



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

# **ECONOMIC THEORY, APPLICATIONS AND ISSUES**

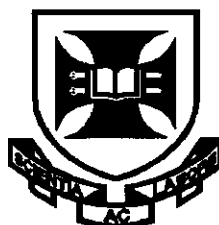
**Working Paper No. 7**

**The Political Economy of Globalisation:  
Processes involving the Role of Markets,  
Institutions and Governance**

**by**

**Clem Tisdell**

**May 2001**



**THE UNIVERSITY OF QUEENSLAND**

Working Paper No.7

**The Political Economy of Globalisation:  
Processes involving the Role of Markets,  
Institutions and Governance\*†**

by

Clem Tisdell‡

May 2001

© All rights reserved

---

\* A proposed contribution to a book edited by M. A. Choudhury and M. H. Alias, *Economics Transition and Change* (tentative title) and for a conference with the same theme to be held, August 13-15, 2001 at The Universiti Utara Malaysia, Sintok, Kedah, Malaysia.

† Preparation of this paper benefited from my guest lectures in History at The University of Queensland given to Hist.1600 students in April 2001. I thank Dr Tom Poole, Department of History, The University of Queensland, for this invitation and for feedback from him and his students. The usual caveat applies.

‡ Corresponding author: [c.tisdell@economics.uq.edu.au](mailto:c.tisdell@economics.uq.edu.au)

WORKING PAPERS IN THE SERIES, *Economic Theory, Applications and Issues*, are published by the Department of Economics, University of Queensland, 4072, Australia.

For more information write to Professor Clem Tisdell, Department of Economics, University of Queensland, Brisbane 4072, Australia or email [c.tisdell@economics.uq.edu.au](mailto:c.tisdell@economics.uq.edu.au)

## **Abstract**

### **The Political Economy of Globalisation: Processes, involving the Role of Markets, Institutions and Governance**

To some extent methodological differences help to explain the divergent views of mainstream economists and dissenters about the benefits of economic globalisation as explained in this article. After outlining historical trends both of an institutional and technological character, which have favoured economic globalisation, this article presents the main arguments of neoclassical and mainstream economists in favour of economic globalisation. Critiques of mainstream advocacy of economic globalisation follow with particular (but not exclusive attention being given to claims that there is a high risk of economic globalisation resulting in unsustainable development. Other criticisms include the possibility that economic globalisation will encourage global business concentration and reduce business diversity thereby hampering economic growth in the long run, Furthermore, it can have unacceptable income distribution consequences and individual national governments appear to be becoming increasingly powerless to alter its adverse economic effects and pursue policies to promote social justice. This is because of international fiscal competition, and because of structural adjustment policies being fostered by international economic and financial institutions. Economic globalisation is both altering institutions and governance and to some extent being influenced by international financial institutions such as the IMF and WTO. These institutions foster the supply of private goods to the neglect of public goods, support reduction in the public provision of supplies to meet basic needs and undermine agendas to promote social welfare. An imbalance, therefore, exists in the global leadership provided by international institutions. The evolution of this imbalance is predicted by M.A. Choudhury's identification of dualism in Occidental economic thought.

# **The Political Economy of Globalisation: Processes, including the role of Markets, Institutions and Governance**

## **1. Introduction**

Today there are both strong advocates as well as opponents of the process of globalisation. This process of creating one undivided world is multidimensional: it involves economic, cultural and political dimensions. In general, neoclassical and mainstream economists see economic globalisation involving the extension of markets as a positive force for reducing economic scarcity and increasing human well-being. Furthermore, most economists see globalisation as a significant stimulus to economic growth, and many mainstream economists are of the view that it will eventually reduce income inequality and result in an improving global environment. Critics either reject these hypotheses or argue that they require considerable qualification. This article outlines and assesses opposing views, and suggests that many concerns about the process of globalisation are justified.

It might be noted in advance that the different methodological approach to economics of neoclassical and most mainstream economists and that of dissenters explains to some extent their opposing conclusions about the impacts of economic globalisation. Neoclassical and most mainstream economists adopt a reductionist, partitioned single-discipline approach to the study of economics, consider that its main laws apply independently of historical and institutional contexts and mostly rely on statics and comparative statics for their predictions. Their systems of modelling are closed rather than open, and as suggested by the theories of Schumpeter (e.g. 1942), this can seriously restrict their real world applicability (cf. Tisdell, 2001b). On the other hand, dissenters, such as Myrdal (1956), who are usually much more holistic in their approach to studying economic phenomena, believe that such phenomena should be considered in their historical and institutional contexts and that it is essential to consider dynamic processes, such as those involving circular causation and cumulative causation.

This article proceeds by providing some general observations on the historical process of globalisation and then outlines the neoclassical and mainstream economic arguments in favour of economic globalisation and free trade. This is followed by a significant set of qualifications and counter-arguments to claims that economic globalisation is bound to be beneficial. The discussion then turns to consideration of the role of economic globalisation in

changing institutions and governance and the role of major institutions in the globalisation process itself, particularly the World Trade Organisation. Then follows a concluding assessment.

