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National and Regional Responses to Globalization

Risposte nazionali e regionali alla globalizzazione

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ABSTRACT

The aim of this article is to enquire about the relationship between globalization and national economic competitivity or efficiency as indicated by the rate of unemployment, the inflation rate and the level of budget deficit and national debt. In the era of globalization, the 'Keynesian consensus' of the after-war period, which prevented any trade-off between social security and economic growth, cannot resist the pressure from the globalization of the world economy. The decline in industrial employment created a situation in which – in the Nordic countries and in Sweden, especially – full employment could only be attained via services and the third economic sector. Conversely, globalization has benefited the small open economies in South-East Asia, which found themselves most in-sync with the demands of the global age.

KEYWORDS: Globalization; Employment; Economic Growth; Social Security; State.

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Lo scopo di questo articolo è indagare la relazione tra la globalizzazione e la competitività o efficienza economica nazionale così come viene indicata dai tassi di disoccupazione e di inflazione, così come dal livello del deficit di bilancio e dal debito nazionale. Nell'era della globalizzazione, il 'consenso keynesiano' del dopoguerra, che ha impedito qualsiasi *trade-off* tra sicurezza sociale e la crescita economica, non può resistere alla pressione della globalizzazione dell'economia mondiale. Il calo dell'occupazione industriale ha creato una situazione in cui - nei paesi nordici e in Svezia, in particolare - la piena occupazione poteva essere raggiunta solo tramite servizi e del terzo settore economico. Al contrario, la globalizzazione ha beneficiato le piccole economie aperte nel sud-est asiatico, che si trova più in sintonia con le esigenze dell'età globale.

PAROLE CHIAVE: Globalizzazione; Occupazione; Crescita economica; Sicurezza sociale; Stato.

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1. Globalization and its meanings

1.1. Multiple definitions and multifold meanings

The concept of globalization triggers many comments but few conclusions as it takes into consideration so many variables while offering few explanations. Inasmuch as it refers to both technological and economic developments that altered the inextricable tissue of society as we used to perceive it, globalization is an intricate phenomenon to address. Given the multifaceted nature of globalization, it is not startling that the term has given way to a vast array of manifold definitions. The link between the technological advances and the social transformations associated with them has been addressed by many authors and scholars. However, I would only want to summon up here the words of the renowned Spanish sociologist Manuel Castells when describing globalization:

> «There is a multilayering of global networks in the key strategic activities that structure and destructure the planet. When these multi-layered networks overlap in some node, when there is a node that belongs to different networks, two major consequences follow. First, economies of synergy between these different networks take place in that node: between financial markets and media businesses; or between academic research and technology development and innovation; between politics and media»[1].

In the same vein, by laying a stress on the incomparable informational technological advances, John Glenn assesses that globalization is often associated with the «revolution in technology».

> «The impact of recent technology has been so great, many now refer to the microprocessor technology that enabled these changes as the "third revolution", thereby implying that the micro-chip will have as deep an impact on our societies as the harnessing of steam and electricity did for industrial purposes. The advent of personal computers, the Internet, electronic mail, the mobile phone, etc. have altered the way in which millions conduct their daily affairs. Our world seems to be shrinking before our very eyes as new communication technologies have led to time-space compression allowing us to span the world in the blink of an eye»[2].

Conversely, Kenichi Ohmae regards globalization as the power of the 4-I's (as he labels them), namely: investment, information, industry and the individual. Thus, Ohmae points out a situation in which the nation-state is overwhelmed and wiped out from the globalization rationale as it can no longer control the rapid pace of the financial and other connex transactions, which unfold within its boundaries[3].

Being the most frequently employed term nowadays, the term of "globalization" has lost its conceptual "intensiveness" by gaining "extensiveness", so

[1] M. CASTELLS, *The Rise of the Network Society, the Information Age: Economy, Society and Culture*, vol. I, Oxford, Blackwell, 2000, p. 211.
[2] J. GLENN, *Globalization: North-South perspectives*, London, Routledge, 2007, p. 4.
[3] K. OHMAE, *The End of the Nation State: The Rise of Regional Economies,* New York, Free Press, 1996, p. 142.

that it is difficult to define it correctly in so far as it can designate a variety of diverse aspects. Sometimes correlated to "modernity", "globalization", however, is not its synonymous. Among its many causes, it is difficult to disentangle, on one hand, the political from the economic, and, on the other, the economic from the technological ones. Likewise, from a mere terminology point of view, it is worth stressing the important distinction operated between TNCs (transnational corporations) and MNCs (multi-national corporations). While the term "TNC" is predominantly used by the supporters of globalization to highlight the extent of the phenomenon, which, in their view, transcends across nation-states, the other term, "MNC" is the one preferred by the globalization sceptics who use it when designating companies based in a multitude of countries.

1.2. The causes of globalization

It is a commonly acknowledged fact among scholars that, the main two causes of globalization, are represented by the advances in technology and the transformations of capitalism[4]. They tend to agree on the fact that it has been triggered, to a great deal, by the connex inventions of the semiconductor transistor and microprocessor, which have increased the speed of information flow to the extent that a single strand of fibre optic can now carry 90.000 volumes in one second, compared to the beginning of the 20th century, when, with the advent of the TTT telegraph-telephone and television, the copper wires could only transmit one page of information per second. Therefore, the technological change involves both the speed of data processing as well as the storage capacity for that processed information. In as much as it concerns the description of the information technology developments, for a broader picture, one can also pay attention to the adjacent developments in the more "traditional" technologies such as air transportation, shipment of goods, freight, etc. These recent advances in technology have also entailed the transformation of industrial relations as such to an extent that prompted certain authors such as Castells to claim that «we are now living in an informational society, which is a new stage of development surpassing industrialism». However, this view is highly controversial to those who endorse the classical definition of industrialism as «the use of inanimate sources of material power in either production or in processes affecting the circulation of commodities»[5]. Furthermore, Castells argues that the technological leap – associated with the globalization phenomena – is not as

[4] See R. BOYER, *Is a Finance-Led Regime Growth a Viable Alternative to Fordism? A Preliminary Analysis,* «Economy and Society», 29/2000, pp. 111-145.
[5] A. GIDDENS, *The Consequences of Modernity*, Cambridge, Cambridge Polity Press, 1990, pp. 27-29.

positive as it might seem at first sight in that the increasing use of technology and informational processes is actually conducive to an exacerbation of the divisions between the "have-lots" and the "have-nots"[6].

One other indelible cause of globalization was the advent and consequent development of capitalism in those nation-states where it first appeared – Great Britain and US being the units of measure because Britain's per capita GDP grew at a mere 1.3 percent per annum during its period of economic supremacy in the middle of the nineteenth century (1820-70) and that the US grew at only 1.8 percent during the half century before World War I when it overtook Britain as the world's economic leader[7]. Its successive stages of development triggered a constant and fierce competition among economic actors – trading partners and producers – for gain and profit by reducing input or labor costs. This has also changed the nature of the supply chain, by removing the traditional, Fordian, organization of the firm as a vertically integrated structure with a standardized and repetitive process of production. In this old way, the process of production was standardized and encompassed all the necessary stages of the final output, which were all localized in a single physical space.

Nowadays, in our globalized and hyper-technologized era, with the advent of the EDI&EPOS data systems and the "Just in time" concept[8], the words of the day are "outsourcing" and "delocalization", i.e. «the owners of capital and means of production»[9] prefer to delocalize and outsource the production to multiple geographical sites and to external suppliers. All the production stages are scattered around the world and all the output components are made outside of the firm. It is precisely this current state of affairs, characteristic of industrialization, which prompted Castells to declare the end of industrialism and the advent of the informational society[10].

