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Globalisation, International Capital Flows and Social Ethics:

An Asian perspective

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This paper provides an ethical perspective on the policy issues arising from the pattern of economic globalisation in the 1990s. It sets out the broader historical and international dimensions as well as the overall effects of the process of globalisation and illustrates that in many respects globalisation is not new. In discussing the operation of international capital markets the author highlights some of the relevant features of the recent crises in Asia and in emerging markets. Among these are the rapid rise and fall of speculative capital flows, the transfer of private debts to the poor (particularly women and migrant workers) through wage and job cuts. The paper concludes by focusing on some of the more obvious questions and lessons from this experience, including the need for regulation of international capital flows and for new ethical forms of international economic co-operation.

Introduction

Globalisation has been the clarion call of the last decade of this century. In economic terms the world is more integrated than ever before as there are increased international capital flows along with much expanded trade in goods and services. This process has been facilitated by a revolution in communications and information technology. These rapid changes have been viewed by many as leading to a substantial and irreversible erosion in the policy autonomy of national governments.

Many pundits have argued that this process is a benevolent one which will lead over time to a universal tendency towards material betterment in living conditions for all. This has led to a commonly held conclusion that to maximise the gains from the process of globalisation, developing country governments in particular should seek to liberalise their domestic economies in order to integrate more completely with world capitalism. The last 18 months have witnessed a change in attitudes towards the liberalisation of the global economy, as the beneficial effects of this process in its most highly publicised success zone – East and South-East Asia – have rapidly unravelled. The ongoing economic devastation of South-East Asia and many emerging markets points to the need for a completely different approach both to the development paradigm involved, and to the nature of international co-operation.

Globalisation – from past to present

Much of the emphasis on the novel nature of the current process of globalisation is greatly exaggerated, despite some obvious ways in which the international economy has changed in the past few decades. In reality there are at least three crucial senses in which the world economy today is actually less integrated than it was a century earlier.

Consider first the growing importance of external trade. This is frequently cited as one of the more significant manifestations of globalisation, and it is certainly true that for many economies the share of external trade in GNP is greater today than, say, half a century ago. Yet, when the yardstick of comparison is the

relative importance of foreign trade during the late 19th century, the current period appears as much less remarkable.

The share of external trade in the GNP of the United Kingdom in 1870 was nearly 30 per cent, that is one and a half times the ratio prevailing more than a century later; while for the US the ratio was roughly the same as today, at around 7 per cent. The ratios of trade to national income were much higher for the African and Asian colonies, where trade shares typically ranged from one-fourth to one-third of national income, whereas for most countries in these regions today (barring the high-exporting East and South-East Asian countries) they are around half their earlier level. This is equally true in Latin America. The feeling that international trade has grown substantially comes about because of the massive decline in trade after the collapse of the gold standard and the restrictions of the inter-war years, after which there was slow recovery in the post-war period. It is true that for the past decade, world trade growth has been faster than world output growth, but this was also true of the late 19th century.[1]

Under competition theory, trade is supposed to equate prices across countries. However, the degree of correspondence in price movements is significantly *lower today* than a century ago. Some of this is a result of the greater volatility of exchange rate movements, which makes companies and traders less willing to react to short-run changes in nominal exchange rates unless they are assured that these are parts of longer-term trends. Yet it also reflects a change in the internal structure of most capitalist economies which makes them less responsive to international price linkages and more prone to segmented market pricing, largely because of the importance of oligopolies in production. Furthermore a shift in the pattern of international trade away from relatively homogenous products towards increasing levels of product differentiation means that oligopolistic rents (largely accruing to transnational corporations-TNCs) absorb much more of the "gains" from international trade than ever before.

The second sense in which the world economy is less integrated today is in terms of movements of labour. The 19th century was marked by great waves of labour migration which transformed not only the economies of different societies but also their societies. The earliest began well before the 19th century but was still significant until then, that is, the transportation of slaves from Africa to the Western hemisphere to work in plantations and elsewhere. Then came the movement of white Europeans to the euphemistically named "areas of white

settlement" (a terminology which ignores the claims to existence of the indigenous populations) such as North and South America and Australasia. Finally, there was the movement of indentured labour and other migrants from the Indian subcontinent to Africa, the West Indies, Fiji and other islands.

