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FAR EASTERN RESPONSES TO GLOBALIZATION



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SUMMARY

The authors, all staff members of the Japan East and Southeast Asia Research Centre at the Institute for World Economics (JESARC), outline their views on the responses to globalization by some of the main role players in the Far East. The authors reflect their interpretations of globalization by employing various approaches in their analyses.

In Chapter 1, András Hernádi, senior research fellow and director of JESARC, shows how Japan, the region's biggest economy, has responded to the challenges of globalization in an international context. In his view, the main fields of reaction were in regionalism, management reforms, research and development, and foreign policy.

The author of Chapter 2, Zoltán Bassa, research fellow, illustrates through the cases of South Korea and Taiwan how smaller, export-oriented economies have sought and found the right answers, i.e. appropriate government policies and structural reforms.

In Chapters 3 and 4, Klára Mészáros, senior research fellow, and former Hungarian ambassador to the People's Republic of China, and András Székely-Doby, research fellow, have put, understandably, more emphasis on the problems related to the internal economies of China and India, respectively. In the world's two most populous, still less developed economies, the context and impacts of globalization have appeared in somewhat different ways, thus calling for and receiving less direct responses.

Chapter 5, by Annamária Artner, senior research fellow, gives an account of the criticisms of globalization made in Asia. She presents the thematic division of anti-globalization organizations and movements and the coordination among them, and shows that their mobilization capabilities are greater than their memberships would suggest.

1) JAPAN'S RESPONSES TO GLOBALIZATION

(András Hernádi)

Introduction

There is no need to define the term 'globalization' here in detail, as it has become one of the most frequent terms in present-day literature on the world economy. In the author's view, the two clearest signs of the process have been the inexorable worldwide advance of transnational corporations and the unquestionable rise of the United States to a position of military, technological, political and economic hegemony. As a consequence of these two factors or perhaps as a combination of them, the presence of American culture in its widest sense (i.e. in business and management techniques, life styles, fast-food restaurants, sporting activities, films, pop music, etc.) have proliferated on a global scale. Nevertheless, some basically different civilizations,¹ various international organizations and patriotic feelings in many nation-states have voiced strong criticism of this. By the end of the 1990s, such criticism had built up into an anti-globalization movement, globalizing, so to speak, the denial of globalization.

Even if this characterization is accepted, it remains crucial, in the author's view, to note that the process of globalization has been accompanied by one of open regionalization (in some cases only sub-regionalization) and determination by nation-states to retain and strengthen their

¹ The term 'civilization' is employed here in the sense used in Huntington, Samuel P (1996), *The clash of civilizations and the remaking of world order*. New York: Simon and Schuster.

identities. It will suffice here to refer to the deepening and enlargement of the European Union, and the enthusiastic attempts of some countries greater (China, Russia, France and Germany) and smaller (e.g. North Korea and Cuba) to assert their sovereignty. In fact, these accompanying features can be cited as partial explanations for the birth of the anti-globalization movement.

This chapter concentrates on where Japan finds itself in this international set-up. There is no doubt, Japan, with its deep-rooted traditions, belongs to a non-western civilization, and as an island state that chose to isolate itself from the world for two-and-a-half centuries up to 1868, may represent a special case among nation-states. At the same time, it has acted as a catalyst in the Far East, for historical and geographical reasons. Finally, the decade-long stagnation² in its economy makes it even more tempting to investigate its responses to the challenges of globalization. However, this chapter omits to deal with many aspects of its transformation and reforms, which are more concerned with its domestic economy.

Japan's primary response: back to trilateralism

Up to the late 1980s and the early 1990s, politicians and economists alike would speak of a multipolar (or most often tripolar) world, in which Japan, along with its East and Southeast Asian sphere of interest, represented one of the poles. The 1997–8 financial crisis³ seems to have given a fatal

² For a detailed treatment of the 'lost decade', see Hernádi, András (2001), *Crisis or transformation? Japan viewed from Hungary*. In: Hernádi, András, and Makoto Taniguchi, *Japan and Asia in a new global age*. Working Papers series 114. Budapest: Institute for World Economics of the Hungarian Academy of Sciences.

³ The author, unlike many analysts and journalists, cannot accept the term 'Asian' crisis. China and India have hardly been influenced in their growth rates or the stability of their currencies. Only Thailand, Indonesia, Malaysia, the Philippines and Korea have been seriously hit.

blow to terms like the East Asian miracle⁴, often associated with the fast period of growth in the countries of the region. The figures suggest that the share of these countries in Japan's total trade grew in the 1990s by about 10 percentage points – from 30 to 40 per cent. At first glance, it looked as if Japan had compensated itself for its loss of weight in the world economy, resulting from the negligible rates of growth in its GDP. However, the partner countries could place steadily decreasing reliance on the Japanese market: the share of the East Asian NICs' exports destined for Japan fell from 11 to 8 per cent, and of the four major ASEAN countries' from 23 to 16 per cent. Japan's share in their imports also declined, from 23 to 18 per cent and 26 to 22 per cent respectively.⁵ A similar trend appeared in their FDI inflows, with Japan's share easing from the 25–40 per cent range to 7–25 per cent.⁶

This also reflects the coming of age of these countries and diversification of their systems of international relations, and could well give them better chances of extending regional cooperation. Almost all regional schemes of cooperation in the area (ASEAN, APEC, EAEC and PECC) have performed less well than expected. Japan may try to strengthen its regional position and the position of the region in the world economy by building up a system of bilateral free-trade agreements (FTAs).⁷ In this respect, it may be helpful for Japan that dialogue among ASEAN+3 (China, Korea and Japan) has intensified and China's huge market has been brought into the international economic system through its membership of the WTO.

As things stand, Japan has managed to conclude an FTA only with Singapore.⁸ Much remains to be done with Korea, Malaysia, the Philippines, Thailand, Mexico, Chile, Canada and Australia, mainly due to strong opposition from some Japanese farmers. Nevertheless, they too will have to come to terms with the idea if they want, on a national level, to give Japanese products and services better market access. FTAs based on a principle of mutuality serve Japan's interests by imposing foreign competition on Japanese businesses, so enhancing rivalry at home and with counterparts in third countries.

Reinstatement of closer ties with East and Southeast Asian countries, especially China, should also give new momentum to Japan's economy. The strategy of escaping outwards, however, deserves attention not just in the case of Japan. It may equally be one of the global engines, having remained in neutral gear for quite a while. If Japan, through its regional activity, succeeds in giving a new impetus to the third pole in the world economy, the whole international community may benefit. This seems increasingly realistic in view of current and forecast growth rates in these countries (reckoning also with the effects of SARS).⁹

Finally, it is also interesting to note that no matter how hard Japan tries to retain its longstanding priority for internationalization, tradition-keeping and patriotism are constant forces in everyday life. The latest debate on revising the basic education law, for example, centred on whether the phrase

⁴ E.g. *The East Asian miracle: economic growth and public policy* (1993). Washington DC: The World Bank, Policy Research Department.

⁵ Author's calculations based on *Direction of Trade Annual* (IMF), various issues.

⁶ Author's calculations based on *World Investment Directory, Asia and the Pacific* (UN), various volumes.

⁷ For a recent summary of Japan's regionalizing activities, see Hook, Glenn D (2003), *Japan in Regionalisms*. Social Science Japan, May, pp. 24–7.

⁸ Although concluded in January 2002, the agreement came into force only in November. It took only a few months for the United States then to sign a similar treaty with Singapore, the first between the United States and an Asian country. As both economic superpowers aim to extend their FTAs to ASEAN, their officials make no secret out of their intention of using such agreements to offset the present and future impact of China's trade offensive in the region. See, for instance, *Delays on FTAs could cost Japan*, *The Nikkei Weekly*, May 19, 2003, p. 18; *Engaging the US with trade*, *Far Eastern Economic Review*, May 22, 2003, pp. 18–19.

⁹ See, for instance, *The Economist* poll of forecasters, *The Economist*, May 3, 2003, p. 98.

'love of the country' should be changed to 'patriotism'.¹⁰ The same tendencies appear in the increasing stress on the importance of the nation. Observers believe 'globalization is a game in which stronger nations prevail while weaker ones lose. Globalization means intensified competition among nations, rather than diminished national borders and sovereignty. That is different from internationalization.'¹¹ Policy-makers have also started to incorporate such views in some government documents and reports. Yet reassuringly, these comments and propositions are not designed to foment nationalism, but rather to call for enhancement of the country's international competitiveness. The *Nikkei Weekly* has pointed out in an editorial that 'the alarmist talk indicates how Japan has so far avoided truly facing the relentless forces of economic globalization, despite all the heated debates on the effects of globalization in the past several years.'¹² In an interview in the same issue, Hiroshi Okuda, chairman of Toyota Motor, pointed a finger when saying what should be done to help Japan turn out more creative products and technologies: 'The education system must be changed. When mass production was the norm in the economy, it was enough to produce workers who were more or less like machines. But from now on, we need an education system that nurtures creativity in our children.'¹³

¹⁰ Nishida Mutsumi (2003), Time ripe to review basic education law. *The Nikkei Weekly*, May 12.

¹¹ Ishizuka, Masahiko (2003), Nationalistic sentiment staging comeback, *Ibid.*, May 5.

¹² Creativity essential in global competition (2002). *Ibid.*, January 14.

¹³ Absence of fighting spirit, creativity failing economy. *Ibid.* Although not in so essential a field, a young Japanese, Takeru Kobayashi won fame by setting world hot dog-eating records in 2001 and 2002. Kobayashi, weighing less than 60 kg before the competition, ate 50½ hot dogs in 12 minutes. The runner up, a 200-kg New Yorker, managed only 26. *The Economist*, July 13, 2002, p. 42.

Management reforms: from macro to micro level

Former Prime Minister Yoshiro Mori said in his inauguration speech, 'The system and the ways of thinking which for 50 years have supported Japan's astonishing development have now become inappropriate for the world we live in.' Junichiro Koizumi, who took over a year later, used the word 'reform' almost 40 times in his inaugural speech. Even if it was unclear what he specifically intended to reform, the agenda was set by a decade of reformist talk in the Japanese media: deregulation, an end to lifetime employment, unwinding of cross-shareholdings, and pay and promotion on merit, not seniority.¹⁴

At present, the Japanese are in no mood for preserving institutions out of any sense of being 'Asiatic'. For most people, being 'Asiatic' is seen as a kind of backwardness that contrasts starkly with American modernity.¹⁵ There seems to be a pendulum movement. American management methods were considered supreme all over the world up to the late 1960s. Then up to the middle of the 1980s, the yardstick was Japanese (perhaps even 'Asiatic') management. Now it is the turn of American methods again.

Koizumi appointed as deregulation minister Nobuteru Ishihara, the son of a reformist governor of Tokyo.¹⁶ Ishihara has given special attention to better use of Japanese technology. On a number of occasions, he has noticed and addressed the fact that Japanese technological innovations work more efficiently abroad, free from the ex-

¹⁴ This is pointed out in Dore, Ronald (2002), Will global capitalism be Anglo-Saxon capitalism? *Asian Business and Management* 1:1, p. 15.

¹⁵ *Ibid.*, p. 17.

¹⁶ The father, Shintaro Ishihara, claimed in an election speech in April 2003, 'Because the central government does nothing, the metropolitan government will have to act.' Quoted in *The Nikkei Weekly*, April 21, 2003.

cessive regulations in Japan.¹⁷ But deregulation in a wider sense became a catchword for reformist politicians, economists and business people during the ‘lost decade’, and administrative restrictions (non-tariff barriers) have long been blamed at home and abroad. This chapter cannot cover the innumerable measures proposed or introduced (wholly or half-heartedly) to reform the Japanese banking and financial system, but it is instructive to look at some of the changes affecting management at corporate level.

The first to mention is the 2002 amendment of the Commercial Code, which was designed to make the board of directors the key to ensuring the efficacy of governance and give outside directors (at least three of them) a crucial role on the board.¹⁸ All members of the board were to have free access to information. One of the famous corporations to have applied the new system was Sony, which even appointed a foreigner, Carlos Ghosn, the renowned ‘borrowed-from-Renault’ president of Nissan Motor Co., as one of its outside directors.¹⁹ It appears that Japanese companies have started to shift

¹⁷ See, for instance, *Set our gizmos free* (2003). *The Economist*, May 24, p. 55.