The main consequences of "outsourcing" and "delocalization" are societal: this twin-dynamics brought about uncanny changes in society such as the "annihilation of space by time" and last but not least, the annihilation of society itself. It is precisely at this nodal point that industry and capitalist "outsourc-

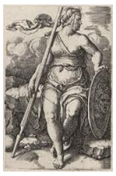
[6] M. CASTELLS, *The Rise of the Network Society*, pp. 21, 69.

[7] WORLD BANK, *World Development Indicators 2002*, Washington, DC, World Bank, 2002. See also A. MADDISON, *The World Economy: A Millennial Perspective*, Paris, OECD Development Center, 2001, Table B-22, p. 265.

[8] EDI means Electronic Data Interchange and involves «the electronic movement of standard business documents such as purchase orders, bills and confirmations between businesses» while EPOS Electronic Point of Sale is a «technology which enables an efficient recording of the sale of goods or services to the customer», T.R. HAMMEL - L.R KOPCZAK, *Tightening the Supply Chain*, «Production and Inventory Management Journal», 34, 2/1993, pp. 63-70. See also www.edibasics.co.uk/edi-resources/glossary.

[9] «While capital must on one side strive to tear down every spatial barrier to intercourse, i.e. to exchange, and conquer the whole earth for its market, it strives on the other side to annihilate this space with time», K. MARX, *Grundrisse: Foundations of the Critique of Political Economy*, London, Penguin Classics, 1973, p. 533.

[10] M. Castells, *The Rise of the Network Society*.



ing" interferes with globalization through collateral phenomena such as the «remoteness of communication»[11]. It is no doubt that capitalistic modes of exchange and production were the main causes of globalization. They exacerbated competition in the market and instituted the control of the economic system by the market thereby embedding the economy into society and state and not the viceversa. In capitalist systems, as a complement to Karl Popper's «open society», the traditional logic is turned upside down: instead of the economy being embedded in social relations, there are social relations which are embedded in the economic system. In Karl Polanyi's words, «It means no less than the running of society as an adjunct to the market»[12].

1.3. Different views of globalization

There are basically three trends or views of interpreting globalization: the globalist view, the transformationalist and the sceptic view. The basic tenants of the globalists are the end of the state, the gradual dissolution of the welfare state and the subsequent taking over of international governance by supranational institutions. Conversely, the sceptics maintain the view that the state is still important by pointing out that the OECD countries, the core industrialized countries, have been the key architects behind the globalization phenomenon, especially in the financial realm by the liberalization of financial assets[13].

1.3.1. The financial sector and globalization

For a broader understanding of globalization, it is important to treat separately the recent developments in trade and finance. In the field of finance, it is worth mentioning that the magnitude of daily financial transactions on the world stock exchanges is unprecedented when compared with the daily foreign exchange turnover at the beginning of the 20th century. This is due to the mul-

[11] M. CASTELLS, *The Rise of the Network Society*, p. 22.

[12] Karl Polanyi, who believed that «the economy is not autonomous, as it must be in economic theory, but subordinated to politics, religion and social relations», argued that «the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market». Furthermore, Polanyi maintained that «fully self-regulating market economy is a utopian project; it is something that cannot exist». See K. POLANYI, *The Great Transformation: The Political and Economic Origins of Our Time* (1944), Boston, Beacon Press, 2001, p. xxv, 60.

[13] The OECD code of liberalization of capital movements and the successive post-Bretton Woods agreements regarding monetary policy were the main procedural steps in the process of financial liberalization. Subsequently, this global trend has been implemented at all regional levels by a series of regional financial agreements: in Europe, it began with the Treaty of Rome (1957) and was followed immediately by the "Snake" and the EMS-European Monetary System, in North America with the NAFA-North American Financial Agreement, in Latin America with the FLAR-Latin American Reserve Fund, in Asia with the ASEAN+3, etc. See p. 126 [http://www.nber.org/ chapters/c9587.pdf.](http://www.nber.org/chapters/c9587.pdf)

tiplication and diversification of financial instruments such as swaps, options, futures, spots, loan securities, etc. It is a proven fact that the financial market has experienced increasing levels of commodification in a variety of areas such as foreign stock exchange, derivatives and securities[14].

Not only have capital flows increased everywhere and encompassed all areas of finance from the currency exchange and derivatives to investment products (bonds, hedge funds, private equities, etc.), but a direct effect of this development has been the uniformity of interest rates, the share price of lending and borrowing, and the symmetry of monetary policies across national borders alongside the intensification of transactions. For a broader understanding, it is important to examine both views on the impact of globalization in the areas of trade and finance. These recent transformations in the world of finance make up for the most cogent argument in favour of globalization or the globalists' point of view according to which globalization permeates the most vital attributes of the nation states. An illustration of this current developments is the case of Japan in March 1986 and January 1987 whose government tried to prevent the depreciation of the currency by releasing an important quantity of money on the market with no results whatsoever: nothing happened after Japan National Bank infused no less than $16 billion to stop the free fall of the dollar[15].

Although the financial argument is the only one on which the sceptics agree with the globalists, the sceptics still draw attention to the fact that if financial market integration were the case, then the expectations on investment returns and the cost of money should converge across countries[16]. However, this is clearly not happening since, as sceptics point out, the national interest rates on the various investment products are not convergent as it is proven by the impossibility to calculate the real and uncovered interest rate parity among countries. This means that currency premium and large differentials in the real interest rates are still a reality in spite of attempts at equalizing covered interest. This is proof that the national variation in interest rate has not yet been achieved, which is an argument underpinning the sceptic point of view on

[14] Commodification means the creation of new financial instruments or products for exchange with the main purpose of extracting surplus value from the capital invested in the first place in the market. As such, commodification refers to the process of transformation of goods and services, money or any other entity, into a commodity that can be exchanged. Decommodification is the reversed process and is mostly highlighted in correlation with the universalistic welfare state. See G.E. ANDERSEN, *Three Worlds of Welfare Capitalism*, Princeton, Princeton University Press, 1990, pp. 35-36.
[15] See K. OHMAE, T*he Borderless World: Power and Strategy in the Interlinked Economy*, New York, Harper Collins, 1999, p. 166.
[16] L. WEISS, *States in the Global Economy: Bringing Domestic Institutions Back In*, Cambridge, Cambridge UP, 2003, pp. 15, 65.

globalization, according to which the phenomenon is not the same across countries and continents or across time[17].

The above examples and the continuing dependence between domestic savings and national investment, which is still highest in the OECD countries, represent the only noticeable anomalies in the world of finance, thus challenging the globalists' point of view. It has prompted the transformationalists – who occupy the middle-ground between globalists and sceptics, but still believe in the gradual disappearance of the state, to affirm that the «long-term trends in real interest rates do indicate that, although parity has not yet been attained, there still is a certain degree of convergence»[18]. Needless repeating, but this kind of data is another argument underpinning the importance of the national state as a unit of analysis and implicitly the sceptics' point of view – by taking into account the difference between the gross national product and the gross domestic product.

Another quantitative fact, supporting the existence of a net correlation between domestic savings and investment with its highest values in the OECD states, is the resynchronization in the business cycles in the OECD countries, right after the liberalization of capital movements, the successive 1984 and 1989 Plaza and Louvre agreements as well as the 1979 establishment of the EMS (European Monetary System). The rates of return on investment in those economies which ranked better would have been higher than the rest of the world unless a strict correlation between domestic savings and investment existed. However, this was not clearly the case because investors still preferred putting their funds elsewhere and not in their home-countries as expected if OECD rates of return converged. The arbitration and speculation argument is there as well to support the above. The phenomenon whereby currency exchange transactions relative to "real" goods and assets (businesses buy currencies for real investment use) is divorced and remarkably low from the correlate activity of currency speculation and arbitrage transactions[19]. Also, sceptics stress that the

[17] Covered interest rate parity happens when the no-arbitrage condition is satisfied, i.e. in an equilibrium state of interest rate parity where interest on bank deposits in different countries is the same and a forward contract can be hedged against exposure to exchange rate risk. Conversely, the uncovered interest rate parity shows a situation where an investor can earn the interest rate available on two different currencies deposits, i.e. euro/dollar. The uncovered interest rate parity helps explain the determination of the forward exchange rate.