Contrast this with the elaborate controls on the movement of labour today. In the Uruguay round of trade negotiations under the General Agreement on Tariffs and Trade and its successor, the World Trade Organisation (WTO) the "movement of natural persons" remains the single area which is still subject to the greatest degree of national control, and where the freedoms given to people to migrate are pitiful in the extreme. This has substantially affected the bargaining power of workers in relation to domestic and international capital.

A third feature of globalisation oft cited but possibly least understood are international capital movements. Much is made of the fact that these flows have increased substantially over the past fifty years and now dominate the global balance of payments in terms of accounting for over 97 per cent of the value of all international transactions today. Yet a reading of history calls into doubt some of the eurrent perceptions regarding the novelty of this pattern. In fact, the more substantive (that is, long-term) international capital flows of the recent past are relatively minor when compared to the enormous and prolonged flows that marked the late 19th century, especially when these are considered in relation to the national incomes of the time.

Currently, there is much talk of how major external imbalances between the important industrial countries are maintained by flows of international capital. Yet the most prominent deficit, that of the US external current account which is said to have sucked in so much of the rest of the world's savings at its height in the period 1985-89 amounted to just 3 per cent of US GNP. The major capital exporter of the recent past – Japan – has run eurrent account surpluses amounting to not more than 4 per cent of GNP. By eontrast, the most important economy in the heyday of the internal gold standard (1875-1914), the United Kingdom, ran current account surpluses of more than 5 per cent, and sometimes as high as 7 per cent, for more than three decades. The US in the 19th century ran substantial current aecount deficits of around 5 per eent of GNP for nearly half a century, while some countries like Canada showed very high deficits in the first 15 years of this century, often as high as 13 per cent of GNP.

These historical flows were primarily long-term in nature, and therefore their ability to transform the productive structures of recipient countries was correspondingly greater. The US of the 19th century is a prime example of how industrialisation was fuelled from continuous net capital inflows. By contrast, the greater share of international capital flows today is of the short-term speculative type, and this has much more in common with another phase in history: the inter-war years, and particularly the 1920s, when destabilising "hot money" flows were the order of the day among industrial countries. These were not responsible for growth as much as destruction, and they ended up being more divisive than integrating of the economies affected at that time.

Yet there are still ways in which capital has become fundamentally more international in nature and integrative in effect than in the past. These relate to the enhanced mobility of financial capital and the internationalisation of production through TNCs. While earlier periods in history have been marked by a commanding role for international finance, the difference now is probably in the sheer scale of operations of the largest players, and the highly concentrated and oligopolistic structure which allows a few agents to influence the course of currency and capital markets worldwide, independently of the desires of even the most powerful governments.

The globalisation of operations gives greater flexibility and more bargaining power to TNCs in dealing with various national governments and local labour forces, and allows them to circumvent particular laws or worker demands by a simple transfer of operations elsewhere, or merely the threat of such transfer. It also means that production, distribution and pricing in national markets are insulated to a significant degree from exchange rate fluctuations. A further implication is that international capital now requires global fora for lobbying, bargaining and leverage, rather than a multiplicity of different national fora. The institutional construction of the World Trade Organisation and the key influence therein of TNCs reflects this changed requirement.[2]

The globalisation of poverty

There is another qualitative difference in which recent globalisation has affected people. While it was the poorest groups who migrated with capital in the nineteenth century, today it is the

elites who are most affected. Never in history has the international demonstration effect been so pronounced as it is today, with the spread of television and other media, the transnational reach of advertising, the greater facility for travel and communication, and the sheer ideological attraction of being part of the cosmopolitan aristocracy of the world. This in turn means that in every country, including the poorest developing nations, the elite strives for greater integration into the international economy, regardless of the requirements or aspirations of the greater part of the population in their countries.