¹⁸ This change, along with new accounting regulations, was aimed at increasing the trust of foreign investors in the soundness or intended soundness of Japanese corporations. Japanese business people often blame China’s huge capacity to absorb capital for diverting foreign interests from Japan. The number of Japanese working for foreign firms operating in Japan has just passed one million, or 2.3 per cent of the workforce. ‘In general, foreign firms in Japan attract people whose talents are either under-rewarded or allowed to waste away in local companies. That applies especially to women... despite high education levels are in much less rewarding white-collar jobs than their western counterparts’ *The Economist*, October 26, 2002, p. 64.

¹⁹ Tatsuya Tamura (2003), *Disciplining companies with the rules of capitalism*. *Focus Japan*, January-February, pp. 10–11; Goto, Michio (2003), *Sony forges ahead on board reform*. *The Nikkei Weekly*, May 5, p. 10. An even more striking breakthrough happened in the Japanese Diet on February 8, 2002, when Marutei Tsurunen of the opposition Democratic Party took his place in the upper house, becoming the first person from a Western country to sit in the Japanese legislature. (Finnish-born, he was naturalized in 1979.) *Far Eastern Economic Review*, February 21, 2002, p. 13.

from stakeholder to shareholder-oriented management, imitating once again their American counterparts. Another new trend is to appoint younger, 45 to 55-year-old executives as president-cum-chief executives, as if to reflect a change from seniority to performance-based promotion.²⁰

As a rule, though, ‘the country’s national character of shying away from radical change’ is apparent, so that ‘drastic reforms would be too much for the Japanese people to deal with and the only possible course was slow and gradual change.’²¹ Another expert on corporate strategy has suggested that ‘Japan must move beyond just quality competition to competing on strategy and innovation. Japanese companies will need to develop distinctive strategies that result in superior, sustainable profitability. In order to do so, incremental improvements in best practice will not be enough. Genuine innovation not only in products but also in approaches to competing will be required. As shown in earlier periods of transition, if mind-sets change, Japan has the capacity to move rapidly. A new national movement of no less significance than the quality movement is needed.’²²

IT and R & D

By the end of the 1990s, Japanese politicians and experts were well aware that Japan’s technological strength was ebbing. Some even spoke of a crisis: ‘The deathly damage suffered by Japanese companies lies in the fact that they are not competitive in the fields of information and communication technology, which create the bases of the next industrial revolution.’²³ If it is consid-

²⁰ *Younger managers rising to the top* (2003). *The Nikkei Weekly*, April 28, p. 10.

²¹ Miyamoto, Noriyoshi (2002), *Benefits and limitations of Japanese-style management*. *The Japan Economic Review*, December 15, p. 6.

²² Takeuchi, Hirotaka (2003), *Yes, Japan can change*. *Focus Japan*, March, pp. 10–11.

²³ Atsuro, Kokubo (1999), *Gijutsu taikoku Nippon no*

ered that the term 'crisis' in Japanese combines the characters for 'danger' and 'opportunity', it becomes apparent why it is spoken of so often. Calling attention to a danger necessarily emphasizes the problem-solving opportunities it presents.

Countless economic and political analyses have stated that one of the main factors behind Japan's post-war economic success was the introduction and spread of technologies. Support for R&D has long been a crucial element of economic policy, but as the growth rate slowed in the 1990s, the funds available started to diminish, although the GDP share of R&D expenditures remained about 3 per cent, which was consistently higher than in competing countries. Even in absolute terms, only the United States managed greater R&D expenditures (about double), while Germany's were about a third of Japan's at the end of the decade. Furthermore, More of Japan's R&D spending was on efficient private and non-military projects, which went some way to compensate for a smaller budget than the American one in absolute terms. (The share of private sector R&D expenditure in Japan in 2000 was 77.9 per cent, as opposed to 66.8 per cent in the United States in 1999.)²⁴ Japan's international position in 2001 in the installation of industrial robots was still remarkable: more than a third of the world total (28,300 out of 78,100), with a stock of 361,000, which was still almost half of the world's.²⁵ In IT, Japanese spending jumped in 2001 from 3.9 per cent to 4.4 per cent of GDP, but remained lower than the proportion of 5.2 per cent in the EU and 5.3 per cent in the United States.²⁶

In 1995, the government devised a long-term development plan designed to turn Japan into a scientific and technological powerhouse. It allocated for R&D the

equivalent of about USD 150 billion a year up to 2000, and about USD 200 billion a year through to 2005. Although signs of catching up or keeping pace with American and European rivals appeared, there were criticisms of the programme from academics and the media, arguing that state-of-the-art devices were being purchased at great expense, but other factors, such as training in using the equipment properly, were lagging behind. Universities on government funding were said to lose interest in corporate ties and funding: 'It is time for the national government to shift from its conventional method of scattering technological development projects throughout an industry to one that focuses on particular companies through competitive bids to nurture global players,' wrote one paper. 'The business start-up rate from 1999 through 2001 was 3.1 per cent, about half the level of the 1970s and lower than the 4.5 per cent liquidation rate... The government must establish a system to fund start-ups.'²⁷

The government has in fact outlined a plan for a thousand venture-capital firms, in which universities would join forces with private business. Schemes have recently been announced by the Osaka, Keio, Tokyo, Waseda and Hokkaido universities. The Development Bank of Japan has invested in campus-based start-ups, and analysts now believe the financial backing for the government's target is in place.²⁸ Another move towards IT development has been the attraction of growing numbers of foreign systems engineers, mainly from other parts of Asia. This too has received support from a government plan that envisages increasing the number of foreign IT experts in the country from the present few thousand to 30,000 over a period of years.²⁹

kiki. Voice, October.

²⁴ R&D. Weekly Window (2002). The Nikkei Weekly, December 31, 2001–January 7, p. 17.

²⁵ Robots (2002). The Economist, October 26, p. 104.

²⁶ IT in Japan: Watching the world scroll by (2003). Ibid., April 19, p. 55.

²⁷ Goto, Yasuhiro (2003), No high road to R & D power status. The Nikkei Weekly, May 19, p. 7.

²⁸ Academia warms to idea of tying up with business (2003). Ibid., March 10, pp. 1–19; High tech abandoning ivory tower (2003). Ibid., April 7, p. 11.

²⁹ Imports of systems engineers on rise (2002). Ibid., September 30, p. 9.

In a country with among the longest of life expectancies, it has been considered a waste of human resources for professors and researchers to retire at the age of 63. Although a number of methods have been applied to get round this regulation (the simplest being to change one's full-time job for another, usually part-time one, or to accept contract assignments, honorary posts, etc. in Japan or abroad), a real change will have to come from legislation. This need has been felt and even anticipated by the University of Tokyo, which decided to change its retirement age from 60 to 65. But instead of implementing the new rule right away, it is raising it by one year every three years, so phasing in the process over 15 years.³⁰

Changes are slow, but they continue, in the field of e-government as well. Domestic internet access in 2002, at just over 40 per cent, was fourth among the G7 countries after the United States, Canada, and Britain. Use of e-government services in 2001, at somewhat less than 20 per cent, was one from last, behind only Britain's share of about 10 per cent.³¹ Japanese anxieties about possible leakage of databases or the chance of national-identity numbers straying elsewhere are among the factors making a breakthrough difficult in this respect.³²

The Ministry of Economy, Trade and Industry, in a two-pronged approach of encouraging both innovation and good corporate governance, has raised an initial allocation equivalent to USD 1 million to almost 25 times as much for fostering a more entrepreneurial spirit in research laboratories. Electronics firms such as Hitachi, Matsushita, Fujitsu and NEC are sending chief engineers and heads of R&D heads on 'management of technology (MOT)' courses,

considered as MBA courses for engineers to brush up business skills.³³

The international arena and war in Iraq: limited responses and responsibilities

Bad times often bring to the fore differences of opinion in international affairs. France and Germany showed opposition to the US plans to wage war on Iraq, mainly for domestic reasons, while the opposition of China and Russia had more to do with their global power positions. As the relatively short military campaign gave way to political and economic reconstruction in Iraq, it became apparent that there were some shifts in US foreign relations. France, and to a lesser degree Germany, still face coolness. Qatar is enjoying approval rather than Saudi Arabia, while Poland and NATO applicant Romania may play new roles based on their strategic positions and lower cost levels. China has sought to make up for its attitude over the war by mediating in US-North Korean talks and sending out a special Middle-East envoy to discuss the 'road map' with Israeli and Palestine politicians.

Japan, the foremost US ally in Asia, received an indirect boost when Prime Minister Junichiro Koizumi visited Tony Blair in London. His warm welcome can be explained by the Japanese prime minister's active support for the US intervention in Iraq and his firmness on another 'bad boy' in international affairs, North Korea. (South Korea, incidentally, has offered to send non-combat forces for reconstruction work in Iraq.) The Japanese reassurances, like the offer of USD 100 million for emergency humanitarian aid and financial assistance to help rebuild Iraq, seem to have worked well politically for Koizumi, at a time of domestic economic difficulties. (Japan's USD 450 billion are by far the world's biggest official foreign-currency reserves and the offer was

³⁰ Kruger, David (2003), Past their use-by dates. *Far Eastern Economic Review*, May 23, pp. 32-4.

³¹ E-government: No thanks, we prefer shopping (2003). *The Economist*, January 4, p. 29.

³² There's always someone looking at you – and the people don't like it (2002). *Ibid.*, August 10, p. 47.

³³ Japanese innovation: redesigned (2003). *Ibid.*, June 14, p. 70.

within its capabilities.)³⁴ It should also be remembered that current Japanese law precludes sending self-defence force (SDF) personnel without consent from the receiving country.³⁵

Responses to SARS and computer viruses

When SARS (severe atypical respiration syndrome) appeared, it was soon being described as an 'Asian disease'. Although the epidemic started in China, the term was inappropriate. For instance, only one of the more than 1 billion inhabitants of India had contracted SARS by the end of April 2003. Japan (population almost 130 million) had the same number of cases – two – as Sweden (population 9 million), which was fewer than Germany, Britain, France or Italy.

In a country like Japan, long associated with non-tariff barriers, administrative immigration controls at international airports are no surprise to foreign visitors. This may be why Japan was able to keep SARS carriers at bay, along with the high standard of medical services and general compliance with sanitary and hygiene regulations.

Nevertheless, Japan's estimated losses through SARS have been quite high. Any additional uncertainty in a period of persistent economic stagnation has a multiplying impact. The war in Iraq restrained the Japanese from going abroad, but the SARS news and the recommendations made issued by various official forums have made many Japanese to cut their travel plans for this year's Golden Week. At the same time, foreigners cancelled a great number of air tickets and hotel room reservations for Japan. Inward

tourism, having surpassed 5 million for the first time in 2002, will have fallen back in 2003, and the number of Japanese travelling abroad is expected to be more than 14 million, after 18 million in 2000 and 16.2 million in 2001 (affected by the September 11 attack).³⁶

The slowdown in tourism receipts (and expenditures) will affect GDP in 2003 by only 0.01 percentage points smaller, hardly altering the estimated growth rate of 0.8 per cent. But severe competition will continue in various segments of the Japanese market, as consumers with per capita incomes equivalent to over USD 30,000 are at stake. Japanese consumers are famous for their enthusiasm for new, foreign (preferably American and Western European) products,³⁷ even if they already have equivalent consumer durables in the home. In 2002, almost 100 per cent of such households had washing machines, colour television sets, vacuum cleaners and refrigerators, over 80 per cent microwave ovens, air conditioners, cars and video recorders, and almost 80 per cent mobile phones. With PCs, however, the market is divided. Almost 85 per cent of households with an annual income equivalent to USD 100,000 have PCs, but only 25 per cent of those with incomes below the equivalent of USD 25,000 level, giving a national average of slightly over one household in two.³⁸

Perhaps the fullest advantage of the PC revolution in Japan has been enjoyed by computer viruses, for 24,000 infections were registered by the IT Promotion Agency of the Ministry of Economy, Trade and Industry in 2000. (Since 1990, PC owners in Japan have to report virus infections.) Businesses specialized on computer security suc-

³⁴ Official reserves (2003). *Ibid.*, March 24, p. 99.

³⁵ None of the three defense bills passed by the Lower House of the Japanese Diet on May 15, 2003, has made any proposal to change the law in this respect. One bill addressed the response to armed aggression, another revised the existing law governing the SDF, and the third concerned the establishment of a national security council in the event of an emergency. (*The Nikkei Weekly*, May 19, 2003, p. 2.)

³⁶ Figures are from the Japan National Tourist Association quoted in *The Nikkei Weekly*, April 29, 2002, p. 17; May 6, 2002, p. 17; and February 10, 2003, p. 17.

³⁷ For a detailed, area-related analysis of new Japanese products, see Hernádi, András (2000), *Japan's positions in the international technological competition*. Budapest: Institute for World Economics, mimeo (in Hungarian.)