[18] In a memorable article published in 1980, sceptics like Feldstein and Horioka show that the correlation between domestic savings and national investment is still at the highest levels in the OECD countries compared to the rest of the world. «In a truly integrated global economy, one would expect that national savings and investment flow to the highest yielding opportunity in markets around the world». See M. FELDSTEIN - C. HORIOKA, *Domestic Savings and International Capital Flows*, «Economic Journal», 90, 358/1980, pp. 314-329.

[19] It has been estimated that currency exchange transactions relative to "real" business investment fell from 90% in the early 1970s to 2% in the 1990s. Likewise, mortgage lending, the main cause of the 2008 financial crackdown, was a novel product of the financial securities investment package

risk of contagion, whereby the sudden fall in prices in one country stock exchange leads to the domino effect of a rapid price collapse all over the world, has been recorded since at least the year 1870.

Another argument of contention in the debate on globalization is the "delocalization" assumption. Sceptics totally demolish this central assumption in the globalist theory – which claims that MNCs are relocating their production equipment to wherever operating costs are lowest arguing that there is not yet a convergence in product prices and wage levels across countries[20]. Concerning the dwindling power of the state, globalists underline the negative effects of the loss of democratic control over the economic activities taking place within the boundaries of each nation state. Through redistribution policies, the state attenuated the obnoxious effects of capitalist competition and provided social security for all its citizens[21].

Last but not least, the sceptics point out the key role of the OECD states (main Western industrialized countries) in shaping globalization. Not only was there capital liberalization among the core industrialized countries a must, but equally important was there the "catalytic" role of the state, which provided the necessary public gods such as basic infrastructure, tariff reductions and investment incentives. In the OECD countries, the state provided assistance and facilitated investment opportunities to those MNCs (Multi-National Corporations) willing to relocate their production operations overseas. Likewise, the state encouraged technology, research and development alliances between national and foreign firms by encouraging – and, in certain cases, by subsidizing, the regional delocalization of their production networks[22].

1.3.2. Trade in the globalized market

In the following, I'm going to tackle the thorny issue of trade in the advent and consolidation of globalization. There are basically two indicators by dint of which one can measure trade: the ratio between the TSR (total sales revenue) of the top MNCs/TNCs and the FDI (Foreign Direct Investment)[23]. While the

proposed by banks to their clients. J. MORGAN, *Private Equity Finance*, London, Palgrave Macmillan, 2009, pp. 92, 179.

[20] P. HIRST - G. THOMPSON, *Globalization in Question*, Oxford, Blackwell, 1999, pp. 20, 62, 67.

[21] *Ivi*, pp. 163, 165-166.

[22] It is worth mentioning that Linda Weiss' taxonomy for assessing the current period of globalization. In her view, there are three criteria which help characterize it: its novelty, magnitude and distribution. See L. WEISS, *Globalization and state power*, «Development and Society», 29(1), 1-15/2000, p. 10.

[23] For clarity purposes, it is important to distinguish between MNCs and TNCs in terms of terminology usage. While both terms designate the same concept of a corporation based in more than one country, where the management, research and development, and operational facilities are based in at least two different countries, the term MNCs is used by sceptics while TNCs is used preponderantly by globalists to highlight a situation in which production is scattered in the four corners of the world and the FDI (Foreign Direct Investment).

globalists point out the increase in the level of total sales of the biggest TNCs in the world[24] and compare it with the GDP of the richest countries, a gloomy picture emerges according to which the top corporations' revenue from total sales is considerably higher than the GDP levels of Sweden, Norway, Austria or Poland in terms of absolute trade values. Within the polemic sceptics-globalists, this statistical fact further strengthens the globalist idea that the TNC has surpassed the state as the main motor of development, wealth and progress. As a result, in the globalist view, the role of the state is downgraded to the dustbin of history or, in other words, the state has been relegated to a mere redundant entity of the past.

The purported demise of the nation state in front of the forces of globalization – represented by the multinational companies and institutions – does make way for a revised analysis in international relations and economics, which has at its very core as its main analytical unit the TNC instead of the old and fading NS (nation state). While the globalists regard the current trading activity as exceeding the trade levels of the "Belle Epoque" era – stretching from the end of the 19th century till the beginning of the 1st WW, sceptics conclude this is clearly not the case in view of the absolute volume of world exports and of the relative ratio between merchandise export to GDP level[25].

A second point of contention in the trade debate between globalists and sceptics relates to the error of calculation concerning price estimation. Sceptics such as Hirst and Thompson[26] argue that trade figures are inflated and their magnitude exaggerated when expressed – as globalists do – in constant prices. Conversely, if trade is measured by current prices then both the volumes of trade and the ratio between exports to GDP become considerably lower, thus reflecting a more accurate picture of the current trade levels, which are slightly above equal their "Belle Epoque" levels[27].

[24] Out of the top 100 countries and corporations in the ranking, 52 were only corporations such as Walmart, Exxon, etc. See S. ANDERSON – J. CAVANAUGH, *Field Guide to the Global Economy*, NY, New Press, 2005, Table 2, p. 9, www.ips-dc.org.

[25] The relative ratio between exports and GDP represents a more adequate a measure of trade intensity inasmuch as it calculates trading activities as a proportion of the total economic activities, i.e. as the value of both the goods and the services produced within a country borders. An important observation worth noting is that trade increase for the old industrialized core – US, UK, France, Netherlands, Germany – is not so spectacular if compared to their 1913 levels of trade. With the notable exception of Japan, data shows their current trade level is only 3 or 4 times higher than their 1913 level. See WORLD BANK, *World Development Indicators* 2002, see also A. MADDISON, *The World Economy,* Table 1-2, p. 242.

[26] P. HIRST - G. THOMPSON, *Globalization in Question*, p. 62.

[27] This fact has also been corroborated by Angus Maddison who explains that, when measuring trade using constant prices, one actually multiplies the trade volumes for all the years by the national price of a given year. Hence one exaggerates the extent to which trade has increased because the constant price measurement uses general prices in a given year. See A. MADDISON, *The World Economy*, p. 155.

On the other hand, in what concerns the FDI levels, globalists point to the astoundingly high degree of FDI which has accumulated over time. The most illustrative example here is the unusual big US 2004 level of 1.473,860 FDI inward stock as compared to the 1980 US level of only 83,046 FDI stock[28].

Once again, the skeptics contradict the globalists by showing that the FDI has become «an effective substitute for trade». What they mean by it exactly is that an increasing portion of the FDI level incorporates a considerable amount of M&A (mergers&acquisitions) – in a proportion higher than 50% – rather than changes in production quality like new production facilities and productive innovations[29]. Likewise, sceptics notice that, although FDI/GDP ratios have progressively increased nowadays, total investment levels as a proportion of GDP were also very high during the "Belle Epoque" period. Similarly, if one compares the annual FDI flows to the total fixed capital investment within each country, the figures become considerably lower[30].

1. Neoliberalism and multilateralism

Because it is mostly assumed globalization goes hand in hand with economic capitalism, one should not overlook the linkages between the other proximate causes – induced or facilitated but not defined by capitalism – and the globalization agenda. These proxy causes come under the guise of the neoliberal economic policies also known as the Washington consensus. The extent to which the neo-liberal agenda has also triggered the end of the Cold War or American hegemony is questionable; that is why I am going to consider the last two factors as the other remaining proximate causes of globalization.