Advocates of the current pattern of globalisation suggest that it is particularly meritorious because it provides an opportunity for the vast bulk of the world's population, many of whom still live in conditions that barely ensure survival, to "catch up" materially with the more privileged richer minority. Yet the evidence that we already have suggests that this pattern of growth is one which is fundamentally unequalising. The process of global economic integration that we can observe thus far has been one which concerns and benefits large international capital in its various forms, and increases worldwide economic concentration as well as greater inequality in incomes and in access to resources. This is evident from some of the data relating to patterns of growth and consumption which have been well documented in the various *Human Development Reports* of the United Nations Development Programme.

However, a tragic irony of this outcome is that the response of those across the world who are affected adversely by this new international regime has not been an alternative internationalist vision, but the rediscovery of local, particularist loyalties along with greater fracturing and conflict within previously accepted national units. This is true, of course, of resurgent fundamentalism in the Third World – whether Islamic, as in much of Africa and Asia, or of the *Hindutva* variety evident in India. But it is also true of neo-fascist forces which have gathered strength in some parts of Europe, or the militaristic extremist groups in the US. All of these right-wing tendencies articulate the insecurities, both economic and cultural, of people whose governments have succumbed to the lure of globalisation as it is presently constituted.

The globalisation of capital and its impacts[3]

The most widespread myth surrounding the positive effects of globalisation, particularly for developing countries, is that as they are currently constituted foreign capital flows are a key source for the rapid industrialisation of developing countries. Thus, it is argued that FDI provides an essential supplement to domestic savings and investment; raises rates of output and employment growth in host countries; provides much needed access to new technologies of production, organisation and marketing; is a handmaiden of not only growth but also trade, creating further integrative links between countries; and spreads the world's investible resources more efficiently. In short, the solution for all developing countries is to attract as much FDI as possible, which will set in motion a virtuous cycle of expansion and increased higher standards of living which will fuel further investment.

In reality the situation is more complex. The dominant share of all FDI (73 per cent) is accounted for by mergers and acquisitions). These do not represent new investment or asset creation but simply result in changes in the ownership of existing assets. And FDI has been very unevenly distributed across regions with developing countries as a whole receiving less than one-third of total FDI in the 1990s, of which around one-third went to China. Thus only a handful of countries in the developing world have experienced FDI inflows of any significance, while for most capital inflows are negligible in per capita terms. Although FDI may have more than doubled over the past five years, its share of total capital formation remains very small, at around 4 per cent for developed countries and 7 per cent for developing countries. It is only in some of the newly-industrialising economies of Asia that both inward and outward FDI flows were substantial in relation to domestic capital formation. At the same time the source of most FDI – TNCs – have become even more dominant in the control of international production and distribution.[4] Latest investment trends show a continuing rise in the trend towards transnationality with steady increases in foreign assets, sales and employees of TNCs. The top 100 TNCs own approximately $1.4 trillion worth of assets abroad and account for around one-third of the global stock of FDI. While their assets, sales and profits have all increased substantially in

the past five years, the same is not true of their total employment, which has stagnated.

These ttends highlight the limited nature of the FDI which has been taking place. But they also raise important questions about the desirability and effectiveness of such flows for developing countries. Do these investments provide a net addition to the country's investible resources or simply substitute for domestic investment? How much additional foreign exchange is generated through exports or saved through import substitution when one takes account of repatriation of profits and dividends. Even if these investments do not create a net gain in foreign exchange terms, to what extent do they provide increased access to new technologies, additional employment generation, and so on?