## **2. A General Backdrop to Globalisation – Historical Trends**

On the whole, the process of economic globalisation has been underway for several centuries but has accelerated in the last few decades. Possibly it has its genesis in the rise of nation states in Europe, their Age of Discovery which in essence brought all parts of the world into contact, their subsequent far-flung empires, and the Industrial Revolution. Globalisation is essentially European in origin but it now contains many non-European or non-Western participants. For example, after its economic reforms began in 1979, China sought 'windows to the outside world' to help support its economic growth and has continued to search for ways to increase its participation in international trade, technology transfers and finance.

With the dismantling of European empires after World War II, corporate capitalism involving multinational enterprises not tied to empires but interested in foreign investment opportunities and markets grew in importance. They became important institutions with a positive stake in economic globalisation.

However, even before World War II analysis of the Great Depression made it clear that the economic futures of most nations were linked. Economic depression in one or a few major nations tended to be 'contagious' via international interdependence of economic activity. Partly with this in mind, various global institutions were established after World War II at the Bretton Woods conference to provide for greater international financial stability than in the past, namely the International Monetary Fund (IMF) and to provide finance for development, namely the World Bank, the International bank for Reconstruction and Development (IBRD). The General Agreement on Tariffs and Trade (GATT) also arose from initiatives at Bretton Woods. It was intended in part to prevent the recurrence of 'beggar-thy-neighbour' policies in relation to trade policy which had deepened the Great Depression. However, most participants at Bretton Woods had hoped for formal body with a wider mandate on trade than GATT, but this did not emerge because of lack of support from the American Congress. It was not until 1<sup>st</sup> January 1995, that the World Trade Organisation emerged with a wide mandate covering international trade and exchange. In recent decades the Bretton Woods

institutions and the WTO have been powerful advocates of globalisation and have adopted policies to accelerate the process of economic globalisation.

Apart from such institutional support for economic globalisation, a number of technical changes have fostered economic globalisation. These include many improvements in transportation and in telecommunication, the latter being extremely marked in recent decades.

Also, the importance of capitalism dependent on the product-cycles and on temporary monopoly-profits from innovation may have increased. Innovations involve a large fixed cost element in terms of prior research and development and start-up costs. Tremendous economies of scale arise from the extension of markets in such a case. Leading innovations and the countries with the greatest technological progress therefore stand to reap considerable economic benefit from access to global markets and global opportunities for investment.

Classical economists such as Adam Smith (1910, Ch.1) see one of the main advantages of the extension of markets as being economic benefits from economies of scale and increasing division of labour. Ricardo (1817) saw economic advantages from international specialisation in production according to comparative advantage. To some extent, these advantages are still present, but they probably pale in significance in comparison with the neo-technological economic advantages obtained by the world's technologically most advanced nations and multinational corporations from increasing globalisation. Globalisation in the modern world is to a large extent a vehicle for gaining extra rents from superior intellectual knowledge generated mostly in higher income countries.

### **3. Neoclassical and Mainstream Advocacy of Globalisation**

Neoclassical and mainstream economists primarily argue in favour of economic globalisation on the grounds that it extends the operation of free markets; it extends freedom of market competition and therefore increases the likelihood of markets converging towards the perfectly competitive ideal. Using static economic analysis and extending it to the international context, neoclassical economists (relying on 'new' welfare economics) demonstrate theoretically how perfect competition leads to the most efficient allocation of resources in production and results in optimal conformance between the composition of production and consumer preferences. This, however, is assuming that all goods are private goods (which they are not) and supposing a static (stationary) world in which market



participants have a high degree of knowledge, if not perfect knowledge. Various types of market failures, such as externalities are assumed to be absent and decreasing costs of production (economies of scale) are supposed to be relatively unimportant.

We do not, however, live in a static or stationary economic world but one in which new products, technologies and processes arise continually. These are the very life-blood of modern capitalism.

This view is recognised by a set of mainstream economists. They argue (but not using any well specified theory or solid analysis) that increased market competition tends to accelerate technological change. This conclusion is certainly not an implication of the Paretian model because this model is silent about technological progress because of its static nature. However, advocates of the view that competition fosters technological progress believe that competition forces businesses to adopt cost-saving and profitable inventions if they are to survive in a competitive world. However, this is only a part of the story. If new technologies are patented, it may be difficult for competitors to gain access to these. Secondly, this approach considers technological change as an exogenous variable.

Schumpeter (1942) has argued convincingly that the rate of technical progress and innovation is likely to be higher if monopoly or oligopoly prevails than if perfect competition is the sense. The argument in favour of this point of view is strengthened if long-run market challenges to market incumbents exist, or if workable (but not perfect) competition in the case of John Maurice Clark (1942) applies. Furthermore, List (1844) argued that temporary constraints on market competition can be beneficial. He pointed out nations may need to protect import industries temporarily if these industries are eventually to have a reasonable chance of competing independently and successfully in global trade. This is likely to be especially important in new industries where a considerable learning period is necessary for latecomers and for high-technology or information-intensive industries involving high upfront costs and long gestation periods before investments yield positive returns. Economies of agglomeration and industrial external economies (if present) can also provide further support for List's point of view. It can be concluded that perfect competition is not the ideal market form for promoting technical progress and economic growth. In fact, short-term allocative efficiency is usually detrimental to long run economic growth.

