, H. 2002. "Strengthening the Framework for the Global Economy", Address given on the occasion of the Award Ceremony of the Konrad Adenauer Foundation, Berlin, Germany, November 15, 2002. Available on the Internet at http://www.imf.org/external/np/speeches/2002/111502.htm.

Krueger, A.O. 2007. "An Enduring Need: Multilateralism in the Twenty-First Century". *Oxford Review of Economic Policy.* Vol. 23. No. 3. pp. 335-346.

Krueger, A.O. 2003. "On Globalization". Address given of the Seventh St. Petersburg International Forum on June 18, at St. Petersburg, Russia.

Krueger, A.O.1995. "The Role of Trade in Growth and Development" in R.G. Enzo Grilli and J. Riedel (eds) *Sustaining Export-Oriented Development: Ideas from east Asia.* New York. Cambridge University Press. pp. 1-30.

Lipsky, J. 2007. Paper presented on "Understanding China" at the conference on *Global Implications of China's Trade, Investment and Growth* by the International Monetary Fund in Washington DC, on April 6, 2007.

Ljungwall, C. and O. Sjoberg. 2007. The Economic Impact of Globalization in Asia-Pacific: The Case of Flying Geese". Beijing. China Center for Economic Research. Peking University. Research Paper No. E2005007. November.

Lucas, R.E.2000. "Some Macroeconomics for the 21st Century". *Journal of Economic Perspectives.* Vol. 14. No. 1. pp. 159-168.

Maddison, A."Evidence submitted to the Select Committee on Economic Affairs", House of Lords, London, UK, for the inquiry into "Aspects of the Economics of Climate Change", on February 2005. Available on the Internet at http://www.ggdc.net/maddison/

Maddison, A.2003. *The World Economy: Historical Statistics.* Paris. Development Center. Organization for Economic Cooperation and Development.

Maddison, A.2001. *The World Economy: A Millennium Perspective*. Paris. Development Center. The Organization for Economic Cooperation and Development.

Martin, W., K. Anderson and C.S. Pham.2007."Effects of GATT/WTO on Asia's Trade Performance". Paper presented at the Pacific Trade and Development (PAFTAD) Forum Conference, at Hanoi, during 17-19 December.

Mundell, R. A. 2002. "Does Asia Need a Common Currency Market?" *Pacific Economic Review*, Vol. 7, No. 1. pp. 3-12.

Mundell, R. A. 2000. "*Global Policy Issues: New Challenges for Development".* Paper presented at the World Bank's Annual Conference on Development Economics in Europe, held in Paris, on June 28, 2000.

Nayyar, D.2008. "China, India, Brazil and South Africa in the World Economy". Helsinki. Finland. UNU. World Institute of Development Economics Research. Discussion Paper No. 2008/05. June.

Nayar, B.R.2007. *India's Globalization: Evaluating the Economic Impact*. New Delhi. Sage Publication.

Nissanke M. and E. Thorbecke. 2007. "Channels and Policy Debate in the Globalization-Inequality-Poverty-Nexus". in M. Nissanke and E. Thorbecke (eds) *The Impact of Globalization on World's Poor.* Palgrave Macmillan Ltd. Houndsmills. Basingstoke. Hampshire, UK. 22-58.

Organization for Economic Cooperation and Development (OECD). 2007. *Offshoring and Employment: Trends and Impacts.* Paris. November.

Organization for Economic Cooperation and Development (OECD). 2005. *OECD Economic Survey: China.* Paris. Vol. 2005/13. September.

Ozawa, T. 2006."Asia's Labor-Driven Economic Development, Flying Geese Style". Helsinki. Finland. WIDER. Research Paper 2006/59. June.

Rachman, G.2008."The Political Threats to Globalization". *The Financial Times.* April. 7. p. 11.

Ravallion, M., S. Chen and P. Sangrauls. 2008. “Dollar a Day Revisited”. Washington DC. The World Bank. Policy Research Working Paper 4620.

Ravallion, M., S. Chen and P. Sangrauls. 2008. “Dollar a Day Revisited”. Washington DC. The World Bank. Policy Research Working Paper 4620.

Ravallion, M. 2007.”Looking beyond Averages in the Trade and Poverty Debate” in M. Nissanke and E. Thorbecke (eds) *The Impact of Globalization on World’s Poor.* Palgrave Macmillan Ltd. Houndsmills. Basingstoke. Hampshire, UK. pp. 118-144.

Ravallion, M.2004. “Competing Concepts of Inequality in the Globalization Debate”. Paper presented at the Brookings Trade Forum on *Globalization, Poverty and Inequality Debate* on 13-14 May, in Washington DC.

Rodrik, D.2007a.*One Economics, Many Recipes.* Princeton. NJ. Princeton University Press.

Rodrik, D.2007b. “The Globalization Number Game.” Dani Rodrik Weblog. Available at http://rodrik.yypepad.com.

Rose. A. 2004. “Do We Really Know that the WTO Really Increases Trade?” *American Economic Review.* Vol. 94.No. 1. 80-114.

Sala-I-Martin, X.2006. “The wold distribution of Incoem: Falling Poverty and …Convergence, Period” *The Quarterly Journal of Economics.* Vol. CXXI. Issue 2. pp. 351-397.

Schwab, S.C.2007. “US Trade Update and Agenda”. Presentation of the United States Trade representative to the Senate Finance Committee, Washington DC, on February 15.

Sindzingre, A.2005. “Explaining Threshold Effects of Globalization on Poverty”. Helsingki. Finland. WIDER. Research Paper 2006/53. August.