³⁸ Figures from the Cabinet Office quoted in *The Nikkei Weekly*, May 13, 2002, p. 17.

cessfully cut the figure to 20,350 by 2002 and the proportion of damaging infections fell to 8 per cent, compared with 80 per cent in 1998.³⁹ As if to supplement market competition, the Japanese government plans to scare away virus launchers and other cyber-criminals by setting up a new legal framework. For the time being, they can face a prison sentence of up to three years.⁴⁰

Concluding words

It can be seen that Japan still excels in adapting to change, even if present slower growth rates slow its reactions to outside challengers. The increasing presence of foreigners and international influences give reforms otherwise difficult to introduce greater acceptability in a tradition-conscious society, especially if they are gradual rather than sudden.

2) SOUTH KOREA AND TAIWAN FACE THE CHALLENGES OF GLOBALIZATION

(Zoltán Bassa)

Introduction

South Korea and Taiwan have been widely regarded as successes, due to their export-led growth, high savings and investment rates, and good education policies. The South Korean economy was severely hit by the financial turmoil of 1997, although the impact on Taiwan was milder, where a negative growth rate in 2001 occurred for

different reasons. While strong criticism of local economic policies and structures have suddenly been appearing, globalization has also been advanced as an explanation for the 1997–8 crisis and subsequent situation. The definition of globalization is also debated. In this chapter, it is understood as an acceleration of international trade and capital flows (the latter at a higher pace) with the transnationals as engines, coupled with neo-liberal ideology and policies focused on liberalizing trade, investment and finances, imposing restrictive policies, and conducting privatization. With structural economic reforms, most governments in the world favour the Anglo-Saxon model of capitalism and globalization.

South Korea

In 1997–8, South Korea experienced a financial shock that spread through its whole economy. The wide impact was also due to government policy of introducing IMF-inspired restrictive measures, including high interest rates that drove many companies into insolvency and caused mass redundancies. The positive consequences of this policy were debated as well. The exchange rate was stabilized, but only after a steep fall. The current account showed a surplus in 1998, but the reason was a sharp decline in imports, rather than any increase in exports. Globalization in the sense of neo-liberal policies has come to dominate in South Korea. In fact, most local commentators and people in general called this the ‘IMF era’, although the South Korean president agreed to the measures and the government executed them in conjunction with IMF-appointed foreign staff in some ministries.

This approach was abandoned in May 1998 with the consent of the IMF, but it is understood as a form of globalization challenge. There are several reasons for the relatively soft approach taken by the IMF. First, it was facing tough opposition from trade unions and from local company owners and managers, pursuing workers’ interests and

³⁹ Figures from the IT Promotion Agency quoted in *The Nikkei Weekly*, March 24, 2003, p. 17.

⁴⁰ *Ibid.*

nationalist sentiments. There came to be criticism of the experts even inside the IMF and the World Bank. Secondly, South Korea is not a Third World country, but a middle-ranking global economic power with OECD membership and ambitious, able diplomats. Thirdly, possible political (not just economic) turmoil would have destabilized the whole Korean peninsula, which was already insecure because of North Korea. Thus this dimension of globalization was curbed by local and regional interests.

Structural reforms, rather than shock therapy, became the focus of policy in the second half of 1998, once again with IMF support. From the viewpoint of globalization, an important structural reform was the 1998 liberalization of FDI and portfolio investment. Foreign investors took advantage of this and of the fact that many local firms had become cheap enough to buy. The years 1998–2000 saw an unprecedented wave of FDI in the financial and manufacturing sectors and portfolio investment also rose. Nowadays, foreign investors own 36 per cent by value of the equity quoted on the main stock exchange, compared with 15 per cent before the crisis.⁴¹

However, foreign investors were unable to buy whole company groups, because of their size, structural complexity and rigid systems of family control. What they occasionally did was to buy group members (Daewoo Motors went to GM, Samsung Motors to Renault, and Samsung's construction equipment company to Volvo) or start joint ventures (Philips and LG). Apart from providing a welcome capital injection, such deals helped to maintain or develop the global marketing of South Korean products, or offered technological tie-ups. In most cases, foreign capital chose companies already present on the global market. The targets for investment were Korean transnationals with or without financial difficulties, but definitely with previous good records in marketing, design or other fields. For even

before the crisis, South Korea was strongly integrated into the world economy through manufacturing exports. Globalization here does not open new markets so much as impact on ownership structures and management practices.

The South Korean manufacturing sector is far from being bought up entirely by foreigners. The most capital in value terms has gone into the services sector (including financial services). Consolidation of several large commercial banks has been financed out of the public purse through nationalization, but in other cases, foreign capital has been injected instead.⁴² Later, foreign investors acquired shares in the nationalized banks as well. This was the biggest symbolic breakthrough with globalization, as foreign capital had traditionally been absent from the banking sector. New foreign firms and local affiliates were started in financial and business services as well, where South Korean companies are inexperienced or uncompetitive. Greenfield investment has been more usual in the services, as local managers do not favour having a foreign stake in their firms, especially in finance. Many foreign firms have bought non-performing loans at deep discounts, with an aggregate face value of some USD 9.13 billion. Korean debt brokers began to appear in 1999, as a response to the globalization of finance encouraged by the government through tax and investment incentives.⁴³ This exemplifies South Korean management and officialdom trying to reap the benefits of globalization, rather than setting out alternative policies designed to avert its impact. Nationalism, local capital, entrepreneurship and ability to learn new trades are major ways in which local South Korean businesses are benefiting from globalization.

Steps were taken during the crisis to liberalize trade further. The most important was to remove some barriers to imports of

⁴¹ Survey Korea (2003), *The Economist*, April 19, p. 10.

⁴² There was a relatively good basis for this, as foreign debts (in bank hands) had been rescheduled by early 1998, with funding and consent from the IMF, in exchange for the policy measures mentioned earlier.

⁴³ *Far Eastern Economic Review*, May 8, 2003, p. 43.

Japanese goods and services, so that Japan overtook the United States as the biggest source of imports in 2000. Total exports rose by 22.7 per cent in USD terms between 1998 and 2002, while imports increased by 61.3 per cent, which gradually eroded the trade and current-account surpluses of 1998. It would be tempting to cite this against the trade liberalization inherent in globalization, but a similar pattern of higher growth for imports than for exports antedates the crisis, while imports (and domestic demand) started from very low levels in 1998. South Korean firms still depend on imports of capital goods to the same extent as before the crisis.

The large company groups known as chaebol have come under pressure to streamline their activities, push down their debt-to-equity ratios to 200 per cent, diminish cross-financing inside company groups, and strengthen shareholders' rights.⁴⁴ These requirements are modelled on Anglo-Saxon capitalism and show the influence of the US-dominated IMF and other global institutions. It has to be noted that most South Korean decision-makers have earned their PhDs in the United States, from where they return in growing numbers. Japan, the original model of South Korean capitalism, retains only a skeleton of its influence in several spheres.

Privatization is also part of the reform package. A plan was made during the crisis to privatize almost all major firms, that were wholly state-owned, mainly the utilities, steel-makers and heavy industrial companies, Korea Telecom, and the tobacco and ginseng monopolies. By early 2003, several had been privatized and foreign firms allowed to buy in. The electric power and gas utilities have yet to be privatized, due to strong opposition from workers.

⁴⁴ By 2002, the largest chaebols had been split (Daewoo and Hyundai) and/or had reduced the number of their affiliates (many of which went bankrupt before any measures were taken.) It took four years for the three largest groups to reduce their debt-to-equity ratios to around 200 per cent. Intra-group financial activities and shareholder relations change less quickly.

South Korea is not simply moved or shaken by globalization. It is also a mover and shaker of global trends through its transnational companies, usually chaebols. FDI by them fell back in 1998–9, but recovered in 2000. The successors of those that were broken up have continued to invest abroad since finalizing their restructuring processes in 2001–2. The focus now is on China, as a market growing much faster than either the United States or European countries and offering low wages and high profitability. In fact, the biggest US and European affiliates of Korean firms were showing losses by 2001 or 2002. The focus of investment is on manufacturing (headed by electronics and telecom equipment) and trade. Unlike foreign direct investors from more developed countries, Korean firms seldom perform mergers or make acquisitions.

South Korea's ambitions to become a regional centre

One response to globalization that has appeared recently in South Korean decision-making circles is an aspiration to make the country a business, financial, logistics, high-tech or information hub in North East Asia. It is a reasonable idea to strengthen the role of the non-manufacturing sector, for South Korea has already lost competitiveness to China and other developing countries in non-high-tech sectors. The arguments for becoming an information hub are also well grounded, as the well-developed information networks make the country 'the third largest internet-using population in the world,'⁴⁵ containing the world's largest maker of mobile phones (Samsung), which conducts sizeable R&D into application technologies for IT. South Korea's geographical location is also favourably close to China, Japan and Russia with '43 major Asian cities with populations of at least one million within a three-hour radius of

⁴⁵ Korean Business Review, April 2003, p. 10.

Seoul.⁴⁶ A new airport has recently opened near Seoul and high-speed trains are to run from Seoul to various cities from 2004. In terms of ports and tankers, there is no bottleneck to the country's aspirations. There are more difficulties with the ambitions to become a financial centre. The stock exchange in Seoul is rated as mediocre in the Far East. Investors' confidence is vulnerable and evaporates easily when there is any threat from North Korea or from local financial scandals. Reform of the financial sector has created conditions for a wider range of companies in financial services, but the process has only just started. The government idea of connecting the regional-hub strategy with sub-regional cooperation in North East Asia is far from new, but earlier efforts proved unsuccessful. The North Korean leadership does not want to open up. China, Japan and Russia would be more interested in taking part in sub-regional cooperation if North-South relations on the Korean peninsula improved. In the event, there was a two-year halt after the promising summit meeting in June 2000.

Taiwan

The financial crisis that affected some countries in the region so deeply did not have a significant impact on Taiwan's macroeconomic situation. The growth rate fell only slightly, from 6.7 per cent in 1997 to 4.6 per cent in 1998.⁴⁷ Exports were hit, but domestic investment and consumption increased. The currency devaluation and fall in the stock market were less severe than in South Korea. What were the reasons? First and most importantly, Taiwan did not have weak points to make it vulnerable to a sudden change in financial flows. The country had huge foreign currency reserves (based

on continuous current-account surpluses over several years) and virtually no foreign debt. Parallel with financial liberalization, the state retained considerable controls and regulation over capital flows. This made it difficult for banks to raise credit abroad, which the state itself also avoided doing. Secondly, the microeconomic structures have provided a shield against over-investment and short-sighted speculation. Ties between banks and firms were weaker than in South Korea, so that there was no similar spurt of risky lending. The propensity to accumulate foreign debt was also limited by the smaller importance and power of company groups.

Taiwan's development was based on small and medium-sized firms, rather than huge company groups. Whereas South Korea has capitalized on economies of scale in a fairly low number of export products, the economist C.Y. Ahn argues that Taiwan's SMEs have found markets for a wider range of products in smaller quantities,⁴⁸ which makes them less vulnerable to changes in world market prices. All in all, Taiwan was better placed to face the challenge of financial globalization than South Korea was.

Interestingly, the slump that started in the United States has had a bigger impact on Taiwan than on South Korea. GDP growth rate in 2001 slipped to a negative 2.2 per cent, as against an average annual increase of over 5 per cent in the 1998–2000 period. The strongest negative factor was exports. While both countries rely on IT demand in the United States (and elsewhere), companies in Taiwan are more tied to US companies through original equipment manufacturing (OEM) contracts, so that they can be more strongly affected by changes in the US economy. Japan was also unable to boost Taiwanese exports due to the sluggishness of its economy. Over-capacity in manufacturing was not wiped out as it was in South Korea in 1998, so that, domestic capital in-

⁴⁶ Kim, K. Korea's potential to become a regional hub (2002). *The Hankook Ilbo*, November 14. Reprinted in *Korea Focus*, January-February 2003, p. 30.

⁴⁷ Taiwan's macroeconomic data are taken from the country's official source: www.stat.gov.tw.

⁴⁸ Ahn, C. Y. (2001), A search for robust East Asian development models after the financial crisis: mutual learning from East Asian experiences. *Journal of Asian Economics*, No. 12, pp. 419–43.

vestment fell in 2001 as well as 2002, when real GDP growth returned to a positive 3.1 per cent.

Although the currency rate and the stock market index fell more than in any other country in the region during the 2001 recession, there was no talk of a financial crisis, more of a trade-related slump. The government's policy reflected this in reducing interest rates 11 times – quite the opposite of what South Korea did. However, domestic non-performing loans made banks reluctant to lend, which further depressed investment. Policy-makers in Taiwan regard FDI outflow as an increasingly dangerous development, which contributes to the fall in domestic investment and possibly employment too.