If the main two causes of globalization are technological progress and capitalism transformation, then scholars and pundits converge in stating that the other two causes are neoliberalism and the American hegemony of multilateralism. I would start by defining them in order to then be able to explain their influence on globalization. The term of neoliberalism refers less to political beliefs than to the economic elements of deregulation, liberalization of markets,

[28] The US has been the first beneficiary of an FDI stock increase because it experienced an 18-fold stock increase totaling approximately $ 1.5 trillion in 2004. Then, in the second place comes the UK with a 2004 current FDI inward stocks of $ 770 billion, a national trend which otherwise confirms the traditional open nature of the British economy. See UNCTAD, World Investment Report, *The Shift Towards Services*, 2004. Annex Table 2.7: Ratio of merchandise trade to GDP.

[29] The FDI inflows in the OECD countries are, in proportion of more than 50%, directed for mergers and acquisitions with the stated purpose of a change in ownership, but not of the productive capacity. «The major part of the global FDI is directed towards technically non-productive assets or speculative ventures and financial services such as golf courses, real estate, hotels, department stores, banking and insurance». See R.A. HIGGOTT – A. PAYNE, *The New Political Economy of Globalisation*, Vol. 1, London, Edward Elgar, 2000, p. 289.

[30] See UNCTAD, *World Investment Report*, *The Shift Towards Services*, 2004, Annex Table B-5 and WIR, *Transnational Corporations and the Internationalization of Research and Development*, 2005, Table B-3.

capital and labor. Both neoliberalism and multilateralism are divided into two different periods: the first period stretches from 1946 till 1980 while the second period starts after the 1980s to continue today. What is more, it is important not to confuse the two proximate causes of globalization – neoliberalism and multilateralism: whereas they are simultaneous, they are still distinctive as to their substance. In what regards American hegemony, it must be mentioned that, by using Gramsci's term of "hegemony"[31], the goal is here to assimilate US hegemony with the plethora of international institutions that have emerged in the aftermath of the 2nd WW. Although American hegemony is now total, encompassing every area, its debut was of a military kind. However, nowadays, it is especially the economic and diplomatic side of the US "hyperpower", which draws attention. For the purpose of this article, it is on these two aspects that I intend dwelling and try to tackle when analyzing the role of international institutions of American multilateralism such as the IMF (International Monetary Fund), IBRD (International Bank for Reconstruction and Development), WB (World Bank), EBRD (European Bank for Reconstruction and Development), BIS (Bank for International Settlements), WTO (World Trade Organization) etc.

2.1. Embedded and disembedded liberalism

The first period of "multilateral liberalism" stretching from 1946 till 1980 is a period of great positive transformation for the core industrialized economies of US and Western Europe. This period is characterized by policies of Keynesian inspiration and is known as the Bretton Woods period. These policies were blended in with generous social policies with the result that the right balance between unemployment, inflation and public deficit is established by the "fine-tuning" of the economy. The second period, which starts in 1980 and continues today, also known as the post-Bretton Woods system.

It is scientifically proved that Keynesian economics, a characteristic of most Western industrialized economies after the 2nd WW till the end of the 1980s, has been but a hiatus in the long series of neoliberal capitalist periods which succeeded themselves from the beginning of the 18th century till the very present. That is why this Bretton Woods system and period, prior to the advent of unbridled neoliberalism and aggressive monetarism[32], was a time when the state – through Keynesian demand management and redistributive policies – acted as a protective shield against the aggressive forces of the capitalist mar-

[31] See N. ABERCROMBIE - B.S. TURNER, T*he Dominant Ideology Thesis*, «The British Journal of Sociology», 29, 2/1978, pp. 149-70.
[32] M. FRIEDMAN, *Capitalism and Freedom*, Chicago, Chicago UP, 2002, p. 36.

ket. During economic recession, central economic planning was stimulating growth by actively coordinating employment policies and raising government expenditure. It is known that Keynesian policies were devised as a shock-proof instrument to avoid the effects of capitalism in the short-run; more precisely, they are an instrument of "fine-tuning" whereby demand is boosted through government expenditure[33]. The majority of neoclassical economists, neoliberals and monetarists blame state planned demand management – of a Keynesian inspiration – for its "unintended consequences" on capital and private investment[34].

In John Glenn's words,

> «The political space within which capitalism operated after the 2nd WW, was founded on a triad of cornerstones: the welfare state, the nationalization of key industries and the Bretton Woods system of international institutions. The post-war welfare state had, amongst other things, sought to: redistribute via taxation a certain degree of surplus accumulation in order to ensure basic levels of provision for the vulnerable in society; set acceptable levels of minimum wage; and provide a wide range of social services to the population. State subsidies for nationalized industries and Keynesian demand management via state expenditure ameliorated the worst effects of economic downturns»[35].

This policy mix lies at the core of the prosperity enjoyed by the Western industrialized North for over three decades; it operated by centrally steering the economy and it combined public and private ownership of enterprises with safeguard mechanisms. It is at this point in the analysis that the issue of the welfare state and post-welfare state or «catalytic state»[36] comes at stake. In the transition that followed the collapse of the old welfare state system in the Western European states, the state acquired new competencies, other than those of providing health assistance for employees in need. Hence the state underwent a dynamic transformation from the "nanny" state to the "catalytic" state.

This post-2nd WW situation has been described as "embedded liberalism" in which

> «postwar institutions would support an internationalist, market-oriented order, but would allow for mechanisms, safeguards and escape clauses through which states would not be forced to sacrifice domestic social policies in order to maintain international equilibria»[37].

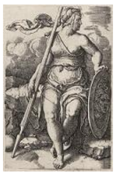
[33] The multiplier effect has been suggested by J. M. Keynes in the 1930s as a means to achieve full employment by increasing business investment, raising income and encouraging the propensity to consume.

[34] By "unintended consequences" of Keynesian policies, I mean that the public expenditure in Western European states, which are also OECD members, had the perverse effect of crowding-out private investment. Critics argue that the negative outcomes of Keynesian demand management manifest themselves through symptomatic effects such as the multiplier and the crowding-out effects, which are ultimately conducive to recession and depression.

[35] J. GLENN, *Globalization: North-South Perspectives*, p. 17.

[36] L. WEISS, *The Myth of the Powerless State*, Cambridge, Polity Press, 1998, p. 209.

[37] J. GLENN, *Globalization: North-South Perspectives*, p. 17.



As a matter of fact, this period of "embedded liberalism" is the same Bretton-Woods period of welfare and incipient multilateralism under the aegis of the US. What is more, this post 2nd WW arrangement ensured the "paradisiac" respite so much needed by the Western industrialized countries after the horrors of the war. This respite consolidated their economies so that the 1980s deregulation and "domino" and liberalizations of public services and holdings, undertaken under the Washington Consensus, found them better prepared than their Southern counterparts. The case of the Latin American countries, where neoliberal policies under the WC produced irreparable failures, is telling as to the inefficiency of Washington style neoliberalism in a context where diversification and competition do not exist ex-ante[38]. It is some sort of an "acknowledged" paradox the fact that the neoliberalism befitted by the Washington Consensus has worked best in the core industrialized North-West which has, among other things, most benefited from Keynesian demand management.