It is relevant to observe that some contemporary members of the Chicago School of Economists now retreat from the earlier Chicago view that atomistic competition, structurally portrayed by the perfectly competitive model, is ideal (cf. Svizzero and Tisdell, 2001). They argue that if business concentration arises from a highly competitive situation, the surviving firms are likely to be the most efficient and that their domination of an industry ought to be allowed. This so called 'efficiency defence' of business concentration partly has its intellectual basis in the evolutionary doctrine of survival of the fittest and the belief that restrictions on concentration of industry in the United States had become excessive in view of increasing global competition. In view of increasing global competition and the growing importance of international transactions, the international competitive position of large corporations with their main base in the United States can be expected to be strengthened by a more permissive attitude to business concentration in the United States. Observe that this 'mainstream' argument is no longer based on Paretian welfare economics, and differs from this perspective which sees atomistic competition as providing the most favourable climate for technological progress.

Given the above, it can be seen that mainstream economics is divided in its theoretical arguments in favour of market competition even though there seems to be general agreement amongst neoclassical and mainstream economists that economic globalisation will reduce resource scarcity and increase global economic welfare because of its positive impact on resource allocation or on technological progress and economic growth.

But the above hypothesis does not address income distribution questions nor important environmental issues associated with economic globalisation.

The mainstream position of economists in relation to income distribution is not entirely clear. Nevertheless, a general presumption exists that increased market competition, such as brought about (at least initially) by growing globalisation, is likely to reduce income inequality in several important respects. These are (1) an expected convergence between per capita income levels in the different countries e.g. lower-income and higher-income countries, and regions of the world and (2) greater equality in personal income.

Myrdal (1956) expressed some doubts about the income-convergence hypothesis of neoclassical economics. While a degree of convergence has occurred between the income

levels on average of some lower income countries, such as China, and higher income countries, such as the United States, convergence has been an uneven process globally in recent decades. Depending on how international income disparity is defined, it may have increased. For example, the disparity between income levels in most sub-Saharan African countries and those in higher income countries have increased in recent decades. In China, although its average level of income is converging towards that of higher income countries, its distribution of personal income has grown markedly more unequal since it began its economic reforms (cf. Wen and Tisdell, 2001, Ch.3, Khan et al., 1993).

In the latter respect, mainstream economists take some comfort from the Kuznet's hypothesis (Kuznets, 1955) that income inequality in a nation increases initially with economic growth and then, with sufficient economic growth, subsequently declines as further growth occurs. This implies that income inequality tends to possess an inverted U-shaped relationship in relation to the average level of income in a nation. The hypothesis suggests that economic growth provides a long-run means to reduced income inequality. Therefore, it might be reasonable to suppose that if economic globalisation stimulates economic growth in high-income nations, it is likely to further reduce income inequality or prevent it from increasing. However, this has not, as discussed below, been the pattern in the last three decades or so. In fact, income inequality has increased markedly in higher income countries experiencing economic growth in this period.

The state of the global environment is also a major contemporary concern. Once again, many mainstream economists believe that economic growth is the key to environmental improvement. This argument is often based upon the Environmental Kuznets' Curve (EKC). This curve was not suggested by Kuznets but was first proposed by Selden and Song (1994). It is believed by its proponents to have a similar inverted-U shape to the Kuznets' income distribution curve. It is based upon the proposition that pollution intensities (pollution levels in relation to GDP) at first rise with increases in per capita income when income levels are low, subsequently reach a maximum, and then decline as per capita income becomes higher. Thus rising incomes are seen as a way to eventually improve environmental quality. This argument, however, has a number of serious limitations. For example, total pollution levels may continue to rise as intensities decline, and as economic growth becomes more widespread, global aggregated levels of pollution may increase at an accelerated rate bringing forward the likely occurrence of a greenhouse environmental catastrophe (cf. Tisdell, 2001a)

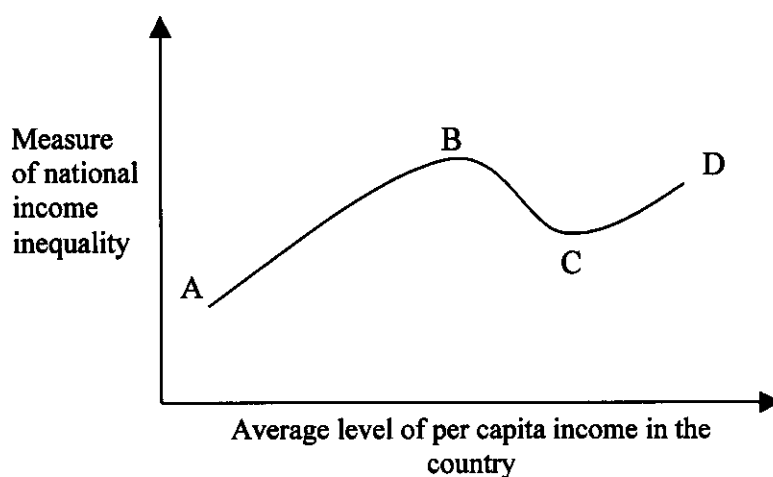
#### 4. Critiques of Mainstream Advocacy of Economic Globalisation

There are several critiques of mainstream economic advocacy of globalisation, some of which have already been indicated. The following is a summary of such critiques.