The very fact that these issues are largely ignored in today's discourse indicates how far elites in developing countries are willing to sacrifice basic domestic interests in return for the dubious attractions of foreign capital. This is even more marked when other forms of foreign investment, such as portfolio capital flows, are considered. Such flows registered a marked increase to developing country "emerging markets" in the 1990s, as a result of a combination of factors. These included the wave of financial deregulation that has swept the developing world; the increasing need of international asset managers, including pension funds, to diversify their portfolios in order to assure larger returns; and the economic slump in rich industrial countries, which reduced rates of return on capital investments and forced mobile capital to seek alternative investment outlets. This wave has already diminished in strength, and most developing country equity markets have experienced the negative effects of decelerating net inflows of foreign portfolio capital.[5]

Not only are international capital markets today hierarchical, oligopolistic and skewed, they are also imperfect and inefficient in their overall operations. Hence, while the mobility of capital has increased considerably over the past fifty years and especially in the past decade, it has not resulted in equalisation of rates of return or rates of wages across countries. There is no indication that capital moves from capital-rich to capital-poor countries; rather, the evidence all points to the geographical and incomewise concentration of capital. Similarly, the growing capital flows have not resulted in a substantial transfer of savings from high-saving to low-saving countries, even among the group of industrial countries (except for the much-publicised example of Japan's capital exports to the US). This is clear from the fact that while savings rates across countries show very wide variation, the

range of differences in the ratio of current account to GDP is much narrower, so that variations in investment rates are not much different from those in savings rates. Ultimately, there is very little evidence of the kind of sustained transfer of investible resources that characterised some parts of the world in the latter part of the 19th century.

Nor is the outlook bright. The ongoing crisis in emerging markets is more than a passing tendency or a simple cyclical downturn in the pattern of capital flows. It marks the beginning of the end of a phase of international capitalism, in which deregulation and increased economic integration – the typical features that are described as "globalisation" – have led to dramatic material changes as well as a much greater degree of volatility and uncertainty.

The brief period when the financial markets of some developing countries and economies in transition were seen as the favoured destination of international investors, is over for the time being. According to IMF projections, total net capital flows to all developing countries are likely to decline from last year's levels by more than $90 billion, or around 40 per cent. Asia shows the most dramatic change, which is not simply a decline but a reversal to a substantial net outflow of more than $44 billion. Asia has accounted for most of the decline in gross flows since mid-1997, but flows to other regions have also been adversely affected. In August 1998, gross financing virtually dried up, reflecting the turbulence in Russia and other emerging markets. As a result of this, projected net private capital flows in 1998 as a whole have been further cut by the IMF to about $57 billion or one-fourth the net inflow recorded in 1996.

The IMF has conceded in its latest *World Economic Outlook* that there is a real risk the recent panic may fail to subside for some time. This is likely to imply significant net outflows of foreign capital from many economies, as already witnessed in parts of Asia and in Russia. And the crisis – in the specific form of dramatic reduction in net capital inflows – is currently attacking virtually all emerging markets, not simply those which have been identified as having specific domestic problems or being high risk.

This is essentially a repetition of a historical pattern in international lending and portfolio investment which can be traced over more than a century, whereby problems of repayment or potential default in one recipient country have led to dramatic declines in all such inflows to all developing countries, rather than being confined to the individual transgressor.

International lending to developing countries has always been characterised by such cycles, and sharp collapses in such flows consequent upon repayment problems of a small sub-group of debtors, were evident in the 1920s, 1930s, and of course in the external debt crisis of the 1980s. The current talk of "contagion" as if it were a qualitatively new market phenomenon misses this obvious historical point. It has typically been in the nature of private international capital to move in such a manner, and the current expansion of global finance has only accentuated such a tendency.

What these outflows mean for the countries involved is that they are suddenly forced to generate current account surpluses by reducing domestic consumption, in order to finance the debt-servicing and to cope with the balance of payments effects of the currency collapse. The most stark evidence of this comes from the extent of the macroeconomic adjustment which has been forced on the South-East Asian countries in the wake of capital outflows. In the current year, Thailand, Malaysia, Indonesia and South Korea have been forced to generate current account surpluses of between 5 and 13 per cent of GDP. The most dramatic changes are in South Korea and Thailand, which have moved from the fairly large deficits of 1996 to relatively huge surpluses in 1998. These surpluses have been squeezed out of economies which are contracting heavily, and have meant declines in personal disposable income far in excess of the fall in domestic output generated. Despite the massive devaluation of currencies in the region (by around 40 per cent for most currencies and nearly 80 per cent for the Indonesian rupiah) exports in dollar terms have hardly increased and in some cases havc even declined. Hence, the improvement in trade balance has had to come from massive import compression in these economies.