As for FDI inflows and international finances, Taiwan did not face up to the challenge of globalization to the extent that South Korea did. There was no such pressure for structural reforms from abroad, because there was no financial crisis like the South Korean one. Furthermore, Taiwan is still no member of the OECD, which leaves it some scope for maintaining capital controls. Unlike South Korea, it has been relatively isolated in terms of membership in international organizations. This makes problems for Taiwanese leaders, but also gives some limited protection from increasingly globalized policies and rules. However, the influence of global financial institutions (along with Taiwanese leaders' aspirations to join them) and the need to consolidate the weakened banks and financial institutions have persuaded the government to make financial reforms since 2000. Although these are not dramatic, their resemblance to those in South Korea shows that the global and Far Eastern trend of financial liberalization and deregulation cause Taiwan to follow in the same direction. Banks are allowed to enter into new types of financial business and the scope for securities firms has increased. Mergers between financial institutions and the formation of financial holding companies are also encouraged by new regulations. Some state monopolies are affected by the ongoing privatization.

Since the World Trade Organization is a hallmark of globalization, probably, the most recent challenge of globalization is Taiwan's membership of WTO since 2002. Politically, this is a success for Taiwan, allowing it to break out of its isolation, despite the efforts of the People's Republic of China. De jure Taiwan joined the organization under the names of several islands forming an 'independent economic unit', but de facto it became a member at the same time as the People's Republic did.

The agricultural sector faces the biggest challenge from WTO membership. Products like rice, corn, soybean and fruits, as well as pork and poultry, will face strong foreign competition, because tariff rates have to be reduced and non-tariff barriers removed. The Taiwanese authorities are allowed to apply tariff quotas to 22 agricultural products, including rice, but they have to be abolished by 2006. The government is calling for a restructuring in agriculture, including a cut in production of less competitive products, upgrading the efficiency of farms, encouraging farmers to set aside land or switch to other uses, and improving sales distribution and promotion. These policies include encouraging small farmers to move towards larger-scale production, for instance by forming cooperatives. For industrial products, average nominal tariff rates have to be reduced from 6.15 per cent in 2002 to 4.31 per cent by 2006. For 286 industrial products, tariffs have to be reduced to zero. The most protected industry, road-vehicle manufacturing, will face the removal of trade restrictions (high import tariffs). Tobacco, wine and beer production, which are state monopolies, will be deregulated. More competitive industrial goods, such as electronics and textiles will benefit from trade liberalization, while automobiles and motor cycles will experience strong competition from foreign makers. The opening of the government procurement market will be a challenge, for instance, for the heavy electronic engineering industry. The answer from the government to these challenges includes WTO-consistent anti-dumping and other safeguard measures,

providing WTO-consistent financial incentives to companies, such as tax breaks on R & D, and promotion of e-commerce to revitalize the industrial sector. The services sector will see the weakest impact of joining, as they are mainly more liberalized than WTO standards require.⁴⁹ The most important changes are liberalization of portfolio investment and the easier access by foreign banks and securities firms to the Taiwanese market.

Although both Taiwan and the People's Republic of China are members of the WTO, bilateral restrictions have not been removed. Since the two countries do not recognize each other, there can be no dispute settlement between them in the WTO. So the WTO is not acting as a means of liberalizing their bilateral trade relations, although Taiwan and the People's Republic are seizing negotiating opportunities within the WTO framework. Regardless of this strange situation, Taiwan's trade and investment relations with mainland China are becoming stronger and stronger. Liberalizing the restrictions is done gradually on a bilateral basis.

Conclusions

There is no doubt that South Korea and Taiwan have faced the challenges of globalization in recent years. Policy-makers generally follow the trend of global liberalization and deregulation, but seek responses that defend their countries from the worst effects of globalization. South Korea, less isolated as Taiwan, aims to become a regional business hub, profiting in various ways from the accelerated international movement of capital and services. Taiwan has to rely on sober and effective domestic economic policies as some measure of defence against global economic uncertainties.

⁴⁹ Liu, Da-Nien (2002), Taiwan and the WTO. Lecture to the seminar 'Taiwan's Experience and Development', organized by International Cooperation Development Fund, Taiwan, April 25.

3) GLOBALIZATION THROUGH REFORMS: CHINA AT THE TURN OF THE MILLENNIUM

(Klára Mészáros)

Introduction

A huge country like China, opening its markets only gradually, feels the negative impacts of globalization far less than the smaller, more open economies considered in the previous chapter. Having obtained WTO membership in December 2001, the People's Republic of China has also begun the processes of liberalization that lead to globalization. However, China puts maximum effort into furthering its interests as a great power. Its protectionist approach is therefore likely to remain and China will become a winner rather than a loser by globalization.

The process of globalization is kept alive by free movement of the factors of production. Capital liberalization and the dismantling of trade barriers have been progressing fast, but the movement of the third factor, labour, remains strongly constrained. The will to retain restrictions on labour movement appears mainly in the context of migration among nation-states, although there have been examples of hindrances to internal migration as well. Human rights and the positive concomitants of globalization will remain curtailed until such barriers to internal and external labour movements are removed.

China is becoming increasingly exposed to globalization and dependent on it, but China itself is simultaneously helping to cause and feeling the effect of the process. Its responses to globalization can best be seen through its policies on the problems threatening sustainable development, such as overpopulation, short food supplies, environmental damage, urbanization, social

insensitivity, migration, nationalism and security.

Economic policies: goals and achievements

The accomplishments of the policy of 'reform and opening' prove that the aims and methods formulated more than two decades ago – in what the Chinese call a 'socialist market economy with Chinese characteristics' – were well founded. The 'three-stage development strategy' was introduced by Deng Xiaoping. The first stage lasted from 1981 to 1990, when Chinese GNP per capita doubled to the equivalent of USD 500 and basic food supplies for the country were secured in a self-sufficient fashion. In the second stage (1991–2000), the aim was to increase GNP to the equivalent of USD 800–1000 per capita. Figures drawn from a survey conducted in 94 countries by the World Bank indicated that China's GNP was USD 490 per capita in 1995, placing it 73rd among the countries surveyed. The same sum calculated at purchasing power parity (PPP), however, was USD 2330, which ranked China 63rd. By 2000, GNP had almost doubled to USD 840 per capita and it reached USD 970 in 2002.⁵⁰ The plans for the third stage envisage per capita GNP reaching USD 4000 in the next 30–50 years. If this is attained, China will have changed from a developing country into one at a medium level of development, even according to its self-definition.⁵¹

China, in pursuing its policy of opening up to the outside world had to face the fact that some degree of liberalization could not be avoided and social and economic changes would entail some loosening of ideological control. Four priorities have been formulated since the turn of the millennium, emphasising the establishment of small and

medium-size private firms, the transformation of the big state-owned enterprises (SOEs), establishment of a new monetary system, and development of the legislative and judicial system required for a market economy.

China's macroeconomic achievements have been truly remarkable. It has succeeded in consolidating its growth rate at a high level while avoiding possible negative effects through overheating. The budget deficit at present amounts to 3 per cent of GDP, and only 16 per cent of GDP is controlled by central government. China has the highest savings rate in the world, reaching about 40 per cent of the GDP over the last five years. Reserves were at USD 158 billion in 2000⁵² and grew to USD 286.4 billion by the end of 2002, while net debt amounted to USD 170 billion in mid-2002.⁵³ In this year, the sum of foreign investment in China surpassed the foreign investment in the United States for the first time ever. Foreign investors have been investing an average of USD 40–45 billion a year in China in recent years. At the peak, by the end of 2002, foreign investment reached USD 52.7 billion. China today is the fourth biggest industrial producer of the world, with an industrial growth rate of around 12 per cent a year. Apart from its traditional labour-intensive goods, China exports more and more complex products, whose quality is also improving. Exports of Chinese hi-tech products are increasing: in the first six months of 2002, 47 per cent of exported Chinese goods were of this type (even if the concept of definition is somewhat vague.) However, labour productivity is still rather low, at 4 per cent and 5 per cent of that of an American or German colleague, respectively.

⁵² Statistical communiqué of the PRC on the 2002 National Economic and Social Development (2003). Beijing: National Bureau of Development of China, February 28, pp. 2–3.

⁵³ Summary of the report on the implementation of the 1999 Plan for National Economic and Social Development and on the draft 2000 plan (2000). China Economic News No. 4, pp. 6–9.

⁵⁰ Lan Xinzhen (2003), No losers in race for development. *Beijing Review*, April 10, p. 21.

⁵¹ The third step of the development strategy (2000). *China Economic News*, No. 8, pp. 1–2.

During the 1996–2000 period, average annual economic growth rate was 8.3 per cent. Measures of economic policy started to have a positive effect on the economic overheating in 1996. GDP growth, which had regularly surpassed 9 per cent, had consolidated by 2000 at around 8 per cent and 8 per cent was the rate in 2002 as well. After a short setback of 0.2–0.9 percentage points, the still exceptionally high growth rate is expected to increase again, so long as the outbreak of SARS and its negative effects on the economy do not continue for a critical length of time. China still seems to have plenty of reserves, as the national product in 2002 reached USD 1289 billion (at current rates). Inflation peaked at 8.3 per cent in 1996, after which came a spectacular decrease to not more than 1.4 per cent in 2000. Retail sales grew by 8.9 per cent, while the consumer price index declined by 0.2 per cent in 2002. The effects of last autumn's governmental price rises in public utilities, the rapid rise in real-estate prices, and the stability of the price index all indicate that there remain certain deflationary factors in the economy.

Deflation in China is being accompanied by rapid economic growth. The main reason of the deflation is the swiftly expanding supply of goods, coupled with excessive investment, in fact caused by inefficient distribution of resources. The inadequate structure of the outstanding loans made by state-owned banks was one consequence of the misuse and bad allocation of resources during the great upsurge of investment in the 1990s. The great rise in production capacity was caused by a number of factors. The open-door policy had paved the way for an influx of modern technologies from abroad. Another contribution came from the abundant supply of labour for industry. Labour reserves in agriculture provide an important condition for speedy industrialization, while also keeping wages depressed. The over-capacity was partly caused also by the upsurge in investment that began early in the 1990s, in which decisions were not always made according to market principles. The state-run and coop-

erative companies, armed with cheap loans, would tend to maximize volume of production rather than profits. Deflation in China's case means that the growth rate of aggregate demand lags behind that of production capacity. The long-lasting decrease in prices in China has a number of causes:

- * Technological innovation and increasing productivity make production costs lower, which leads to a fall in prices.
- * Improving technology and management, increasing investments, expanding companies and growing production capacities provide an abundant supply of goods.
- * Insecurity among consumers caused by structural reforms, joins with low agricultural incomes to decrease consumer demands.

The solution to the problems of deflation would be to redirect some of the high household savings to consumption and narrow the gap between cities and countryside. To realize this, however, the central government would have to allocate much greater resources to development of backward regions.

The main sources of development in the first twenty years of the reform process were accumulation, investment and export-oriented production. After 1998, supplementary resources were sought. Consumption on the internal market, increased exports and infrastructural investment became important elements of economic strategy. The policy of expanding the internal market demand is based on an extraordinarily high savings rate among the Chinese. However, internal demand is still stagnating and measures to revive demand have not brought great success. No significant changes can be expected without reforming the system and the supply side. The volume of deposits of the population grew by 14.7 per cent in 2001 and 16 per cent to August 2002, which indicates that the surplus income of the population did not contribute to the growth of consumption. The savings reached USD 756 billion in March 2000 and 963 billion in August 2002, which

amounts to almost three-quarters of the country's GDP.

Structural problems

The sectors of the Chinese economy are undergoing rearrangement in accordance with the development priorities. These changes in the relative weights of agriculture, industry and the services, are following the trends in the world economy, although somewhat lagging behind. Between 2001 and 2002, the proportion of the first sector fell from 17.6 per cent to 14.5 per cent, while the second rose from 49.1 per cent to 51.7 per cent, and the third also increased, from 33.3 per cent to 33.7 per cent.⁵⁴ The expansion of services is still continuing.⁵⁵

What the world admires in China is its economic growth and the way it is coping with structural problems. The macroeconomic data indicate that the stability of the system has allowed the country to preserve its 'socialist market economy with Chinese characteristics' – maintaining centralized management and planning and combining it with market mechanisms has been a spectacular success. The bases for continued development have been laid in the main sectors of the economy. But in spite of these great successes, the development is ill-balanced and China is more vulnerable politically and economically than its economic accomplishments might suggest. For the structural weaknesses in the economy turn out to be worse than forecast. Unemployment will rise if the rate of growth falls below 6 per cent. Moreover, no one had expected the rapid development of the economy would be threatened by an epidemic such as the SARS outbreak in 2003 – that a collapse of the Chinese medical system would prove to be the Achilles' heel, reveal-

ing acute problems in Chinese society. For 90 per cent of the staff treating patients in the Chinese medical infrastructure have no university qualifications. In critical situations, therefore, administrative measures work much better than medical treatment.