Some doubts have been expressed about the long-term economic growth-enhancing impacts of globalisation. If globalisation reduces business diversity and leads to global concentration of control in some industries, two possible effects may occur:

- (1) insufficient business diversity may exist to encourage inventiveness and innovation (cf. Tisdell, 1999) and;
- (2) large dominant multinational firms may develop bureaucratic structures, as Schumpeter (1942) thought likely, which will retard invention and innovation. In Schumpeter's view, the success of the generators of technological progress and economic growth under capitalism (namely the economic success of large corporations) is likely to sow the seeds of the eventual decay of the system. Hence, because of institutional evolution, one cannot be so confident about the continuing positive growth dynamics of the capitalist system even when it is globalised.

It has also transpired that the Kuznets' income distribution hypothesis has lost its straightforward applicability. In OECD countries, rather than an inverted-U shape, a reclining inverted-S curve seems to apply as shown in Figure 1 by ABCD. In recent decades, OECD countries have moved from segment BC of this curve to segment CD.



**Figure 1** An inverted reclining S-shaped income distribution curve at odds with Kuznets reversed U-shaped curve, or possibly an extension of it.

The increasing inequality of income in OECD countries is reflected primarily in a divergence between the income levels of the highly skilled. Real incomes of the latter group have fallen relative to those of the former and the job security of the latter group has deteriorated in relation to the former.

Various explanations have been given for these trends. One view is that with international trade liberalisation and greater mobility of capital, labour-intensive industries have shifted from more developed countries to less developed ones with a relative abundance of low or unskilled labour, and imports of labour-intensive commodities from developing countries, such as China, have increased thereby reducing the demand for unskilled labour or labour with little skill in more developed countries. This suggests that bifurcation of labour markets is a relatively direct consequence of the economic globalisation processes. Basically the argument is based on the Samuelson-Stolper theorem (Stolper and Samuelson, 1941). This was based on trade in final products but, as Feenstra (1998) and others point out, components of final products are now, as a result of globalisation, more widely traded internationally. This reinforces the Samuelson-Stolper effect.

While the Samuelson-Stolper effect, reinforced by increasingly global trade in components of final products, undoubtedly contributes to the divergence process, effects which incidentally also reduce the bargaining power of trade unions, research suggests that these effects may not be the prime cause of the emergence of dual labour market in OECD countries. Several economists (e.g. Krugman, 1996; Slaughter, 1998; Dawkins and Kenyan, 2000) attribute this trend mainly to technological progress in developed countries which is biased against the use of low skilled and unskilled labour.

However, the speed of technological progress may be more rapid because of the globalisation process (cf. Tisdell and Svizzero, 2001). In some industries, increased emphasis on labour-saving technological progress and more rapid technological progress may be a defensive reaction to increased competition from labour surplus countries. But this is not the complete story. It also may be a part of aggressive global competition as companies strive for temporary monopoly-profits by exploiting new technologies. These technologies may be easier to protect when they are labour-saving, especially of low skilled labour. It is likely to be easier also to develop techniques which save on such labour than on more skilled labour involved in non-routine activities.

Economic globalisation has increased the potential monopoly-benefits from temporary exploitations of many new inventions. At the same time, it has increased the degree of international technological competitiveness, and thereby causes the 'technology treadmill' to turn faster. Hence, it may very well be contributing to technologically induced unemployment in OECD countries and lower real wages for those with no or only limited skills.

At the same time as the trend has become evident, the size of the public sector and the social service activities associated with the welfare state have been in decline in higher income countries; trends encouraged by the activities of the IMF and World Bank via their support for structural adjustment policies. These policies have further added to income inequalities in more developed countries and have reduced equality of opportunity.

In fact, as a result of international fiscal competitiveness, the tendency towards structural adjustment by governments has developed a momentum of its own. Some governments have been reducing taxes, especially those payable by business, to attract international capital. Others are forced to do likewise to remain competitive. This is the phenomena of international fiscal competition.

Therefore, many governments find that their public revenues are reduced and they are forced to reduce social welfare services, lower public expenditure on provision for basic needs and decrease expenditure on public goods. Consequently the economic welfare of all nations may be ultimately damaged by their fiscal competition for international capital. The problem may be solved by collective global cooperation (see Tisdell and Svizzero, 2001).