It is Linda Weiss who emphasizes the transformative capacity of the welfare state and, in so doing, has recourse to the successful collaboration between government and business – which is so evident in the Swedish case under the name of neocorporatism, in order to explain the successful outcomes of the industrialized North in dealing with globalization[39]. A similar view to Weiss' s is held by Karl Polanyi who acquiesces that

> «the state was instrumental in developing the so-called free market and that historically political interventions have been constitutive of, rather than external to, the market economy. Those states that sought to introduce neoliberalism had to overcome those who sought to challenge the implementation of such policies and to do so they had to increase the power of the state, whether this be through increased centralization, the introduction of employment and anti-union legislation to enforce labor deregulation, stronger police forces to monitor and control the disaffected or a combination of these»[40].

The two authors (K. Polanyi and Linda Weiss) both agree that the recent demise of the welfare state and the consequent move towards "disembedded liberalism" has had a rather paradoxical result in its aftermath: namely, the most successful in implementing and reaping the benefits of liberalization have been precisely those states who have increased their stately regulatory capacities of monitoring, control and supervision.

[38] D. RODRIK, *One Economics Many Recipes: Globalization, Institutions and Economic Growth*, Princeton, Princeton UP, 2007, pp. 13, 31.

[39] Hence Weiss turns the "globalization-decline of the state" debate on its head, arguing that the catalytic state has in several ways acted as the «midwife of globalization». See L. WEISS, *The Myth of the Powerless State*, p. 204.

[40] See above footnotes 13 and 40.

The opposing forces of neoliberalism and "embedded liberalism" – described above – alternated themselves in the world economy: liberal industrialized capitalism before the 1st WW, "embedded liberalism" of Keynesian imprint after the 2nd WW and, again, unbridled neoliberalism after 1980 under the post-Bretton Woods system. The moment the accords and institutions associated with the Bretton Woods system collapsed, the welfare state system too began to deteriorate. Although the welfare state decline took place gradually, it did coincide with the substitution of the BW system by the WTO system, also known as the post-Bretton Woods system or the Washington Consensus. Let alone the negative results in the poor South and Latin America, which are indisputable and well-documented, the Keynesianist "policy mix" that the Bretton Woods system produced is open to criticism: it had but controversial outcomes in terms of growth and jobs, or in matters of competition[41].

This alternate succession has led Karl Polanyi to describe the post-Bretton Woods system of "disembedded liberalism" as a period of unfettered capitalism characterized by an «economy directed by market prices and nothing but market prices[42]». In the same vein, Robert Cox has defined this post-Bretton Woods period as «the internationalizing of the state» whereby «national policies and practices have been adjusted to the exigencies of the world economy of international production»[43]. The economic policies of neoliberalism entailed full privatization of public enterprises, public assets and public services, liberalization of trade, capital and output as well as the deregulation of labor and environmental protection. The Western industrialized states, which have emerged strengthened after more than 4 decades of Keynesian demand management, have gradually receded their budget expenditure and lowered their taxation levels as well in an attempt to face international competition. Likewise, they have gradually undertaken the subcontracting of their public services, the privatization of public assets and liberalization as the reduction of barriers to trade, capital and FDI. If the latter has proved far more successful than the first, it was mainly because the reduction of public expenses is not a minimal state reform, but a structural one, which triggers the dismantling of the welfare institutions.

Bearing in mind Esping-Andersen's welfare state typology[44], it is worth mentioning that both liberal welfare states – such as the UK – and universalis-

[41] Neoliberal economists argues that unemployment would naturally decline once wages followed to mirror the new levels of supply and demand.

[42] See above footnote 13.

[43] R.W. COX, *Power and World Order: Social Forces in the Making of History*, New York, Columbia UP, 1987, pp. 253, 265. It is symptomatic how the "catalytic" state has become the "catalyst" of globalization encouraging and even subsidizing – in certain cases – the "outsourcing" policies of the national companies.

[44] G. ESPING-ANDERSEN, *Three Worlds of Welfare Capitalism*, Cambridge, Polity Press, 1990.

tic welfare states – such as Sweden – used generous social security nets in order to achieve high employment levels and to protect the disadvantaged in society. To this account, it is worth noting that the Western European states who have been applying Keynesian demand management for a considerable amount of time, have been rather more reluctant than the US at fully embracing the neo-liberal model wholesale and wholeheartedly. However though, in principle, they have all agreed to the liberalization of trade, finance and output. To give just a few examples, in 2000, public expenditure, as a percentage of GDP, was 52.5 in the case of Sweden. In the same year, in the case of Britain, public social expenditure as a percentage of GDP increased from about 18% in 1980 to 24.7% in 2000[45].

However, this welfare period only lasted a limited amount of time, that is approximately four decades, which is the same amount of time as the Bretton Woods system, and was but a hiatus of "embedded liberalism" in the long succession of policies of "disembedded liberalism" starting in the pre-war period, with the industrial revolution and continuing with the Washington Consensus after the 1980.

2.2. Economic neo-liberalism and multilateral institutions: the impact of the Washington consensus

The onset of the welfare state system – discussed in detail above, was simultaneous with the Bretton Woods system of multilateral institutions to the extent that, when the Bretton Woods system collapsed, the welfare state was also gradually dismantled. The plethora of international institutions that have emerged from the rubbles of the Second World War, served a variety of purposes. However, none was as important as the ultimate scope of American influence and supervision. In George Kennan's view, which is representative of the US foreign policy, the European Union and the European Communities – before that – are only regional institutional arrangements, an idea which came in the aftermath of the Marshall Plan in the elite corridors from Washington. It was designed and adapted to perfectly fit in the overall international system under the Washington Consensus[46].

[45] As a long term trend, government expenditure as a percentage of GDP has increased in the industrialized countries by almost 20% in just a matter of 35 years. See http://stats.oecd.org/ Index.aspx?DataSetCode=SNA_TABLE11.

[46] The system of multilateral international organizations – encompassing such entities as the WTO, formerly GATT, the WB, etc. – has been known as the Bretton Woods system after the city in New Hampshire where the treaty was signed. This system has later been replaced or matured into what John Williamson wittingly dubbed as the "Washington Consensus". The name infelicitously employs the word "consensus" to achieve a level of explanation often befitting the most successful ideologies.

The US totally availed itself of its economic and military might it gained in the aftermath of the 2nd WW. It proceeded to use this power for the setting of a new liberal free trade regime based on multilateralism. This multilateral system, built under the auspices of the US, emerged from the ashes of the 2nd WW, is rather unique in that it represents a conglomerate of international agreements and institutions based on generalized principles of conduct controlled by the US under the Washington Consensus. In John Glenn's words,

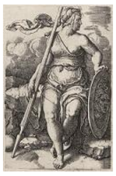
> «the nature of the free trade regime that the US established had the potential to create a global economy, albeit one controlled and monitored by the hegemon. Whereas international organization prior to the 2nd WW had tended to be more bilateral than multilateral in nature, after the war the US set about establishing monetary, trade and security regimes based on multilateralism»[47].

This multilateral system that has emerged attaches a premium on continuous integration and exchange while setting extremely high penalties for exit. The multilateral trade order under the WC brings great benefits to its members by spinning an economic web that "attracts others" and makes it hard for them to leave, thereby promoting even greater economic integration. Practically, this multilateral system of international institutions comprises two main aspects. One aspect of it relates to its temporal dimension, which can be broken down into two main time periods.

The first time span of American multilateralism – from 1944 till 1980 – coincides with the period of embedded liberalism of the welfare state. This period is remarkable in that it witnesses the adoption of Keynesian demand management simultaneously with the gradual development of the welfare state in the industrialized countries of Western Europe. Policies of Keynesian inspiration are blended in with generous social policies with the result that the right balance between unemployment, inflation and public deficit is established in "fine-tuning" the economy. If I have already underlined the importance of this first period of disembedded liberalism from the point of view of its economic benefits, in this subchapter I am going to highlight its pivotal role in forging American multilateralism. A series of international treaties and new institutional settings have erupted throughout this period. A crucial moment was reached when the Bretton Woods agreement was signed in 1944 in New Hampshire, US whereby the World Bank – first named IBRD – and the IMF were created. Just soon after the WB and the IMF were established, only three years later the GATT, the precursor of the WTO, was initiated as the first round of a long series of trade negotiations.