The reforms have incorporated into the system a number of factors that directly or indirectly threaten social stability. The most important is the wide and persistent dispersion of development levels within the country, which will take a long period of economic prosperity to resolve. The tensions between the various strata and classes of society and growing uncertainty of livelihood are leading to mounting discontent. Rates of unemployment and poverty are increasing. The tensions caused by the transformation process form the most unpredictable aspect of China's future.

The imbalances of the economy are related closely to problems of social and human resources. Deng Xiaoping's reforms undermined social achievements that had secured a basic livelihood for everyone, albeit at a low level. The chance of getting rich produced a process of polarization in Chinese society, widening the gap between rich and poor and engendering a middle class not known before in the region. By 2005, China will have 200 million middle-income consumers. A recent study by the Chinese Academy of Social Sciences put the middle class at 15 per cent of the working population. Trade minister Long Yongtu calculated that 400–500 million Chinese would enjoy middle-income status by 2011. The middle class would be a big winner from economic growth.⁵⁶

It is not easy to cope with the distress of losing a lifelong job and the abolition of the 'iron rice bowl' for a society that grew up on the egalitarian principles of Mao Zedong. The losers by the market economy can hardly accept the growing economic differentiation or the individualized version

⁵⁴ Statistical communiqué of the People's Republic of China on the 2002 National Economic and Social Development (2003). China Economic News, Supplement No. 3, February 28.

⁵⁵ China Statistical Yearbook 2000. Beijing, p. 56.

⁵⁶ The domestic political challenge (2002). Deutsche Bank Research (China Special), September 27, pp. 6–7.

of 'self-sufficiency'. Efforts to attain self-sufficiency were constant elements in the Mao era, and this dogma, in an altered form, still constitutes a mobilizing force. This affected agriculture on a political level in the 1980s and 1990s and contributed to the abandonment of the individual in society. Unemployment, an ineffective welfare net and rising corruption are all factors that amplify the sense of danger felt by the public. Several phenomena characteristic of the period before the People's Republic are re-
 viving:

- * As the gap between rich and poor widens, 50.2 per cent of wealth is concentrated in the hands of the richest quintile of the population, while the poorest quintile owns only 4.3 per cent. It was revealed in 1998 that 80.6 per cent of the population were dissatisfied with the growing rich-poor divide. Surveys suggest that the idea of people getting wealthy legally was widely ridiculed, and 87 per cent of society expressed considerable concern about the social situation.
- * Unemployment and crime are increasing.
- * There is a revival of clan-type organizations that threaten traditional voluntary organizations and weaken control in the countryside.
- * The black economy is expanding as the triads emerge.
- * Infiltration of officialdom by the underworld leaves the population increasingly defenceless in smaller communities.
- * There are higher risks of social disorder – crime, disruptive religious and other sects, etc. – as unemployment and migration spiral.

These and other factors increase the tensions and problems within society. The quality of life is also threatened by factors such as environmental damage and depletion of natural resources:

- * Air pollution is ten times higher than in American cities. Evaluation of the danger and measures to reduce it are impossible

for lack of protective and measuring devices.

- * Desiccation and desertification are occurring.
- * Urbanization and soil erosion are decreasing the area under cultivation at a rate of 0.5 per cent a year.
- * Estimates put the cost of environmental damage in China at 15 per cent of GDP.
- * Natural disasters, such as flooding of the Yangtze, occur frequently, cause general environmental and social damage.
- * These developments lead to secondary dangers such as reduction in grain supplies, increased internal migration, mounting violence against city functionaries and the wealthy, etc.⁵⁷

Human resources

The hindrance to healthy development in present-day China is not the political system. The biggest destabilizing factor is the tension caused by inevitable social transformation, although the government has so far had success in handling it. Nonetheless, it remains questionable how long the relative equilibrium can be maintained. The least predictable aspect is the reaction of the 'human resources', which can be grouped around two factors: employment and social polarization.

1) Employment in China in 2002 was 737.4 million.⁵⁸ Rising unemployment is the problem most difficult for Chinese society to handle. One of the main economic difficulties is the huge volume of debt owed by SOEs. Structural reform was initiated but remains incomplete. The three-year deadline for the transformation process announced in

⁵⁷ Xiandaihua de xianjing. Dangdai Zhongguo de jingji shehui wenti (1988). Beijing.

⁵⁸ Statistical Communiqué of the PRC on the 2002 National Economic and Social Development (2003). China Economic Development, March 31, p. 2.

1997 was later extended for another three years. It was designed to reduce the size and number of loss-producing SOEs. As a consequence, over 50,000 factories closed and many surviving ones had to dismiss workers. Only a quarter of the SOEs today operate in industry. The rest are involved in services such as wholesaling, transportation and finance. By 2000, the non-state sector had come to account for 50.9 per cent of industrial output. State ownership and control over the economy continues to decline.

One of the toughest conditions for WTO membership was the requirement of abolishing central subsidies to SOEs. The appearance of foreign investors in China has intensified competition, so that many Chinese businesses can only compete if they receive state subsidies. Most have already been placed under so-called corporate management with the participation of external investors. According to Chinese plans, 33 per cent of companies can be owned by foreign investors for the time being, but in the first three years of WTO membership, the proportion is allowed to reach 49 per cent. The conversion, however, proceeds very slowly. Despite every effort, the central government has not yet found the optimum way to convert loss-producing enterprises into profit-motivated companies with real owners. Partial sales through the stock market have turned out to be a failure.

The government intends to retain 100 per cent ownership only in a limited number of SOEs of cardinal importance to the economy. A decision by the Chinese Communist Party in September 1999 recommended retaining a government role in (1) sectors vital for national security, (2) natural resources, (3) industries essential to public consumption and services, and (4) industries associated with high and other new technologies. (Deciding which areas belong here is usually a result of political, rather than professional compromise, however.)

The reforms have cost millions of workers their jobs and will do the same to further millions in the future. No definite unemployment rate can be given, because it

is unclear who qualifies as unemployed, but independent analysts estimate it at around 15 per cent. Rationalization of the SOEs involved 36 million workers between 1995 and 2001, i.e. 34 per cent of all employees.

In 2001, the rate of registered unemployment in the cities reached 4.5 per cent, as compared with 3.1 per cent in the previous year. At the end of 2002, Minister of Labour Zhang Zhang put the urban unemployment rate at 3.6 per cent (7.25 million people), alongside which there were 6 million xiagang (laid-off workers). There are also known to be people who do not actually work, but receive some support from their previous employer. The lack of job security among employees of the SOEs reduces consumer confidence and increases the savings rate. According to official figures, about a quarter of the SOE labour force – 26.11 million workers – have been laid off in the last four years. Forecasts of unemployment by 2006 are as high as 20 million, compared with 6.8 million today. (A survey by the Asian Development Bank mentions 37 million urban poor, or 12 per cent of the urban population.) So the urban unemployment rate is estimated currently at 7–10 per cent, but may grow to 15 per cent in the near future. The number of those registered unemployed and those living below the poverty line who receive a minimum subsistence allowance was 2.8 million in 1999 and 20 million in 2002. The reform of the welfare system, aimed at curbing government subsidies, attempts to shift some of the burdens onto households. The high unemployment and the insufficiencies of the welfare net increase the sense of insecurity among the population. The central government is aware of the mounting social tensions. The influence of the communist party has been strengthened, but the growing numbers of demonstrations and strikes indicates that dissatisfaction and tension are still rising. There have been several large protests and many smaller demonstrations recently, some of them violent. These have been handled cautiously by the security forces, with concessions and few arrests, in an attempt to reduce the risk of local events developing

into larger or nationwide protests. News blackouts have been placed on many local conflicts for the same reason. As authorities usually seal protest sites immediately, little becomes known about the nature of these movements.⁵⁹ The growing number of arbitration proceedings at work places (23,000 cases in 1995, 120,000 in 1999 and almost 200,000 in 2002) also indicates that tensions are increasing.⁶⁰

The market reforms have sharpened social conflicts between labour on the one hand and enterprise management, local officials and the state on the other. A more restive Chinese working class is emerging, as shown by a massive eruption of collective action over the last two decades or more. Such labour conflict also takes new forms due to the Chinese government's efforts to institutionalise conflict resolution.⁶¹

According to the World Bank, China will need to create 100 million new jobs in the ten years from 2001, to soak up unemployment and absorb the school leavers and migrant workers. The gravity of the situation is shown by the fact that one of the major subjects at the 16th Party Congress in November 2002 was strengthening of the private sector, which it was hoped would lead to job creation.

The number of those made redundant who find new employment is decreasing. In 1998, 42 per cent were able to find new work, but by the first half of 2001, the proportion was down to 9 per cent. China can create 8 million jobs a year if it achieves 7 per cent growth. This is far behind the demand for 20 million new jobs a year for the next four years, as a result of 150 million surplus rural workers, 12–13 million annual additions to the workforce, 6.8 million unemployed at the end of 2001, and SOE

lay-offs of some 5 million a year. The two classes of losers by this are rural workers and SOE employees.

2) The social polarization in China includes a widening rural-urban gap in income and standard of living, coupled with problems of food supplies and self-sufficiency.

Today 70 per cent of the population still lives in the countryside. By the 1990s, the Chinese peasantry had ceased to be a homogenous class. It is divided into a number of strata, from those cultivating land on a contract basis and workers in collective village enterprises to private entrepreneurs. The widening price gap between agricultural and industrial products and the rising taxes help to increase the burden on the agricultural population. Insufficient land and the great surplus of manpower mean that peasants have always striven to diversify their sources of income to make a living. The need of security is also the reason why peasants hold on to their land.

The inequalities between the urban and rural areas affect the majority of the population in a negative way, by limiting the consumption of the rural population. In 2002, the per capita income of city-dwellers (RMB 7.703, about USD 930) was more than three times higher than that of the 700 million villagers (RMB 2.476, USD 299).⁶² Between 1996 and 2002, the average income increased by 4.3 per cent a year in the countryside and 7.6 per cent in the cities, which meant the income gap was widening further. Among the factors impeding the rural population from catching up is the underdeveloped infrastructure in the countryside. The number of migrant workers from the countryside in Chinese cities is constantly growing. The rural-urban divide is one of the critical lines of friction in China. Large-scale labour migration is one of the most important developments during the two decades of reform. By the mid-1990s, 80–100 million people were work-

⁵⁹ The domestic political challenge..., p. 7.

⁶⁰ Murphy, David (2002), Nothing more to lose. *Far Eastern Economic Review*, November 7, pp. 30–33.

⁶¹ Ching Kwan Lee (2000), Pathways of labour insurgency. In: Perry, Elizabeth J., and Mark Selden, eds., *Chinese Society*. London/New York: Routledge, pp. 41–59.

⁶² Statistical Communiqué of the PRC in the 2002 National Economic and Social Development (2003). *China Economic News*, No. 3, March 31, p. 6.

ing or living far from their place of permanent domicile. The division by rural-urban residence is no longer clear-cut, but Chinese society by and large can still be divided into 'agricultural' and 'non-agricultural' segments. Labour migrants from rural areas are not uniform. Three main occupational groups can be distinguished:

- * The largest group in the major cities consists of unskilled or semi-skilled young male construction workers, organized in teams along native-place lines.
- * A major group consists of industrial workers, not only in the large cities, but in industrialized parts of the countryside. Young migrant women predominate in some industries, such as textiles and electronics.
- * Self-employed migrants working in small enterprises and households include pedlars, traders operating market stalls or counters in shops, garbage collectors, domestic workers, subcontractors of agricultural land on city outskirts, etc.⁶³

Those from the countryside usually find low-paid or seasonal work. The poverty rate among them is 1.5 times higher than among urban workers. Most migrants do not respect the registration regulations (*hukou*) that oblige them to apply for permits from local authorities. This illegality of status makes migrants vulnerable to low wages, unlimited overtime work, inhuman treatment and working conditions, and constant fear of expulsion. The conditions of those employed legally are not much better, as they are burdened in smaller and larger cities by various levies and taxes. Males aged 18–40 make up 80 per cent of these workers.