Mainstream economists also appear generally to be of the view that globalisation will improve the dynamics of operation of markets and enhance their stability. But this does not appear to have been so in practice. Greater responsiveness of markets may indeed result in them becoming more unstable, as is clear from the sample cobweb model (Tisdell, 2000) and extensions of it (Lasselle et al., 2001).

## **5. Sustainable Development and the Environment – Further Critiques of Advocacy of Economic Globalisation by Mainstream Economists.**

Whereas most advocates of economic globalisation support it on the basis that it stimulates global economic growth via greater accumulation of man-made capital and improved allocation of investment worldwide, both neo-Malthusians and ‘deep ecologists’ do not see economic growth of this type as beneficial. Neo-Malthusians doubt whether such economic growth is compatible with sustainable development and ‘deep ecologists’ believe that such economic growth will be more destructive of nature than is desirable.

It is important to understand the different intellectual positions of these groups because Bretton Woods institutions and the World Trade Organisation (WTO) are sympathetic to the orthodox economic view, whereas most of their environmental opponents are swayed by the alternative viewpoints mentioned.

Both orthodox economists and neo-Malthusian economists are basically anthropocentric in their analysis. For them, sustainable development is development that leaves future generations of human beings no worse off than present generations. However, they differ about how this goal is to be achieved given the current state of the environment globally. The argument between these groups revolves around what is the appropriate bequest to future generations to ensure they are no worse off economically than current generations.

Orthodox economists believe that, on the whole, man-made capital is a very suitable bequest for future generations whereas neo-Malthusians believe that natural resource/environmental capital is likely to be a more suitable bequest. Neo-Malthusians believe that on balance production of man-made capital irreversibly depletes the stock of natural/environmental capital and economic growth will eventually become unsustainable if conversion of this stock is not restrained. Economic globalisation, far from restraining this process, accelerates it and thereby fosters economic development that will promise to be ultimately unsustainable.

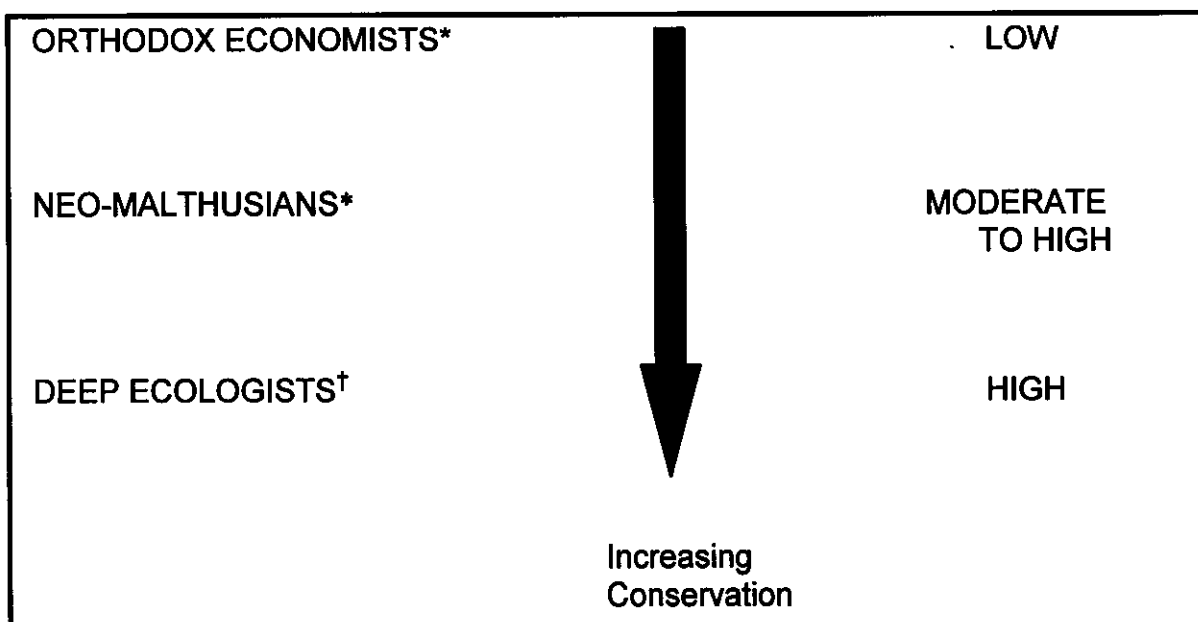
The divergent views of orthodox economists and neo-Malthusians about how sustainable development can be achieved are summarised in Table 1. Deep ecologists and those who believe that nature should be to some extent conserved or protected in its own right (independently of human wishes) are likely to be even more opposed than neo-Malthusians to the conversion of natural resources to man-made capital because such conversion is usually at

the expense of biodiversity and the conservation of nature. The whole spectrum of opinion in relation to conservation of nature is summarised in Table 1 and in Figure 2.