Srinivasan, T.N.2002. “Globalization: Is it Good or Bad?” Stanford. CA. Stanford Institute for Economic Policy Research. Economic Policy Brief. December 23.

Stiglitz, J.E.2006. *Making Globalization Work.* New York. W.W. Norton & Company.

Stiglitz, J.E.1997. “Some Lessons from East Asian Miracle”, *The World Bank Research Observer.* Vol. 11. No. 2. pp. 151-77.

Subramanian, A. and S.J. Wei.2007. “The WTO Promotes Trade, Strongly but Unevenly”, *Journal of International Economics.* Vol. 72. No. 1. pp.151-75.

Tomz, M., J. Goldstein and D. Rivers. 2005."Do We Really Know that the WTO Really Increases Trade? Comment", *American Economic Review.* Vol. 97: No. 8. pp. 2005-18.

Topalova, P.2004. "Trade Liberalization and Firm Productivity: The Case of India." Washington DC. International Monetary Fund. Working Paper WP/04/28.

United Nations Conference on Trade and Development (UNCTAD). 2008. *Globalization for Development.* Geneva and New York.

United Nations Conference on Trade and Development (UNCTAD). 2007. *Information Economy Report 2007-2008.* Geneva and New York.

Winters, L.A. and S. Yusuf. 2007. "Introduction" in Winters, L.A. and S. Yusuf (eds) *Dancing with Giants.* Washington DC. The World Bank.

Winters, L.A., N. McCulloch and A. McKay. 2004. "Trade Liberalization and Poverty: the Evidence So Far". *Journal of Economic Literature.* Vol. 42. No. 1. pp. 72-115.

World Bank.2008. "East Asia Update". Washington DC. April.

World Bank.2002. *Globalization, Growth and Poverty.* Washington DC.

World Economic Forum. 2008. *Global Competitiveness Report, 2008.* Geneva.

World Trade Indicators 2008 (WTI). Washington DC. The World Bank.

World Trade Organization (WTO). 2008. "World Trade 2007, Prospects For 2008". Geneva. Press Release P/520/Rev.1. April 17.

<u>CSGR Working Paper Series</u>

216/06 December	Marcus Miller and Lei Zhang Fear and Market Failure: Global Imbalances and "Self-insurance"
217/07 February	Catherine Hoskyns Linking Gender and International Trade Policy: Is Interaction Possible?
218/07 February	Dilip K. Das South Asian Free Trade Agreement: Prospects of Shallow Regional Integration
219/07 February	Vanesa Weyrauch Weaving Global Networks: Handbook for Policy Influence
220/07 February	Yuji Tamura Preferences for Immigration Restriction and Opinions about Immigrant's Economic Impacts
221/07 March	Dania Thomas and Javier García-Fronti Good Faith in Sovereign Debt Restructuring: The Evolution of an Open Norm in 'Localised' Contexts?
222/07 March	Michela Redoano Fiscal Interactions Among European Countries: Does the EU Matter?
223/07 March	Jan Aart Scholte Civil Society and the Legitimation of Global Governance
224/07 March	Dwijen Rangnekar Context and Ambiguity: A Comment on Amending India's Patent Act
225/07 May	Marcelo I. Saguier Global Governance and the HIV/AIDS Response: Limitations of Current Approaches and Policies
226/07 May	Dan Bulley Exteriorising Terror: Inside/Outside the Failing State on 7 July 2005
227/07 May	Kenneth Amaeshi Who Matters to UK and German Firms? Modelling Stakeholder Salience Through Corporate Social Reports
228/07 May	Olufemi O. Amao and Kenneth M. Amaeshi Galvanising Shareholder Activism: A Prerequisite for Effective Corporate Governance and Accountability in Nigeria
229/07 June	Stephen J. Redding, Daniel M. Sturm and Nikolaus Wolf History and Industry Location: Evidence from German Airports
230/07 June	Dilip K. Das Shifting Paradigm of Regional Integration in Asia
231/07 June	Max-Stephan Schulze and Nikolaus Wolf On the Origins of Border Effects: Insights from the Habsburg Customs Union

232/07 July	Elena Meschi and Marco Vivarelli Trade Openness and Income Inequality in Developing Countries
233/07 July	Julie Gilson Structuring Accountability: Non-Governmental Participation in the Asia-Europe Meeting (ASEM)
234/07 September	Christian Thimann, Christian Just and Raymond Ritter The Governance of the IMF: How a Dual Board Structure Could Raise the Effectiveness and Legitimacy of a Key Global Institution
235/07 October	Peter I. Hajnal Can Civil Society Influence G8 Accountability?
236/07 November	Ton Bührs Towards a Global Political-Economic Architecture of Environmental Space
237/08 March	Kerstin Martens Civil Society, Accountability And The UN System.
238/08 March	Diane Stone Transnational Philanthropy, Policy Transfer Networks and the Open Society Institute.
239/08 March	Dilip K. Das The Chinese Economy: Making A Global Niche
241/08 March	Dwijen Rangnekar Geneva rhetoric, national reality: Implementing TRIPS obligations in Kenya.
242/08 January	Priscillia E. Hunt Heterogeneity in the Wage Impacts of Immigrants.
243/08 April	Ginaluca Grimalda, Elena Meschi Accounting For Inequality in Transition Economies: An Empirical Assessment of Gloabisation, Institutional Reforms, and Regionalisation.
244/08 May	Jan Aart Scholte Civil Society and IMF Accountability

Centre for the Study of Globalisation and Regionalisation
University of Warwick
Coventry CV4 7AL, UK

Tel: +44 (0)24 7657 2533
Fax: +44 (0)24 7657 2548
Email: csgr@warwick.ac.uk
Web address: http://www.csgr.org