Employers prefer migrant workers to local ones, as they require lower wages and no social insurance or other benefits need be paid. Nonetheless, migrant workers are still better off than those who stay behind in the

countryside, as they can get jobs and earn much higher wages. They usually send most of their income home and retain their land-holdings there. However, from the agricultural point of view, it is detrimental that this money tends to be invested in house-building rather than farming.

The number of unregistered workers and underemployed peasants is estimated even officially at 120–150 million. The rural sector of this total is likely to be the largest. Already, about 80 million of the 150 million estimated surplus workers in the rural sector are travelling elsewhere in the country looking for work. Given that agricultural prices in China are higher than world-market prices, farmers' incomes are likely to fall, so that more rural people migrate to urban areas. Adding in the 150 million surplus rural workers, the number of unemployed in China can be put at 190–200 million – 29 per cent of those of active age.

According to Chinese statistics, the number of city-dwellers living below the poverty line was 20 million in 2002. This, even by the Chinese definition, means that this number of people is short of food and clothing. The number living in absolute poverty in the countryside is around 28 million, while 60 million there have succeeded in emerging from poverty, although they face a constant threat of falling back into poverty at any time.⁶⁴ The greatest, though not the only danger of social explosion is the increase in unemployment. Intense commercialization of land, labour and produce, rapid urbanization, vast construction projects and public works, and rural industrialization are accompanied by weak market norms, a rudimentary legal and tax regime, pliant environmental monitoring, and a political system that often ignores or suppresses social grievances, rather than responding to them. The situation is worsened by environmental degradation, associated economic and health costs, excessive and sometimes illegal taxes imposed by local

⁶³ Mallee, Hein (2002), Migration, *hukou*, and resistance in reform China. In: Perry and Selden, eds. (2000), pp. 83–101.

⁶⁴ Lan Xinzhen (2003), No Losers in Race for Development. In: Beijing Review, April 10, p. 21.

cadres, widespread official corruption, failures to fulfil contract obligations, and widespread official confiscation of collective rural land, for resale by governments and developers at astronomical profits. This is in spite of the system of leasing land to farmers, who then have latitude to conduct profitable farming with less intervention from local party officials.

The economic weight of agriculture, which was the main engine of development at the beginning of the reforms, is steadily decreasing. Its productivity is declining due to exhaustion of its extensive reserves. There has been no widespread turn to capital-intensive farming for lack of capital. Grain plays a major role in feeding the country, but grain production has increased from 435 million t in 1991 to 457 million tons ten years later, while the population has risen by more than 160 million.⁶⁵ China depends increasingly on grain imports. WTO membership also contributes to the vulnerability of Chinese agriculture. The production costs of agriculture and food industry are higher in China than the world market prices, but WTO regulations demand that subsidies cease. As a result of trade liberalization, Chinese peasants will face global agricultural corporations defenceless and unprepared.

Serious problems occur at village level, as the communist party has not shown itself capable of addressing effectively local-level corruption and abuse of power. A law on rural land use was passed in August 2002 to solve some of these problems, but it is too early to estimate its effectiveness.

Observing the unrest in the villages, the abuses that cause conflicts can be divided into five categories:

- * Land-related cases: 40 per cent of complaints lodged in 2002 related to land disputes.⁶⁶
- * Unofficial taxation.
- * Problems related to administration.
- * Business-related problems.
- * Abuse of power by cadres.⁶⁷

The growing diversity of the social classes brings increasing income inequality that generates resentment. The Gini coefficient climbed from 0.389 to 0.397 over the 1995–9 period, according to the China Investigation Report of May 2002. In rural areas in 15 provinces, the Gini coefficient is between 0.3 and 0.4, whereas internal party documents suggest that a Gini coefficient of 0.4 is the danger line for social resentment. A recent internal party document revealed that 59 per cent of workers and staff complained that the status of workers had declined in China.⁶⁸

The precondition for social and economic stability in China is success with the present reform of SOEs and the welfare aspects of this. Structural transformation and improvement of educational attainment and training are expected to further the programmes for creating jobs. This is related to the rapid urbanization, which is partly spontaneous and partly controlled. It is hoped that China will reach a 55 per cent urbanization rate by 2020, which will reduce the proportion of the agricultural population to 30–35 per cent.⁶⁹ According to the Xinhua news agency, 1.3 million ha of cultivated land will fall victim to the urbanization process in the next ten years, which means that 12 million peasants will lose their source of livelihood.⁷⁰

⁶⁵ Statistical Communiqué of the PRC on the 2001 (2002). China Economic News, Supplement No. 4, April 15; Statistical Communiqué of the PRC on the 2002 National Economic and Social Development (2003). China Economic News, Supplement No. 3., March 31, p. 2.

⁶⁶ Jiang Xueqin (2002), *Stealing the Land*. Far Eastern Economic Review, February 7, pp. 56–9.

⁶⁷ Zweig, David (2000), *The 'externalities of development'*. In: Perry and Selden eds (2000), pp. 120–42.

⁶⁸ *The domestic political challenge...*, p. 7.

⁶⁹ Lan Xinzhen, *No losers in race for development* (2003). Beijing Review, April 10, p. 1.

⁷⁰ Jiang Xueqin (2002), *Stealing the land*. Far Eastern

The majority of welfare programmes still concentrated in 2002 on the backward regions of the country. The aim is to narrow the gaps, with the main priority is development of the agriculture and infrastructure of rural regions. The least developed is the Western Region, whose backwardness is indicated by the development target: the main aim is to have asphalted roads linking every county with the provincial capital, and to have an electricity system, at least in the cities.

Chinese workforce remains one of the cheapest in Asia. While internal migration and rising unemployment generate serious tension in society, China's competitiveness is greatly improved by the large quantity of cheap, relatively well-trained labour, which will remain available for a long time. This gives China a big comparative advantage on the world market. Thanks to the labour force, it will be possible to maintain the export-oriented strategy that has been contributing to the success of the reforms.

4) THE INDIAN ECONOMY IN A GLOBALIZING WORLD

(András Székely-Doby)

INTRODUCTION

The events in the world economy in the last few years have been somewhat disturbing. South-East Asia was hit by a monetary crisis in 1997–8 that sent shock waves as far as other continents. It became clear that the international monetary system had many weaknesses and trust in the omnipotence of the market was eroded. The new millennium brought a recession in the United States,

ending the longest known period of peacetime prosperity. The initial momentum of the IT revolution diminished, investments shrank, and NASDAQ fell by nearly 70 per cent. Although the 'new economy' did not disappear (in fact its returns seem quite significant), companies reacted to the recession with other strategies than investing in new equipment. The economic problems were worsened by the 9/11 terrorist attacks, and although direct effects were not economically significant, the psychological influences remain to this day. Many had been waiting for a change in the leading position in the world economy, expecting a decelerating American 'locomotive' to be overtaken by a European one. This did not happen, and the stagnant Japanese economy failed to gain momentum either.

On the other hand, some other regions have performed well in recent years despite the unfavourable overall circumstances, among them Hungary (with some other Central and Eastern European countries) and the world's two most populous countries: China and India. The economies of both the last two countries are relatively closed, so that they were able to defend themselves effectively from the shocks of 1998 and the subsequent worldwide recession. This chapter sets out to show how India has responded to the challenges of globalization and changes in the world economy, how these changes have shaped its performance, and how the sudden breakdown of the IT revolution influenced the two most dynamic sectors: computer services and software industry.

The performance of the economy

Changes in India have usually taken place very slowly, over decades or even centuries. The traditional sector plays a major role in the economy even today, and the so-called unorganized sector provides 60 per cent of national income.⁷¹ Household industry and

agriculture (together more than a quarter of GDP) are still integral parts of the traditional Indian lifestyle, and changes in the villages are almost imperceptible. It is very difficult to measure employment or unemployment, because so much of the labour force works in the unorganized sector. A survey in 2002/3 shows that the active labour force contained 363 million people, of whom 26 million were unemployed, i.e. the unemployment rate exceeded 7 per cent, as opposed to a 1993 figure of 6 per cent. (Figures in the mid 1980s were higher, at around 8 per cent.) Meanwhile 57 per cent of the employed work in agriculture, 25 per cent in the services, and only 18 per cent in industry. The number of state and central government employees in 2000 was 19 million.⁷²

The struggle against hunger in recent decades has been quite successful. The rate of chronically hungry in the country fell from 12 to 6 per thousand, and in the cities from 7 to 2 per thousand. The figures for seasonal hunger show similar patterns, falling from 26 to 19 per thousand in the country and from 6 to 4 per thousand in the cities. Several government programmes have been launched to fight poverty, including the Water Supply Programme and the Rural Infrastructure Development Fund.⁷³ For centuries, poverty in India has been seen side by side with unlimited wealth in the hands of the elite in power. The situation changed a little after independence, when the fabulous treasures of the maharajahs came into the hands of the government. At the same time, prosperity was spreading and more and more families were reaching a solid middle-class level. Today there are more than 200 million Indians living in European-style prosperity.

The reform process that began in 1991 brought a gradual liberalization of the ex-

ternal sector. Foreign capital slowly began to flow in and foreign trade revived. The liberalization opened up new possibilities in finance and consumption for middle-class households. Following the British traditions of training the elite, higher education remains an important source of replacement for higher officials, but the tens of thousands of technical graduates each year make India increasingly successful in the global economy. In addition, many students study abroad, in prestigious British or American universities. Some return home after graduation, but the majority stay abroad in a wide range of well-paid jobs. Indian engineers, mathematicians, physicists and IT experts can be found in the forefront all over the world, so that they form an important reservoir of human resources. The two sectors taking most advantage of this and responding best to the accelerating processes of globalization in recent decades have been computers and software services, which are the fastest growing industries in the country.

The Indian economy in the first half of the 1990s was growing at about 7 per cent a year, which gave rise to enthusiastic forecasts of poverty being defeated and modernization promoted. Other observers thought that the rate of change would be temporary and the speed of transformation (the spread of the market economy) would fall back, especially if setbacks in the United States reduced worldwide growth prospects. India's growth rate duly declined to 5–6 per cent a year in the second half of the 1990s, when effects of the South-East Asian financial crisis could be seen in its macroeconomic aggregates, although India was less affected than other countries in the region. Since then, the situation has stabilized, real growth was 6.1 per cent in fiscal 1999/2000, 4.4 per cent in 2000/2001, and 5.6 per cent in 2001/2, the first year of worldwide recession. According to the latest survey, in 2002/3 real growth rate will be 4.4 per cent. At the beginning of the 1990s, inflation was relatively high and threatening to disrupt the whole economy. Hectic changes in agricultural prices took the annual inflation rate up to 14 per cent in one

port, 1999-2000. New Delhi: Oxford University Press.

⁷² Economic Survey 2002-03, <http://indiabudget.nic.in/es2002-03>

⁷³ Economic Survey 2002-03.

year. By the end of the decade, inflationary pressures had been relieved. Since then, neither the producer nor the consumer price index has risen by more than 5 per cent a year – they were 4.4 and 3.2 per cent respectively in 2002/3. Interest rates, on the other hand, are still high. The central-bank discount rate is 6.25 per cent, which is significantly higher than in the advanced economies. Low inflation and high interest rates mean high real rates of interest, so that the exchange rate of the rupee has been strengthening and now stands at a firm 46–48 to the USD. Private savings are still high. Households save 22 per cent of their income, more than half in financial deposits. Spending habits differ from Western patterns, more than half the income going on basic needs: food, beverages and tobacco.⁷⁴

Favourable prospects and relatively high interest rates have created an attractive environment for foreign capital. Although inflows were reduced after the events of 1998, they returned to the pre-crisis level of USD 10 billion a year by 2000 and have remained in that region since. The latest figure is USD 10.4 billion dollars in fiscal 2001/2, of which FDI accounted for almost USD 4 billion and portfolio investments for USD 2 billion. The relative weights of these two have been changing, as portfolio investment still exceeded FDI at the beginning of the decade. There had been no significant FDI inflows at all at the start of the liberalization process (just USD 129 million in 1991/2), while portfolio investments exceeded USD 4 billion. Since then, the trend has reversed, with FDI inflows surpassing those of portfolio investment by 2002. But the international capital account shows another interesting feature: the importance of international inward transfers. Although the capital inflows are still not considerable in absolute terms or compared with the size of India, the results are quite impressive for a period of slightly more than ten years. To make a regional comparison, the most attractive East and South-East Asian country for investors in

2001, after Japan, was China (USD 46.8 billion). Both Singapore and Thailand performed better than India in absolute terms (USD 8.6 and 3.8 billion respectively), but India was ahead of Indonesia and Korea.⁷⁵

The government has no doubts about the benefits of the capital inflows and takes every opportunity to maintain and promote the process. The Vajpayee government has liberalized further, allowing among other things 100 per cent foreign ownership in the infrastructure and majority ownership in the banking sector, while taking the first steps to liberalize the tea sector. It has introduced important incentives for foreign companies applying new technologies, intended as a spur to technology transfer, by improving royalty and license-fee conditions significantly. These measures at the same time reduce budget revenue, which hinders reduction of the country's mounting deficit. It is commonplace, that the promised fiscal rigour was only an election slogan by the moderately nationalist, centre-right coalition to maximize votes. From their point of view, however, the roots of the huge budget deficit can be traced to the liabilities of the previous cabinet. These long-term burdens do not allow any significant cut in expenditure. Interest payments, defence expenditures and government subsidies between them amount to more than 60 per cent of the overall spending. The Indian army, with a strength of over a million, is one of the biggest in the world. India has also developed a nuclear capability, which brings serious dangers into any further conflict with its likewise nuclear neighbour Pakistan. Though tensions in the last year have seemingly reduced, the defence budget has been growing steadily. In 2001, it totalled USD 12 billion, which was 3 per cent of GDP.⁷⁶

While capital inflows were growing, the country had its first current-account surplus for 23 years, with revenues exceed-

⁷⁴ Economic Survey 2002-03.