**Table 1 ECONOMIC CONDITIONS FOR ACHIEVING SUSTAINABLE DEVELOPMENT**

<b>Weak Conditions (Orthodox Economists)</b>	<b>Strong Conditions (Neo-Malthusians)</b>
<ul style="list-style-type: none"> <li>• Accumulation of man-made capital is to be encouraged because it provides a suitable productive bequest for future generations.</li> <li>• One can be optimistic about future prospects given the promise of technological progress</li> </ul>	<ul style="list-style-type: none"> <li>• Natural and environmental resources need to be conserved as a suitable bequest to future generations.</li> <li>• Conversion of these resources to man-made capital or their use for consumption may diminish the welfare of future generations.</li> <li>• Caution is needed.</li> </ul>

**Figure 2 SPECTRUM OF EMPHASIS ON NATURAL RESOURCE AND ENVIRONMENTAL CONSERVATION**



\* Values are anthropocentric

† Values not purely anthropocentric, includes ecocentric values



In the light of the above it is understandable why those with ecological concerns and why neo-Malthusians are opposed to the type of economic growth which in their view is favoured by the World Bank, the IMF and the WTO. Their wrath also spills over to concern about the process of economic globalisation itself on the grounds that it is designed to accelerate such growth.

## **6. Institutions and Governance in Relation to Globalisation, and the World Trade Organization**

Economic globalisation is making it increasingly difficult for nation states to control their own economic affairs independently of the rest of the world. It is reducing the governance possibilities of nation states, as indicated by the above discussion of fiscal competitiveness.

At the same time, it has increased the political influence of large multinational corporations and global institutions such as the WTO and IMF. Yet an effective representative system of world government has not yet emerged. In fact it is a complaint of less developed countries that global institutions are mostly influenced in their decisions by the larger most powerful high-income countries. Furthermore, large multinational companies are predominantly owned by the residents of high-income countries and to a large extent reflect the self-interest of these residents.

It is sometimes claimed that large trading corporations and multinational companies are strongly in favour of economic globalisation. This is probably true for the most competitive ones. However, a rather different view was prevalent in the 1950s and 1960s when it was sometimes claimed that multinational companies favoured protectionism because they could shelter behind tariff walls and other barriers to trade. Why attitudes changed, if they did, is not completely clear. It is possible, however, that production has become more knowledge-intensive and that multinationals need larger markets than national ones to recoup their investment in developing knowledge-intensive products. Moreover, major multinationals had established bases or branches in many countries by the beginning of the 1980s and may have decided that they would benefit by fewer restrictions on their intercompany trade between their branches. In any case, it does not necessarily follow that all multinationals favour fewer restrictions on trade, although most might. The situation needs to be explained rather than assumed.

The bargaining power of trade unions in developed countries has weakened in the last three decades or so. This may partly be a result of increasing competitive impacts from processes of globalisation (increasing import of labour-intensive goods and production components from labour surplus countries), movement of labour-intensive industries to labour surplus countries, and technological change which is labour saving.

With globalisation resulting in reduced power of national institutions and governments to influence domestic economic affairs, many individuals feel increasingly insecure from an economic point of view. Furthermore, the economic system influences the social system. As competition widens and intensifies, relationships between individuals become increasingly 'depersonalised' and feelings of alienation become widespread. There is an increasing danger of human relationships becoming 'commodified' on a major scale resulting in social apathy and cynicism, and psychological stress. Social and economic aspects of life are interdependent, and economic systems should not be judged solely but their ability to produce commodities efficiently.

In November 1999, the World Trade Organisation (WTO) came to the centre of the stage with its Millennium Meeting in Seattle disrupted by violent protests against its policies and its role in encouraging economic globalisation. In particular, many protesters believed that it was giving insufficient attention to environmental concerns and conditions needed to achieve sustainable development. Others were critical of its neglect of labour norms in relation to international trade.

While WTO is not a successor to GATT, it arose out of it. WTO was formed as a result of the Uruguay Round of GATT, 1986-94. Countries prepared to agree to and conform to all the rules adopted during this round were or could be admitted to WTO. GATT, however, still continued for those members not able or willing to accede to WTO. Consequently GATT continues in a 'frozen state' (see Cole, 2000, Ch.2).

GATT was founded in 1948. It makes no specific provisions for environmental matters. In fact, GATT has been unprepared to support trade restrictions on the basis of environmental or ecological damage caused by techniques used by an exporter. This is underlined by the decision in the dolphin-tuna case involving the USA and Mexico.

Neither GATT nor WTO have approved trade restrictions which limit trade on the basis of adverse environmental effects when these occur externally to the country imposing sanctions. The only allowable basis for environmental trade discrimination is when environmental practices leave adverse identifiable signs on products. The technique adopted to produce the products cannot in itself provide a basis for trade discrimination, even if use of the technique seriously damages the environment.

The policies of the WTO favour weak conditions for economic development. Its policies are not specifically intended to ensure the realisation of sustainable development (cf. Halle, 2000). They basically favour economic growth and the achievement of full employment globally which is not surprising given WTO's evolution from GATT which, like most of the international bodies established as a result of the Bretton Woods Conference, was a reaction to the economic depression prior to World War II. While the policies of WTO may be compatible with weak conditions for the achievement of sustainable development, or nearly so, its policies are not designed to satisfy strong conditions for sustainable development.