The second time period, constitutive of American multilateralism, is still about to unfold today since it has just begun in 1980. It is actually the same

47 J. GLENN, *Globalization: North-South perspectives*, p. 14.



phase presented above, also known as the post-Bretton Woods or the Washington Consensus period of American "multilateral liberalism". It is also important inasmuch as it is constitutive of a series of treaties revolving around the liberalization of national markets and the end of national protection policies. Prior to 1980, there was the establishment of the Chicago Options Exchange in 1972, which introduced for the first time the use of new financial products such as options, futures, swaps, spots, etc. In 1979, there has been the creation of the EMS (European Monetary System aka “Snake”) whereby the first attempt at economic convergence was made. Subsequently, the monetary integration proceeded with the Maastricht Treaty and criteria, the Lamfalussy method, etc. Only 6 years after, in 1985 and 1987, respectively, the Plaza and Louvre Accords were consecutively signed, thereby trying to intervene on the currency exchange rates pegged to the dollar. This trend has culminated with the 1989 revision of the OECD code of liberalization of capital movements among only OECD member countries, which has been an instrument to promote the free movement of capital and the diversification of financial products[48].

Before discussing the second element of American multilateralism, other than the temporal one, it is important to stress that these two time spans ultimately refer to the OECD countries to which Sweden belongs. The second important aspect of this multilateral system under US hegemony promotes the establishment and enforcement of common international standardization and regulation in the fields of trade and finance, transport, communication, patents and environment. This is achieved through a series of international bodies and organizations geared to promote common regulatory frameworks such as the IOS International Organization for Standardization (1947), the ICAO (International Civil Aviation Organization), the BIS (Bank for International Settlements), the IASB (International Accounting Standards Board), the SPS Agreement (Sanitary Phytosanitary Agreement) as part of TRIPS and GATT round (WTO), etc.

2.3. Increasing economic competition and the creation of regional entities

Contrary to the common view, the palpable effects of globalization are not the uniformity of investment or interest rates across boundaries, but rather opposite trends such as the twin phenomena of triadization and regionalization. (FTN The triadization phenomenon is related to trade investments and financial exchanges unfolding mainly within the triad US, EU and Japan. «The G3

[48] Scholars of globalization further divide the dichotomy Bretton Woods – post Bretton Woods so that the latter is broken down in three periods: the “floating rate dollar standard”, the establishment of the EMS in 1979 and the Plaza-Louvre Accords in 1985 and 1987.

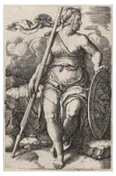
have the capacity, especially if they coordinate policy, to exert powerful governance pressures over financial markets and other economic tendencies. Global markets are thus by no means beyond regulation and control« according to David Jaffee[49]. Hence two conflicting trends emerge: FDI indicators and other trade figures show that each point of the triad US-EU-Japan is increasingly trading more and more with their regional neighbours than with each other while inter triad FDI is also expanded. Ever more regional agreements are multiplying every day thus confirming that new regional blocks are being formed, a tendency which clearly supports the sceptic thesis on globalization.

Another noticeable trend – in connection with globalization – is the North-South cleavage[50]. The lynchpin between globalization and its spillover effects consists in the cognitive taxonomy employed here when analyzing each state responses to the pressures of globalization as further described by Linda Weiss, Philip Cerny, etc. by dint of the following classification: compensatory state, catalytic state, virtual state and competition state. This is a useful classification which best catches the widening gap between developed and developing states as a result of globalization. The straightforward answer is that certain states – especially the catalytic and compensatory type of states – have been more successful than others in neutralizing the negative effects of globalization by increasing the powers of the state – rather than dwindling them – in key systemic areas such as employment, education and environment.

Geoffrey Garrett, Dani Rodrik and Linda Weiss argue that the state's compensatory functions have strengthened in the aftermath of globalization. On the basis of previous findings, they estimate that higher levels of state spending are a necessary evil in order to offset the "side-effects" of greater openness to trade. What is more, evidence suggests that "governments have expanded fastest in the most open economies" (such as Sweden's). As opposed to them, for those countries which "faithfully" followed the IMF prescriptions,

> «the public provision of basic services such as water and electricity, at frequently subsidized prices, has been replaced by privatized provision at "economic" prices; industrial interventionism and labor protection have given way to laissez-faire; and from tax systems whose major purpose was to correct inequalities have been transformed into systems mainly intended to promote economic efficiency»[51].

[49] D. JAFFEE, *Levels of Socio-economic Development Theory*, Westport, CT, Preager Publ, 1998, p. 197.
[50] Paraphrasing Stein Rokkan, in relation to globalization, one can address paradigmatically the variance developed-developing countries in terms of the North-South cleavage. See P. FLORA, *State Formation, Nation-building, and Mass Politics in Europe: The Theory of Stein Rokkan,* Oxford, Oxford UP, 1999, p. 278.
[51] A. BERRY – F. STEWART, *Globalization, Liberalization, and inequality: Real Causes in Challenge*, «The Magazine of Economic Affairs», 43, 1/2000, pp. 42-92.



3. Successful responses to globalization

The core principles of the WC (Washington Consensus) range from fiscal discipline and "competitive" currencies to trade and finance liberalization, deregulation, which represent in their entirety what Paul Krugman[52] has dubbed as the «Victorian virtue in economic policy» or «free markets and sound money». In the same vein, Larry Summers has summarized the theories on growth pertaining to development economics as it follows:

> «The rate at which countries grow is substantially determined by three things: their ability to integrate with the global economy through trade and investment; their capacity to maintain sustainable government finances and sound money; and their ability to put in place an institutional environment in which contracts can be enforced and property rights can be established. I would challenge anyone to identify a country that has done all three of these things and has not grown at a substantial rate»[53].

These WC higher-order elements further translate into a bulk of pragmatic macro and micro reforms to implement such as fiscal discipline, reorientation of public expenditure, tax reform, interest rate liberalization, unified and competitive exchange rate, trade liberalization, openness to FDI, privatization, deregulation and protection of property rights[54]. The WC is important on two different accounts: on one hand, because it designates the economic-institutional environment post-Bretton Woods and on the other hand, because it provides for a guiding "light" to follow in order to achieve sustainable economic growth.

One must bear in mind that, when speaking of successful responses to globalization in the sense of low unemployment and increased profitability – export to GDP per capita ratio, one usually recalls the Swedish model and the Asian miracle of the "Tiger Cub" economies. First of all, I will try to review the main reasons why are these two models so successful in facing globalization and admirably surviving competition in the world markets. In brief, these reasons are twofold: on one hand, there is their economic performance supported by a "catalytic", "virtual" and "compensatory" state while, on the other hand, there is their rapid institutional adaptation to the free-market requirements of the WC[55]. Secondly, I will try to interpret the policy reforms in these two differ-

[52] P. KRUGMAN, *Dutch Tulips and Emerging Markets*, «Foreign Affairs», 74, 4/1995, pp. 28-44.

[53] L.H., SUMMERS, *Godkin Lectures*, John F. Kennedy School of Government, Harvard University, April 2003.

[54] For an exhaustive list of the rules of good behavior for promoting economic growth, the original Washington Consensus and the "Augmented" Washington Consensus, see J. WILLIAMSON, *What Washington Means by Policy Reform* in J. WILLIAMSON (ed), *Latin American Adjustment: How Much Has Happened?*, Washington, DC, Institute for International Economics, 1990.