⁷⁵ Economic Survey 2002-03.

⁷⁶ SIPRI,
http://projects.sipri.org/milex/mex_major_spenders.html

ing expenditures by USD 1.4 billion at the end of fiscal 2002. Post-war India had committed itself to an autarkic policy of import substitution, but reforms in 1991 put the economy on a new development path towards market capitalism. Trade was partially liberalized and demand from the burgeoning middle class brought a surge of imports. The negative trade balance of USD 10 billion in 1991 widened throughout the decade, reaching USD 17 billion in 2000 and still at USD 13 billion in 2002. The trend had been accompanied by a rapid increase in trade volume, so that exports by then were two-and-a-half times greater and imports double what they had been at the beginning of the decade. In 2001, a year of worldwide recession, exports stagnated and imports fell by a billion dollars, bringing the current account into surplus by year-end, thanks to a strong, USD 14 billion surplus in services and other invisibles. This remarkable achievement in a country whose GDP is less than USD 500 billion was helped by a stable annual inflow of USD 12 billion in transfers from several million Indians working abroad, especially in the rich oil states of the Middle East. In addition, there was a USD 3.8 billion surplus in other services in 2001/2 (USD 14.7 billion in income and USD 10 billion in expenditure),⁷⁷ including computer and software services, with an export income of USD 10 billion. Let us examine the situation in more detail.

India's most important exports for centuries have been textile and leather products. Garments, shoes, and leather accounted in 2002 for 22 per cent of the country's exports of USD 45 billion. Also significant was the share of almost 17 per cent for jewellery, precious stones and diamonds. Other prominent exports are machinery and chemicals (almost 30 per cent between them). Imports are much more diversified. USD 15 billion out of the USD 58 billion go on petroleum and oil products. Other important items are diamond, gold, and silver raw materials for the jewellery-

making industry (USD 10.4 billion), capital goods (USD 6.4 billion), electronic goods (USD 4.3 billion), and chemicals (USD 3 billion dollars). The dependency on oil imports leaves the Indian trade balance heavily exposed to developments in the Middle East. The main trading partners are the United States, the EU countries (headed by the UK) and Japan, followed by the oil-exporting countries (in imports and money transfers). However, the export performance is only modest compared with such nations as China (USD 267 billion), Korea (USD 150 billion), Singapore (USD 122 billion) or Malaysia (USD 88 billion), so that growth prospects remain good, especially as exports in 1990/91 still amounted to only USD 18 billion.⁷⁸ The economic indicators show that neither the South-East Asian financial crisis nor the world recession have had a deep impact on the external economy. Apart from a small drop in the aggregate figures, both foreign trade and capital inflows have remained stable, due to the still relatively closed Indian economy and some special features of its trade. The most interesting aspect is the services exports, especially the performance of the computer and software services industries.

The Indian response to globalization

The overall level of industrial development and the absence of a strong-handed central government in India did not allow it to follow the Korean or Taiwanese development path of concentrating on high-technology manufacturing. However, it enjoyed some other advantages found nowhere else in Asia except Japan. The most important was a highly skilled, low-cost, English-speaking segment of the labour force, whose technical and scientific education had qualified them to tackle technical or computer tasks arising anywhere in the world. This has allowed India to contribute to the international division of labour most obviously in computer tech-

⁷⁷ Economic Survey 2002-03.

⁷⁸ Economic Survey 2002-03.

nology, not in hardware, like Korea or Taiwan, but in software. The background necessary called for relatively little capital investment, while the spread of the internet spread instant, on-line global communications. Time zones also assisted: Indians could do their tasks while Americans slept, so that customers woke to find their problems solved. The good knowledge of English among polyglot India's intellectuals is also unusual in Asia. These two features provided formidable comparative and competitive advantages in industries like computer and software services, where rapid and precise communication is essential.

Services exports are usually provided in the supplier country, to which customers physically travel. If a Hungarian travels to the United States, for instance, and stays at a hotel, the United States makes a service export. With software and other computer services, nobody goes anywhere. Only information flows from one place to the other. Rapid and economic transmission of information ceases to be a problem in a globalizing world. Indian companies that grasped this and began to offer on-line services soon evolved into the country's fastest-growing industry. Exports of computer and software services in 2002/3 amounted to USD 10 billion, and the industry has been growing at an average rate of more than 30 per cent a year. This might be predictable in times of prosperity, but hardly in the wake of a sharp decline in the IT industries. US investment in information and communication devices has declined steadily since 2001, as has investment as a whole. The recession has extended to India's other trading partners in the international production chain, notably the most prominent hardware manufacturers, operating in the Far East and South-East Asia. Yet in India, there have been no serious signs of recession in the leading IT industries. Indeed, the country's international positions even improved.

Of the USD 10 billion in computer and software services sold abroad in fiscal 2002/3, software exports amounted to USD

7.6 billion, which was USD 1.7 billion up on the previous year.⁷⁹ The main reason, paradoxically, was the slowdown in the world economy. Companies are less likely to invest in times of recession and more likely to seek areas for cost cutting, through cheaper sources and partners without any reduction in quality. It is neither cheap nor easy to operate and maintain the accumulated hardware and infrastructure, which are obvious targets for efficiency-led cost cutting. Indian companies met these requirements. However, the extent of their success and the contribution of the recession to their competitive advantage need further explanation. The first factor is connected with the steady pace of reform in India. On the second, it can be said that prosperity would probably have come to the industry in any case, but the events in the world economy gave them a significant boost. India now accounts for 2 per cent of the world industry and the number of participants is relatively high. MNCs account for almost 50 per cent in the services as a whole, but only 22 per cent in the software market. This low share can be very important if there is a sudden change in the software-location strategy of multinationals. The foreign customers of Indian software companies are mainly American (63 per cent). Twenty-six per cent come from the EU and 4 per cent from Japan.⁸⁰ Nonetheless, the spread of IT in households is still very slow. In 2001, the number of internet subscribers stood at 1.1 million, in 2002 at 1.7 million, and in 2003 at an estimated 2.1–2.8 million, which was still less than 0.3 per cent of the population.

India's performance in IT-enabled services is also remarkable, with a turnover of USD 2.4 billion last year in so-called back-office activities such as customer services, accounting, telemarketing, database operations, and tax and human-resource records. The biggest MNCs are gradually enlarging their activities in India. GE Capital employs 13,000, Citicorp 3000 and AmEx

⁷⁹ NASSCOM, <http://www.nasscom.org>

⁸⁰ NASSCOM, <http://www.nasscom.org>

2000 there.⁸¹ The liberalization process in the telecom sector has slowly started as well, with USD 6.7 billion invested so far, USD 2 billion of it from abroad. Also important is venture capital financing. Constant innovation in rapidly evolving industries like software services is very expensive. Previously, innovative entrepreneurs were backed by private funds and bank loans, but these days, the venture-capital industry has been institutionalized in the developed countries and this has been spreading to India in the last few years. Venture-capital obligations in 2002/3 exceeded USD 1.2 billion.

Conclusions

The performance of the Indian economy in the past few years has been remarkable, especially in a highly unfavourable international environment. Despite the recession, internal and external processes have benefited: rapid growth, relatively low inflation, current account surplus, increasing capital inflows, healthy currency reserves, and a strong rupee. Neither the South-East Asian financial crisis nor the US recession could halt the Indian economy. On the contrary, the worldwide slowdown encouraged companies to turn to India as a way of cutting costs. The drop in hardware investment has not been reflected in software and IT services, which has opened up further chances for India. It should not be forgotten, however, that India remains a very poor country, with problems, for instance, with clean water and food supplies, over-population and lack of public hygiene. There is an extensive and ineffective bureaucracy, while governments are infested with corruption and distribute pointless subsidies that blunt India's efforts to reduce poverty. In the light of this, the continued rapid growth of the software sector predicted by observers could be a huge advance, but it cannot fuel a transformation great enough to rescue the whole country in the near future.

⁸¹ The Economist, February 22, 2003.

5) ASIAN CRITICISM OF GLOBALIZATION

(Annamária Artner)

Introduction

Globalization, a term that reached economics in the late 1980s, denotes increased integration of world production through new technologies and the agency of transnational corporations. Debates run on whether the process is new or only a logical and inevitable perfection of capitalism. On the other hand, many new problems have emerged around the world in the last decade of globalization, even in developed countries. This has led to mounting resistance and protests in society, in the 'North' or 'West' and in the 'South' and to a lesser extent the 'East'. The resistance takes the form of 'anti-globalization' movements or movements 'critical of globalization'. (The difference concerns whether the whole process is seen as wrong, including worldwide socio-economic and cultural integration and the increased chances for information flows and obtaining information, or whether only the form it takes is rejected. The mainstream resistance movement – devoid of extreme right-wing, nationalistic ideologies and demagoguery – is not against new technologies and the information flow, and so the two expressions will be treated here as synonymous.

Anti-globalization movements in the developed and developing worlds differ in their radicalism. There is a discernible difference of 'centre of gravity' between the two main groups of countries in this respect. Movements in the developing world often deny that globalization is novel or even refrain from using the term, preferring to talk of capitalism or a new stage in the development of capitalism. Despite the differences, however, movements, civil organizations, NGOs and even parties critical of globaliza-

tion are tending to integrate, which helps to decrease these differences and give rise to a rich worldwide movement that is more homogenous in its diagnoses and remedies.

Criticism of capitalism in Eastern Europe became deeply unfashionable after the collapse of state socialism, especially among mainstream economists, who were dominated by the ideology of neo-liberalism. This, on the other hand, has been the main target of the anti-globalization movements, so that information about how other, distant people see their problems and the world order can be very illuminating.

The topic of anti-globalization is wide and varied. This chapter considers only parts of it, first in a thematic context and then through some examples of the coordination process among them.

Criticism of neo-liberalism

As in movements all over the world, criticism of globalization in Asia tends to centre on the problem of free trade: the international rules of the WTO/GATS framework.

Abdul Hamid, for instance, argues that due to tariff and tax-free imports by the developed countries, the majority of the informal, local industries, which have to pay VAT and other taxes, have been destroyed. The conditions of the WTO do not favour the Asian countries, as these – for instance in the garment industry – are more difficult to overcome than the pre-WTO quota system. The rules of intellectual property rights endanger many fundamental rights of the people, the free flow of (mostly speculative) foreign capital has marginalized the local capital, local entrepreneurs have become indebted and bankrupt, the state owned banks are suffering from liquidity crises, etc.⁸²

⁸² Hamid, Abdul (2001), *The Consequence of Globalization, Privatization, Deregulation, Free Market on the Working Class and the LDC's.*, pp. 2-3. <http://www.georcities.com/ilps2000/2hamid.htm>

These are the problems in which left-wing Asian intellectuals and social leaders tend to eschew the word 'globalization' and underline the effects of multinational capital by referring to 'imperialist multinational capital'.

Against speculative capital: ATTAC in Asia

Although there are no strong anti-globalization activities in Japan, it is the one country in the region to have its own ATTAC organization. The Association for Taxation of Financial Transactions for the Aid of Citizens is a movement initiated by the intelligentsia of the developed world (Le Monde Diplomatique) that proposes to regulate speculative capital. Since its launch in December 1998, ATTAC has spread to more than 30 countries and 80,000 members and deepened its criticism. However, its official line and activity still place it among the less radical anti-globalization movements, which is reflected in the many criticisms it receives from other social movements, mainly in the South.