WTO adopted the position that policies on international trade and investment, especially national policies, should not be used to achieve environmental objectives. WTO prefers that such matters be solved by international multilateral agreements. Concerning the conversion of natural resources into man-made commodities, the WTO appears not to have elaborated its position. It has formed an Environment and Trade Committee but this committee appears to have made little progress with policy (Cole, 2000). Practically no reconciliation has occurred between the view of many environmentalists and the WTO as indicated by demonstrations at the WTO meeting in Seattle in late 1999.

The stated objective of the GATT/WTO is to "provide a secure and predictable international trading environment for the business community and a continuing process of trade liberalisation in which investments, job creation and trade can thrive."

The WTO is committed to expanding international trade and exchange in private goods. Hence, WTO's mandate imparts a bias to its outlook and policies. Together with other global institutions, including Bretton Woods organizations, its overall emphasis seems to be on expanding the supply of private goods. Consequently the supply of public or collective goods and public provision of social commodities and support for social security are liable to suffer.

The vision of such institutions has become globally entrenched with many regional and national institutions also supporting structural adjustment policies. Such policies tend to elevate the value of supplying private commodities above that of supplying public and collective commodities, and above the supply of public services to achieve an acceptable degree of social justice and equality of opportunity. Consequently, private sector interests have the appearance of being over-represented by the world's current international institutions.

The overall result is in accordance with Choudhury's perception that Western economics tends to exclude social justice from its analysis. He claims that "moral neutrality (ethical exogeneity) is pronounced in received economic doctrines of the entire Occidental vintage" and is critical of the pronounced severance in neoclassical economics of "social justice from the economic question of economic efficiency" (Choudhury, 1994, p.7). As a result of this dichotomy, the view prevails in Western economics that "social justice as distribution . . . becomes an important target of governments to promote, but not so the market economy" (Choudhury, 1994, p.8). In fact this may even be an overly generous interpretation of the outlook of orthodox economics when applied to the current situation since it seems to be almost exclusively concerned with questions of economic efficiency rather than social justice. Furthermore, national governments appear increasingly constrained by economic globalisation in instituting policies to promote greater social justice.

## **7. Concluding Comments**

While the process of globalisation has been evolving over the last few centuries, it has accelerated since World War II and particularly in the last three decades or so with rapid developments in information-intensive technologies and telecommunications. The process is partly influenced by technological and institutional factors and in turn, it has a reciprocal influence on technological change and on the nature of institutions. Elements both of circular causation (or as Hicks, 1980, p.9, suggests, reciprocal causation) and cumulative causation are present.

While neoclassical and mainstream economists, see economic globalisation as a beneficial process and wish to encourage it, as do leading international economic and financial institutions, such as the IMF and WTO, a significant body of critical thought has also emerged warning of the dangers and possible adverse side-effects of the process. Both views

supporting economic globalisation and those of its critics have been outlined above. There are few, if any, international institutions to represent the views of the critics, although the International Institute for Sustainable Development IISD, does do so to some extent, but with little impact (cf. Halle, 2000; von Moltke, 1999).

The leading international economic and financial institutions, such as the IMF, the World Bank and WTO have adopted policies to encourage the supply of private goods and have supported economic globalisation as a major stimulus to this supply. The evolving system has made it more difficult for national governments to supply social services (has virtually spelt the end of the welfare state), to meet the basic needs of their citizens and to provide social services in general. The overall result is worrying because no form of global governance has evolved as yet to free the international system of governance from excessive preoccupation with the supply of private commodities. Biases in the international system have crippled state provision of social services (cf. Choudhury, 1994, p.8) and may in the end spell global environmental disaster, for example as a result of an acceleration of the greenhouse effect. Economic globalisation or global capitalism has yet to be tamed (cf. Latham, 1998) so as to increase its social benefits and make it environmentally less threatening. Surprisingly few governments have been critical of the globalisation process. The Malaysian government, however, has been more critical of some of the processes involved in economic globalisation than most.

## References

- Choudhury, M. A. (1994) "The Epistemic-Ontic Circular Causation and Continuity Model of Socio-Scientific Reality: The Knowledge Premise", *International Journal of Social Economics*, **21**, 3-18.
- Clark, J. M. (1940) "Towards a Concept of Workable Competition", *American Economic Review*, **30**, 2441-256.
- Cole, M. A. (2000) *Trade Liberalisation, Economic Growth and the Environment*, Edward Elgar, Cheltenham, UK.
- Dawkins, P. and Kenyan, P. (1000) "Globalisation and Labour Markets: Implications for Australian Public Policy", *GLM Research Paper 2000/7*, Centre for Research on Globalisation and Labour Markets, University of Nottingham.