While economic statistics cannot capture the enormous social costs of the crisis in Asia they do paint a stark picture. Official estimates for Indonesia suggest a decline in national income of around 18 per cent this year, while private sources feel it may be as much as 25 per cent or even more. In Thailand GDP is estimated to fall by 8 per cent, although even that figure may be further revised to indicate a larger fall. In other countries in the region, national income is estimated to decline by between 2 and 6 per cent. The social impact of these declines is already being felt in terms of substantial labour retrenchment and rapidly growing unemployment, sharp declines in real wages, dramatic increases in the extent of poverty, declines in the public

provision of basic goods and services, increases in unpaid labour especially of women workers, and discrimination against migrant workers.

Already in three of the countries that have been the hardest hit in the recent economic turmoil – Indonesia, Thailand and South Korea – unemployment rates have more than doubled. In some cases this increase in joblessness has occurred in just a few months; in South Korea, official unemployment rose from 2.3 per cent of the work force in October 1997 to 6.7 per cent in March 1998, and is currently estimated to be more than 8 per cent. In Indonesia, unemployment averaged just above 2 per cent throughout the 1990s, but the projection for 1998 is around 15 per cent and could increase. In Thailand, unemployment is projected to increase to more than 7 per cent of the work force compared with 2.4 per cent over 1990-96. While retrenchment in organised industry was expected, there have also been very large increases in layoffs in unorganised industry and in services, as small businesses are being forced to close down due to the combination of a credit squeeze and lack of demand. At the same time the inability of these economies to export their way out of current difficulties has important implications for the medium term.

A crisis for capital and labour

Reports suggest that the majority of the new unemployed are women workers who had earlier found work in the burgeoning export sectors and in manufacturing. In South Korea and Thailand, the contraction in the textile industry had already led to declines in employment generation and in job losses for women workers in particular. This is also because laying off female workers is easier for employers given the nature of casual contracts. The question of large-scale unemployment is especially serious in the region because other than South Korea, no country has significant safety nets in the form of unemployment benefits or insurance. Even in South Korea, unemployment benefits do not exist for workers in firms employing less than 5 workers, and for new entrants to the work forces. This means that those who have lost their jobs are forced to turn for material assistance to traditional sources like the family or extended kin, in a context in which all workers' incomes are already being substantially squeezed.

IMF programmes have typically intensified the problem, not only by adding to the deflationary pressures but also by insisting on cutting food subsidies and similar expenditures which directly affect the material conditions of the poor. Thus, in Indonesia, which has already experienced the sharpest falls in output, the number of people below the poverty line is said to have increased more than threefold in just one year, reaching around 100 million people – half of the population. IMF-style adjustment has had other negative effects. Cuts in subsidies to energy sources and in the provision of basic amenities such as sanitation and water supply, public health facilities and the like, have not only reduced wage-earners' household incomes, but have put an additional burden on women, who typically bear the responsibility for provisioning these within the household. The reduction in food subsidies has put pressure on the food security of poorer households, and women are typically the main losers from this because of culturally determined intra-houschold distribution patterns. In addition, the fact that many womcn have been forced to seek additional income outside the home, has put pressure on girl-children who have to takc up some of the activities of housework and child care otherwise performed by their mothers. In extreme cases, this has even led to their withdrawal from schooling. All this points to onc very common gender-specific result of such policies: the increase in unpaid labour by womcn and girls in the region.

Rapid increases in unemployment have led to a domestic focus on migrant workers as the sourcc of the problem. There have been incidents of attacks on migrant workers along with forcible repatriation of migrants. Such sentiments are not only intolerant but irrational, because it is usually the case that migrants from poorer countries end up working in the "3D occupations" (Dirty, Difficult, Dangerous) which are less attractive for the local population, and because the dramatic decline in employment prospects has nothing at all to do with migrant workers, but with financial and other macro-economic processes in the region. Migrant workers, especially (but obviously not exclusively) the women among them, tend to be the most vulnerable of all workers even in good times; in bad times such as these they are even worse off because they come low down in the policy priorities of both host and home country governments.