[55] I would not include here the lack of corruption in the "Mediterranean" sense as a reason since they both compensate by "neocorporatism" in the Swedish case and by "cronyism" or Asian-style institutional peculiarities in the "Tiger Cubs" case. With the occasion of the Asian financial crisis of 1997-1998, many observers attributed the crisis to the moral hazard associated with East Asian

ent regions of the world despite the WC and not in light of it. The conclusion reached is basically that growth-promoting policies in two different regions – as dissimilar as possible from both an institutional and geographical point of view, are context specific; while being consistent with the higher-order economic principles of the WC enumerated above, they were not forgetful of the specific institutional and political context wherein.

3.1. The case of the most dynamic Asian states also known as the "Asian Tigers" or the "Tiger Cub Economies"

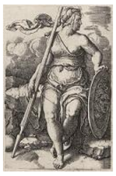
Despite inevitable lack of consensus among economists, the majority of them agree on the fact that, while "development" is working, "development policy" is not, which is one of the core paradoxes of economics. Heterodox economic theory holds that the East Asian states epitomize economic success in terms of GDP growth per capita and FDI rates. For the time being, the only developing countries, which have successfully managed to bridge the "poverty" gap between them and the advanced industrial nations, are, with the notable exception of China, the SE (South East) Asian countries[56].

A closer look at the institutional arrangements in these countries informs that they have all significantly departed from the instructions for growth of the initial WC. The gap between the East Asian model and the more demanding institutional requirements of the 2nd generation post-WC reforms is even larger. What is more, these arrangements can take a variety of forms and still be compatible with the universal, higher-order principles contained in the WC. For instance, for 4 different key institutional domains such as financial system, international capital flows, public ownership and industrial organization, the "East Asian" pattern is somehow distinctive. Only in the financial domain, the SE Asian "tigers" restricted foreign capital entry and flows in the first phases of the liberalization, i.e. until 1990s. They have created a bank based and heavily controlled by the government financial system with a weak formal regulation and directed lending[57]. In what concerns business-government relations and the organization of industry, there are, like in the Swedish case, close interactions between the two: government-mandated "cartels" as well as horizontal and vertical integration of production.

anomalies. See D.M. FRANKEL – K. BURDZY – A. PAUZNER, *Fast Equilibrium Selection by Rational Players Living in a Changing World*, «Econometrica», 69, 1/2001, pp. 163-89.

[56] With the exception of China, SE Asia has experienced steady GDP per capita growth of 3.7 percent over the period 1960-2004. Countries such as South Korea, Malaysia and Thailand achieved productivity levels that stood significantly closer to those in the advanced Western economies.

[57] The WC list of must-dos advocates for a deregulated, free entry and securities based financial organization. Supervision must only be prudential and through regulatory oversight.



Looking at the discrepancies between the SE Asian practice and the two sets of provisions in the original and "augmented" WC, one might well conclude that Singapore, South Korea, Taiwan and before them, Japan, stood little chance to develop. I would try to illustrate this by discussing below the effects of trade liberalization an financial control on the economies of certain East Asian states. The cases of Taiwan and South Korea are proof to the point[58].

In the beginning, in the early 1960s, South Korea took gradual, cautious steps towards financial liberalization. South Korea's perfectly illustrates Hellman et al.'s idea that the quality and extent of financial intermediation does not depend on the level of financial liberalization (whether this latter is total or under strict government control). When the military government led by Park Chung Hee took power in 1961, it did not hold strong views on economic reform, except that economic development was a key priority in its eyes. It moved in a trial-and-error fashion, experimenting at first with various public investment projects, especially in the industrial domain[59]. The hallmark reforms associated with the Korean miracle, the devaluation of the currency and the rise in interest rates, started in 1964 and they clearly fell far short from a full liberalization of currency and financial markets. Instead, the Korean government preferred to restrict external capital account and to incentive banks to expand deposits and savings with high interest rates. The South Korean case demonstrates that, when the state is not "captured" by private vested interests in search of rent-seeking and certain institutional preconditions are in place, the beneficial effects from financial restraint are more likely to materialize.

In what concerns trade liberalization, when Taiwan and South Korea decided to reform their trade regimes to reduce antiexport bias, they did so not via import liberalization (which would have been a first to best advice of any Western economist in view of the first WC), but through selective subsidization of exports. Likewise, when Singapore decided to make itself more attractive to foreign investments, it did so not by reducing state intervention, but by greatly

[58] There were Hellman, Murdock and Stiglitz (1997) to first coin the term "financial restraint" for the Asian model. Where asymmetric information prevails and the level of savings is suboptimal, Hellman et al. argue that creating a moderate amount of rents for incumbent banks can generate useful incentives. These rents induce banks to do a better job of monitoring their borrowers and to expand efforts to mobilize deposits. Both the quality and level of financial intermediation can be higher than under financial liberalization. See T. HELLMAN - K. MURDOCK – J. STIGLITZ, *Financial Restraint: Toward a New Paradigm* in M. AOKI (ed), *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis,* Oxford, Clarendon Press, 1997, pp. 163-207.

[59] President Park's initially focused on the creation of "white elephant" industrial projects that ultimately went nowhere. See C. SOON, *The dynamics of Korean Development. Washington*, DC, Institute for International Economics, 1994, pp. 27-28.

expanding public investment in the economy and through generous tax incentives[60].

Experts agree that, in the case of the "Tiger Cub" economies, it is difficult to identify cases of high growth where unorthodox elements, in the sense of increased variance with respect to the WC, have not played a role. Hong-Kong is probably the only clear-cut case. Hong-Kong's government has had a hands-off attitude toward the economy in almost all areas, the housing market being a major exception. Unlike Singapore, which followed a free trade policy but otherwise undertook extensive industrial policies, Hong-Kong's policies have been as close to laissez-faire as we have ever observed. However, there were important prerequisites to Hong-Kong's success, which illuminate once again the context-specificity of growth strategies. Most important, Hong-Kong's important entrepot role in trade, the strong institutions imparted by the British, and the capital flight from Communist China had already transformed the city-state into a high-investment, high-entrepreneurship economy by the late 1950s. During the early 1960s, Hong-Kong's investment rate was already more than three times higher than that in South Korea or Taiwan. The latter two economies would not reach Hong-Kong's 1960 per capita GDP until the early 1970s[61]. Hence Hong-Kong did not face the same challenge that Taiwan, South-Korea, and Singapore did to crowd in private investment and stimulate entrepreneurship. It would be a mistake to deduce from Hong-Kong's experience that the other East and Southeast Asian economies – confronted with very different initial conditions – would have done equally well under laissez-faire policies.

The price of achieving integration in the world economy has been paid with a sensible amount of financial repression[62] and tight supervision of the banking system. Leaders in countries such as South Korea and Taiwan in the early 1960s and China in the late 1970s had decided that enhancing their countries' participation in world markets was a key objective. For a Western economist, the most direct route would have been to reduce and eliminate barriers to imports and foreign investment. Instead, these countries achieved the same ends (i.e. reduce the antitrade bias of their economic policies) through unconventional means. South Korea and Taiwan employed export targets and export subsidies for their firms. China carved out special economic zones where foreign investors had access to a free-trade regime. These and other countries that opened up successfully but in an unconventional manner presumably did so

[60] A. YOUNG, *A Tale of Two Cities: Factor Accumulation and Technical Change in Hong Kong and Singapore,* «NBER Macroeconomics Annual», Cambridge, MIT Press, 1992, pp. 13-64.
[61] See *Penn World Tables 6.1. Investment as a Share of GDP in East Asia*, in D. RODRIK, *One Economics Many Recipes: Globalization, Institutions and Economic Growth*, Princeton, Princeton UP, 2007, p. 41.
[62] See above "financial restraint", T. HELLMAN - K. MURDOCK – J. STIGLITZ, *Financial Restraint*.

because their approach created fewer adjustment costs and put less stress on established social bargains.