- Feenstra, R. C. (1998) "Integration of Trade and Disintegration of Production in the Global Economy", *Journal of Economic Perspectives*, **12**(4), 31-50.
- Halle, M. (2000) "Seattle and Sustainable Development", International Institute for Sustainable Development, Winnipeg. [http://www.wcit.org/Halle\\_Seattle\\_and\\_sd.htm](http://www.wcit.org/Halle_Seattle_and_sd.htm)
- Hicks, J. (1980) *Causality in Economics*, Australian National University Press, Canberra.
- Khan, A. R., Griffin, K., Riskin, C. and Zhao, Renwei (1993) "Sources of Income Inequality in Post-reform China", *China Economic Review*, **4**(1), 19-35.
- Krugman, P. (1996) *Pop Internationalism*, The MIT Press, Cambridge, Mass.
- Kuznets, S. (1955) "Economic Growth and Income Inequality", *American Economic Review*, **45**, 1-28.
- Lasalle, L., Svizzero, S. and Tisdell, C. (2001) "Diversity, Globalisation and Market Stability", *Economia Internazionale* (in press).
- Latham, M. (1998) *Civilising Global Capital: New Thinking for Australian Labor*, Allen and Unwin, St. Leonards, 1590, Australia.
- List, F. (1944) *Das Nationale System der Politischen Ökonomie*, Stuttgart.
- von Moltke, K. (1999) "Trade and the Environment: The Linkage and the Politics", International Institute for Sustainable Development, Winnipeg.
- Myrdal, G. (1956) *On International Economy: Problems and Prospects*, Routledge and Kegan Paul, London.
- Ricardo, D. (1817) *The Principles of Political Economy and Taxation*, J. Murray, London.
- Schumpeter, A. J. (1942) *Capitalism, Socialism and Democracy*, 2<sup>nd</sup> edition, Harper Brothers, New York.
- Selden, T. and Shang, D. (1995) "Environmental Quality and Development: Is There a Kuznets Curve for Air Pollution Emissions?", *Journal of Environmental Economics and Management*, **27**, 147-162.
- Shionoya, Y. (1997) *Schumpeter and the Idea of Social Science: A Metatheoretical Study*, Cambridge University Press, Cambridge.
- Slaughter, M. J. (1998) "International Trade and Labour-Market Outcomes: Results, Questions and Policy Options", *The Economic Journal*, **108**, 1452-1462.
- Smith, A. (1910) *The Wealth of Nations*, J. M. Dent & Sons, London, First published 1776.
- Stolper, W. F. and Samuelson, P. A. (1941) "Protection and Real wages", *Review of Economic Studies*, **9**, 58-74.
- Svizzero, S. And Tisdell, C. (2001) "Concepts of Competition in Theory and Practice", *Revista Internazionale di Scienze Economiche e Commerciali* (in press).

- Tisdell, C. A. (1999) "Diversity and Economics Evolution; Failure of Competitive Economic Systems", *Contemporary Economics Policy*, 17, 156-165.
- Tisdell, C. A. (2000) "Transactions Cost and Bounded Rationality Theory: Flawed and so Ignored in Public Policy", *Discussion Paper* No. 274, Department of Economics, The University of Queensland, Brisbane, 4072.
- Tisdell, C. A. (2001a) "Globalisation, the Environment and Sustainability: EKC, Neo-Malthusian Concerns and the WTO", *Economic Theory, Application and Issues*, Working Paper No.4, School of Economics, The University of Queensland, Brisbane, 4072.
- Tisdell, C. A. (2001b) "Schumpeter and the Dynamics of Capitalism: Industrial Development, Economic Evolution and Innovation". In S. B. Dahiya and V. Orati (editors) *Economic Theory in the Light of Schumpeter's Scientific Heritage*, Spellbound Books, Rohtak, India.
- Tisdell, C. and Svizzero, S. (2001) "Globalization, Social Welfare, Labor Markets and Fiscal Competition", *Economic Theory, Applications and Issues*, Working Paper, No.5, School of Economics, The University of Queensland, Brisbane, 4072 (forthcoming).
- Wen, J. J and Tisdell, C. A. (2001) *Tourism and China's Development: Policies, Regional Economic Growth and Ecotourism*, World Scientific, Singapore.

*ISSN 1444-8890*

*PREVIOUS WORKING PAPERS IN THE SERIES*

**ECONOMIC THEORY, APPLICATIONS AND ISSUES**

1. Externalities, Thresholds and the Marketing of New Aquacultural Products: Theory and Examples by Clem Tisdell, January 2001.
2. Concepts of Competition in Theory and Practice by Serge Svizzero and Clem Tisdell, February 2001.
3. Diversity, Globalisation and Market Stability by Laurence Laselle, Serge Svizzero and Clem Tisdell, February 2001.
4. Globalisation, the Environment and Sustainability: EKC, Neo-Malthusian Concerns and the WTO by Clem Tisdell, March 2001.
5. Globalization, Social Welfare, Labor Markets and Fiscal Competition by Clem Tisdell and Serge Svizzero, May 2001.
6. Competition and Evolution in Economics and Ecology Compared by Clem Tisdell, May 2001.