The causes of global financial crises

Certain features of globalisation need to be revisited in order to tackle the root causes of crises. Firstly, the crisis in East and South-East Asian countries is fundamentally a crisis of deregulation rather than excessive government intervention. All the economies that have been most deeply affected liberalised their financial regimes in the 1990s, in response to the perceived opening up opportunities to attract new forms of inward investment, and often under the persuasion of the IMF, which was marked in countries like Thailand. The problems emerged because such financial liberalisation allowed the inflow of short-term speculative capital as portfolio investment and also permitted domestic companies to engage in short-term commercial borrowing without requiring the generation of foreign exchange to service such loans.

One frequently cited diagnosis of the cause of the Asian crisis was the lack of "sound" macroeconomic policies, where financial flows have been liberalised. It has been suggested that countries like Thailand, South Korea and Indonesia have faced crises because they allowed their current account deficits to become too large, and allowed too great an excess of private domestic investment over private savings. This belated realisation is a change from the earlier obsession with government fiscal deficits as the only macroeconomic imbalance worth caring about, but it still misses the basic point that with completely unbridled capital flows, it is no longer possible for a country to control the amount of capital inflow or outflow, and both movements can have undesirable consequences.

If, for example, a country is suddenly chosen as a preferred site for foreign portfolio investment, it can lead to huge inflows which in turn cause the currency to appreciate, thus encouraging investment in non-tradeables rather than tradeables, and altering domestic relative prices. Simultaneously, unless the inflows of capital are held in the form of accumulated foreign exchange reserves, they must necessarily be associated with current account deficits. The large current deficits in Thailand and elsewhere therefore were necessary by-products of the surge in capital inflows. This means that any country which does not exercise some sort of control or moderation over private capital inflows can be subject to very similar pressures. These then create the conditions for their own eventual reversal, when the

current account deficits are suddenly perceived to be too large or unsustainable.

The IMF, which has so far been instrumental in pushing for financial and capital account liberalisation, in its latest *World Economic Outlook* (pp.20-21) recognises the danger which certain sudden capital flows can cause when it states:

> It would be wrong, however, to attribute financial crises exclusively to poliey shortcomings in the crisis countries. Financial crises of the type experienced in Asia and Russia also illustrate the difficulties that emerging market countries can experience when they suddenly become the target for very large capital inflows... Complications often arise for two reasons. First, because of the magnitude of the resulting capital inflows relative to the absorptive capacity of the reeipient countries, the inflows may contribute to surges in property and stock market prices as well as appreciating real exchange rates – asset price bubbles that often prove unsustainable. Second, when cyclical conditions normalise in creditor countries, or when perception of countries' fundamentals change, investors and banks may no longer find the higher returns in emerging market countries worth the risk. Bouts of excessive optimism among international investors followed by episodes of excessive pessimism can also be a problem as illustrated by the inadequate yield spreads on emerging market debt instruments immediately prior to the Mexican and Asian crises, and by the excessive jumps in risk premia in the wake of these crises, even for countries with relatively sound policy records.... Through these channels, and in conjunction with weak financial systems in many emerging market countries, and other weaknesses in policies and institutions, fluctuations in the global economic and financial environment may therefore contribute to the proneness of emerging market countries to crises.

Despite such knowledge, there still appears to be no real evidence that the IMF is changing its policy prescriptions for developing countries. Its basic remedy remains high interest rates and reductions in government spending and other deflationary measures which have to date exacerbated the crisis. Its rationale is that this will restore foreign investor confidence and woo back the same foreign capital which had created all the problems in the first place. And the IMF appears to be anxious to ensure that the most obvious conclusion regarding the need

to regulate capital flows is not drawn. But it is increasingly evident that there needs to be some form of regulation of speculative capital flows, as developing countries require a minimum degree of stability in pursuing their developmental goals. If this is not done economic devastation caused by excessive flows will continue to destroy the livelihoods of millions of people.