Unlike the "Tiger Cub" economies (Singapore, Thailand, Taiwan, Hong-Kong and South Korea), China and Vietnam liberalized their economies in a partial, two-track manner, did not undertake ownership reform and protected themselves from GATT (General Agreement on Tariffs and Trade) and WTO rules (in the case of China until very recently). The countries that most successfully integrated into the world economy (Korea and Taiwan in the 1960s and 1970s; China and Vietnam in the 1980s and 1990s) had highly protected home markets and achieved integration through other means (export subsidies in the former and special economic zones in the latter). The bottom line is that these common elements do not map into unique, well-defined policy recommendations.

In addition to the successful Swedish experience in front of globalization, the case of the East Asian states has been equally successful and poignant. Much unlike Sweden, which preceded and outgrown Keynesian policies, but also unlike the states of the poor south, the Asian "tigers" are the exception to all the accepted "recipes" for economic reform. Unlike Sweden, they have never experienced Keynesian interventionism in the economy. By the same token, it is only an uninformed impression and complete fallacy, unsupported by facts, that these successful East Asian states have experienced unbridled neo-liberalism without any state intervention in the economy, whatsoever. On the contrary, these successful Asian "tigers" have never followed to the letter the general recommendations coming with the Washington consensus and recipe.

3.2. The Swedish response to globalization: managing the remains of the welfare state

Sweden's growth record started long before that of the "Tiger Cub" economies and it was complemented by a strong social security net, which is completely inexistent in Asia. However, no matter how different they are, both Sweden and the "Asian Tigers" have in common a strong state and government willing to kickstart reform and then implement growth policies at a local level[63]. What is more, both these regions expressly show that the WC is best achieved by those economies where the state is strong enough to have already laid down the necessary pre-conditions such as basic infrastructure, local industries and urban-rural exchange mechanisms. In other words, developing

[63] These local policies are usually in tune with the Millennium Development Goals, which comprise a set of 9 nine goals to be achieved. What has attracted most attention in relation to them are the difficulties related to their implementation at a local level.

economies become competitive when there is strong control by the state upon key economic sectors.

3.2.1. The RM Model and the "Northern lights"

The Rehn-Meidner model lay at the core of the Swedish model, long before any Keynesian intervention even had been theoretically formulated. At the basis of the RM model, there was a neo-corporatist agreement between unions and employers having wage-bargaining at its center. The unions' attempts to extend economic democracy during the 1970s and 1980s – through the Rehn-Meidner plans – seemed to be the key motive which sparkled SAF's measures against them. Meidner even believed the changes made in the Swedish welfare regimes were enough to mean that the basic pillars of the "folkhemmet" policy were consolidated as a result. The initial system and the subsequent Swedish model experienced a kind of 'system shift' towards the end of the 1980s.

To the pressures of globalization, Sweden has preponderantly responded as a catalytic-compensatory state, which mirrors its being a «universal welfare state» according to Esping-Andersen's now famous typology. In counter-response to globalization, the Swedish government placed has given greater leeway to the redistributive capacities of the state and used its regulatory leverages to lower unemployment and provide training for the unemployed youth. Compared to the other states of the neo-liberal welfare model, like the UK and US, Sweden, as the prototype of the Scandinavian universal welfare model, has applied even greater regulation in order to eradicate unemployment and provide training for younger generations with an emphasis on retraining and life-long learning. While the 2nd and 3rd welfare model[64] both confirm Cerny's argument that globalization is leading to deregulation, the first model, the Scandinavian one, does not. Therefore, a pattern emerges whereby a state can pursue deregulation in one sphere of the economy (i.e. in the financial field through the liberalization of capital movements) while reinforcing regulation in another (in the labor market). For instance, a country like Sweden has diminished unemployment benefits and extended pension contribution, but in the same time it has put in motion a workforce style programme.

Authors have come up with a classification which identifies four types of state responses to the "strokes" of globalization: the competition state, the compensatory state, the catalytic state and the virtual state[65]. In light of this ty-

[64] The second model, the neo-liberal model, is represented by UK and US; the third model or the continental welfare model is represented by France and Italy. See G. ESPING-ANDERSEN, *Three Worlds of Welfare Capitalism*, p. 56.

[65] J. GLENN, *Globalization: North-South Perspectives*, p. 130 and P.G. CERNY, *Globalization and the Changing Logic of Collective Action* in «International Organization», 49, 4/1995, pp. 595-625.

pology, Sweden epitomizes the perfect combination between the catalytic and the virtual state. By withstanding the pressures of globalization and maintaining its own competitiveness, the successive governments' (social democratic as well as right-wing) main objective was to help the key industries stay ahead of the game by actually facilitating outsourcing and overseas investments of the key industries and corporations. The Swedish governmental leadership has also sought to continue to support highly skilled workers and a competitive R&D in all sectors while keeping high quality infrastructure. These are the 2 two main prerequisites for a small open economy such as Sweden's to stay competitive in the world markets and continue to attract investment.

3.2.2. Lessons for growth from the Swedish "experience": from the "nanny" to the "catalytic" State

The consensus became fragile when the political left began to criticize welfare states because of their lack of efficiency while the political right attacked the expansion of public sector costs, which was held to undermine economic growth. In this respect, neo-liberals argued that by involving high levels of taxation, the welfare state erodes incentives to work, save and invest, which caused "market distortion". Moreover, by pulling human and capital resources away from industries and into the public sector, it "crowded out" private sector alternatives. In other words, there existed a new and fundamental trade-off between egalitarianism and employment.

In the era of globalization, the "Keynesian consensus" of the after-war period, which prevented any trade-off between social security and economic growth, could not resist the pressure from the globalization of the world economy. The decline in industrial employment created a situation in which – in the Nordic countries and in Sweden, especially – full employment could only be attained via services and the third economic sector. The consensus became fragile when the political left began to criticize welfare states because of their lack of efficiency while the political right attacked the expansion of public sector costs, which was held to undermine economic growth. In this respect, neoliberals argued that by involving high levels of taxation, the welfare state erodes incentives to work, save and invest, which caused "market distortion". Moreover, by pulling human and capital resources away from industries and into the public sector, it "crowded out" private sector alternatives. In other words, there existed a new and fundamental trade-off between egalitarianism and employment. Sweden as the prototype of the «universalistic parliamentary democratic welfare state» which best achieved what Goesta Esping-Andersen identifies as «de-commodification».

Contemporary debates about the Swedish welfare system are clearly related to the key globalization challenges, which have threatened its universal character. In this regard, internal factors such as demographic challenges and external factors – caused by the process of economic globalization, have received most attention. However, it is important to treat the structural and institutional threats to the continuity of the system. These challenges come mainly from rising uncertainty among certain social and political actors who, in the era of welfare state expansion, supported the process, but who, in an era of crisis, harbor doubts about the system's capacity to survive and advocate structural changes to the system. Likewise, the threat of depopulation and a longer time span activated a longer retirement scheme and budgetary debt, making thus impossible profitable retirement revenues based on the hedge funds. Apart from cuts in general welfare spending and different kinds of benefits, the advocates of structural change suggest far-reaching changes in the delivery of public services, which involve far-reaching privatizations. Bearing in mind that in the Social Democratic welfare system, public delivery of services was the bedrock foundation of the system, the privatization issue had had a crucial impact on the system's future. However, despite some privatization initiatives, changes in this area have been modest and the major part of service provision continues to be in the hands of the public sector.