The IMF has been to the fore in highlighting the role of domestic policies in the crisis, in particular emphasising that domestic financial systems were opaque and characterised by a lack of transparency as well as by "crony capitalism" which gave preferential treatment to those with kinship, friendship or patron-client relations with those in power. Obviously, this was true, most strikingly in countries like Indonesia under Suharto. But it is notable that until very recently, such leaders were praised by the international financial community as they actually simplified their operations in these countries. Furthermore, it is impossible to find cronyless capitalism anywhere in the world today: even in the US, the recent problems of the finance company Long Term Credit Management, and the manner of its bailout by the US Federal Reserve, indicate that crony capitalism is alive and well in New York as elsewhere.

As has been highlighted there are those who believe that the excessive borrowing that occurred in these countries became possible because of the lack of prudent domestic policies, and the inadequate monitoring and supervision of the financial sector by domestic authorities. But the problem goes far deeper than this as most of the excessive and unwise lending was by international banks to private borrowers within these countries. It is now clear that these banks operated under the assumption that in the event of any problems these loans would eventually be guaranteed by the governments concerned. Indeed, this is one of the first conditions that the IMF insisted upon in its dealings with the crisis-ridden South-East Asian countries. As long as this remains a feasible expectation for international banks, there is absolutely nothing in the system that will ensure that they also control their own lending in a more responsible manner; certainly, no prudent domestic regulation would be adequate for this.

The need for an ethical response

What then of the distribution of the costs of adjustment in the wake of the crisis both between and within countries? Currently

parts of Asia are experiencing one of the most painful and dramatic processes of economic adjustment of this century, eclipsed only by the economic devastation in the former socialist economies-in-transition. But this entire boom and bust cycle has been one that has been driven by movements of (largely speculative) capital by international investors and banks who are at least as irresponsible as the local agents who received their funds. However, thus far the costs of the adjustment have not been borne by foreign capital or within host countries by the elite groups who were the major beneficiaries of the capital inflows. Instead, the current account surpluses that are now being squeezed out of these economies have come through dramatic declines in the consumption standards of ordinary people, who are experiencing severe wage and employment cutbacks.

The message for all developing countries is clear. They cannot afford to allow completely unregulated capital flows, and will have to rely on new ways of controlling and regulating such flows in accordance with national priorities. Indeed, it is only a matter of time before advanced industrial countries come to the same realisation for their own economies – even though it may take a major international depression to bring this point home. New forms of managing the international financial system will require concerted international effort and much greater co-operation between countries – both developed and developing – than presently exists. The calls for "strengthening the international financial architecture", however, are unlikely to have much effect if they continue to be based on the idea that markets know best and that regulation of capital flows is undesirable. What is required is a much more decisive attempt to institute a more orderly pattern of international transactions, in which speculative capital cannot lead to such major changes in real economies and cause so much material suffering to ordinary citizens of developing countries across the world.

This requires a truly international outlook, one in which interaction between people from different countries is based on a greater sense of democracy and a need to bring a minimum ethical order into a system currently driven by the narrowest of self-interest rather than collective will or a concept of the common good. If globalisation is really to bring the people of the world together in a sustainable way and to be a source of much needed development finance, it will have to establish this ethical base as the fundamental premise for economic activity.

Footnote

1 Angus Maddison, *Monitoring the World Economy 1820-1980,* OECD, Paris, 1995

2 See Myriam Vander Stichle, *Towards a World Transnationals' Organisation*, WTO Series no.3, Transnational Institute – Amsterdam, April 1998.

3 It is notoriously difficult to select a best estimare and the statistics cited are drawn from a range of commentators.

4 See UNCTAD, World Investment Report 1998; World Bank, *World Development Report* 1998-99 pp.230-1 which contains world investment for 1996 of $314,696 billion. Low income countries received $9,433 billion, middle income $109,341 billion and high income $195,922 billion. China alone received $40,180 billion. See also Guy de Jonquières, "Flow of capital rising despite regional crises", *Financial Times* 11 November 1998.

5 World Bank, *Global Development Finance,* 1998, p.117.