Whatever opinion is held of ATTAC, it is certainly one of the most active and successful civil organizations in the field. It was the initiator and remains one of the main organizers of the World Social Forum and of campaigns against neo-liberal globalization. The relatively moderate social criticism and the activism targeted at specific and immediate tasks makes ATTAC successful in developed countries, among them Japan.

ATTAC Japan was founded in December 2001 and has some 500 members in 5 local chapters (in Tokyo, Osaka, Kyoto, Sendai and Fukushima). It campaigns against neo-liberal globalization (against privatization and the WTO/GATS), and for introduction of a Tobin tax, etc. The tone that ATTAC Japan strikes is somewhat different from that of the leaders of the ILPS (which will be described later) and can be illustrated by words of its secretary-general on the GATS negotiations:

‘What GATS aims at is, in fact, to define rules for liberalization of all service industries. It calls for a step-by-step abolition of national barriers that block free trade in the field of service. GATS targets all service sections, but we are especially concerned that public services directly involved with our daily lives such as medicine, education, energy and water are planned to be liberalized/privatized... GATS brings by far the biggest profit to multinational enterprises dealing with service, as service industries are the fastest growing area in world economy. The marketization and privatization of public services in developed countries will bring them enormous new opportunities for business... Let us protest against WTO’s Unofficial Ministerial Conference this February in Tokyo, and girdle this meeting with the people’s solidarity power!’⁸³

Concern for the environment

One of the oldest aspects of the worldwide criticism of globalization is environmental, and this applies in Asia as well. For example, the Indian Centre for Science and Environment (CSE) established in 1980 is an ‘independent, public interest organization, which aims to increase public awareness on science, technology, environment and development.’⁸⁴ The centre seeks solutions to the deterioration of the environment that people locally can implement and by which they can be inspired to action. The CSE organizes campaigns for clean air, water management, clean rivers, etc.⁸⁵

Another Indian environmental organization is Navdanya, which aims to facilitate seed conservation and seed exchange of tra-

ditional varieties, as an effort at ‘conservation of biodiversity, which is the basis of cultural and material sustenance of our people.’ These goals are now threatened by the international trade regime, as intellectual property rights formulated by the WTO/TRIP (Navdanya calls them ‘the new colonizers’) undermine farmers’ rights to their innovations and establish monopolies. Thus the protection of bio-diversity comes into the orbit of the anti-globalization movements. Navdanya promotes products based on bio-diversity by managing programmes (Navdanya Foods), organizing festivals and campaigns, preparing booklets, etc.⁸⁶

Land ownership and peasant movements

Asia being a continent with huge agrarian states, peasant movements also have their bases there. Kilusang Magbubukid ng Pilipinas and other organizations such as Via Campesina joined the call of the peasant movements to take agriculture out of the WTO. Peasant protests are a familiar aspect of anti-globalization movements in the developing world, notably in Brazil, where more than 250,000 peasant families have occupied 15 million acres of idle land. Similar events have occurred in Honduras and Ecuador, and struggles over land have also rocked African countries. Asian peasants are becoming more and more active. India, Indonesia, Thailand and the Philippines are amongst the countries where militant peasant campaigns are attaining partial successes.

The momentum behind these movements is the fact that millions of people are hungry despite sufficient resources. According to FAO data, almost all the more than 800 million hungry people live in countries that are actually producing food surpluses. The peasant movements of Asia blame this situation on the developed coun-

⁸³ Tanaka, Tetsuji (2002), WTO – Resisting against the mightiest organization behind globalization. http://www.jca.apc.org/wsf_support/documents/wto.html

⁸⁴ <http://www.cseindia.org/html/aboutus/index.htm>

⁸⁵ <http://www.cseindia.org/html/cmp/campaign.htm>

⁸⁶ <http://www.vshiva.net/navdanya.htm>

tries. Their policies and those of transnationals lead to underdeveloped agriculture, a biased agricultural structure (serving developed countries rather than local people), dependence on agricultural exports (mainly non-manufactured produce), shortage of food, concentration of land ownership, marginalization of small farmers, and increases in landlessness, unemployment and poverty.⁸⁷

This strategy, which they argue has been founded on liberalization and increasing monopoly control since the 1980s, increases landlessness. In Asia and elsewhere in the whole developing world, welfare nets or alternative jobs for peasants are virtually non-existent. As Santi Gangadharan, a pesticide activist from Tamil Nadu told on the 'People's Caravan – Land and Food without Poison', an international protest caravan for land reform in 2000, 'In our country most of the farmers have been forced to grow cash crops instead of food crops due to the process of globalization and liberalization and because the government wants more export earnings. Now there is no paddy. The fields have been converted into flower gardens for exports. Due to the globalization many people in the villages have been forced to leave. They have left their traditional homes, entered urban areas and many of them are without even food.'⁸⁸

Anti-globalization and environment protection combine in the peasant movements. Resistance is also growing against genetically altered seeds. On the same 'People's Caravan', Jaharana Begum, a woman farmer from Bangladesh and movement leader, said, 'We have so many varieties of rice seeds, but instead we are going for the

varieties from IRRI⁸⁹ and the seed companies. These seeds need a chemical package. So we are doing deals with scientists and transnational companies. Transnational companies, they come, they go. They don't care about our health or our environment. No more, we've had enough! For our survival we have to commit ourselves to land and food without poisons!'

For the majority of the developing world, the most urgent question is land reform, on which militant farmers' movements are increasingly coordinating their struggles at an international level. In 1996, peasant organizations from the Philippines, Bangladesh and Brazil convened the Anti-Imperialist World Peasant Summit in the Philippines, where 49 peasant movements and organizations from all over the world participated. The peasants were also present at the big Seattle demonstration in 1999 and have taken part in protest marches against international institutions like the IMF, World Bank and WTO.

Concern for children and gender emancipation

Peasant movements in countries suffering from food and land problems are closely identified with the concerns of women.⁹⁰ In India, women's organizations are particularly strong. Women's activism is not and

⁸⁷ Mariano, Rafael V. (2001), Junk imperialist globalization and increasing exploitation of the peasantry! Fight for land and the people's democratic demands! Keynote address in the workshop on agrarian reform, First International Assembly of the International League of People's Struggle, pp. 2–7. (Mariano belongs to the Peasant Movement of the Philippines, KMP).

<http://www.georcities.com/ilps2000/kapaeng.htm>

⁸⁸ Ibid., pp.11–12.

⁸⁹ International Rice Research Institute.

⁹⁰ What is happening in countries distant from Europe and how embittered people can be is reflected in the words of a delegate to the Latin American Assembly of Peasant Women in 1997: 'I am supporting my elderly mother and my only son on my four acres. We negotiated with the government a pact in exchange for the eradication of 7000 acres of coca production. The government promised to finance alternative economic activity, including a factory to employ the displaced farmers. We have reduced coca production by 3000 acres but they haven't even started to build the factory. They have tricked us again. Now they are threatening to send the military to massacre us and eradicate all our sacred lands and leave us in misery. I want to learn how to use a gun. Because I want to be able to be part of the armed resistance when the army invades.' Mariano (2001), p. 14.

cannot be restricted to gender and family problems, as they are deeply rooted in the general socio-economic conditions. So women more and more frequently play a leading or dynamizing role in the anti-globalization movement.

Among the most aggressive women's movements is the Working Women Organization (WWO), which has appeared in various parts of Asia and beyond. It has been very active in protesting against the American invasion of Iraq, with strong peace propaganda, meetings and demonstrations, and joining in such events organized by others. It cooperates closely with the All-Pakistan Trade Union Federation (APTUF). Among its other events, it organized joint May Day marches in big industrial cities all over Pakistan (Karachi, Multan, Faisalabad, Sheikhpura, Quetta, Peshawar, etc.). According to its electronic newsletter, 'Aima Mahmood, Secretary of WWO, said that today all over the world workers/children/women workers are agitating against colonialism, now it is our moral duty to organize women/men/children to fight against imperialist policies. She demanded to end violence against women and paving way for more opportunities for them in all walks of life, she also put stress on that today workers especially women workers are facing fascism, aggression and sexual harassment. She appealed to workers and trade union representatives to bring their families out of houses to protest jointly against poverty, unemployment and injustice.'

One of the best-known women in the Indian anti-globalization struggle is Arundhati Roy, author of the novel *The God of Small Things* and many other writings, in which she has criticized and expressed opposition to transnational corporations and the US government-led globalization. She stresses, however, that she is not against nations (the American people), but against the policies, politicians and classes behind them.⁹¹

⁹¹ See, for instance, Roy, A. (2001), *The algebra of infinite justice*, *Guardian*, September 29; *Warum Amerika nicht gewinnen kann* (2002). Weißener

The organization Focus on the Global South started in 1995, its aim being to 'articulate, link and develop greater coherence between local community-based and national, regional and global paradigms of change.' While it addresses issues affecting the whole South, its main work is done in the Asia-Pacific region, where it is based in Bangkok. It strives to cooperate with others working on the issues of South, sharing experiences, exchanging ideas and articulating alternatives to neo-liberal globalization.⁹² All this does not mean that it is merely a kind of 'think tank'. It tries to organize or at least support campaigns in its competence, but its main activity is the collection of thoughts (articles, studies, etc.). Walden Bello, executive director of Focus on the Global South and professor of sociology at the University of the Philippines, has written several articles on behalf of the anti-globalization movement and acted as a Southern spokesperson of the movement at several conferences and demonstrations.

Coordination among movements

As the civil movements generally have limited opportunities of getting close to the 'broad masses', the endeavour to know each other and make themselves known is strong. Several umbrella organizations have been formed and there have been efforts to create 'movements of movements'. (A typical one is the World Social Forum.) There is also a growing number of websites that collect and publish information, research materials, organizations, action plans, etc.

An example is the online civil-society network known as OneWorld, which has eleven centres around the world, one being in New Delhi. OneWorld sets out to inform a

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⁹² <http://www.focusweb.org>

global audience about human rights and sustainable development, by bringing together a global community working group, through interactive online partnership of organizations and individuals with a shared vision.⁹³

Similar to OneWorld is the Third World Network, with a secretariat in Penang, Malaysia, and has offices in Delhi and elsewhere in Asia, North America and Europe. It is likewise a network of organizations and individuals involved in issues related to development, the Third World and North-South issues. It publishes daily, fortnightly and monthly newspapers (Third World Economics, Third World Resurgence), books on environmental and social issues, organization of seminars, workshops, and participation in international processes such as the World Bank NGO Committee.⁹⁴

Another initiative is the South Asian Labour Forum, set up in Kathmandu in May 1996. There, and at a meeting at the end of the same year, the labour organizations (trade unions, NGOs and civil organizations) of South Asia expressed their dissatisfaction with the process of globalization, specifically the WTO, the MAI (Multilateral Agreement on Investments) that was then being formulated, and the transnational corporations. The participating members, mainly from India, Nepal, Sri Lanka and Pakistan, have been encouraging closer economic cooperation between South Asian countries, based on a fair trade system, as an alternative to intensifying international competition.⁹⁵

The International League of Peoples' Struggle (ILPS)

The People's Conference Against Imperialist Globalization held in Manila in 1996 and the anti-globalization movement People's

Caravan Against APEC initiated a people's resistance process, out of which arose the International League of Peoples' Struggle (ILPS).

The Network Opposed to APEC held a conference in Vancouver in 1997 and the Asia Pacific People's Assembly organized another in Kuala Lumpur in 1998, on the subject of 'Confronting Globalization: Reasserting People's Rights', keeping alive the process of resistance and charting the course for the ILPS.

The ILPS was launched by Professor Jose Maria Sison of the Philippine National Democratic Front, in a speech in Seattle in November 1999. ILPS held its founding conference in late 2000/early 2001 in Europe. In May 2001,⁹⁶ at the first international assembly of the ILPS, 222 organizations participated from 40 countries, more than half of them from Asia. The Philippine NGOs were represented in the greatest numbers, but large numbers of organizations also came from Nepal, Bangladesh and India, and a few from Thailand, Indonesia, Hong Kong, South Korea, Pakistan and Malaysia. Organizations from European, American and African countries were also present, but none came from Japan.⁹⁷ It is interesting that the delegates of developing and developed countries were almost equally represented (19 and 16 persons respectively) in the International Coordinating Committee that was elected.⁹⁸

The ILPS supposes to be a mass movement, independent of political parties, governments and religions, coordinating the activity of workers, unions and organizations of women, youth, peasants, journalists, writers, scientists and popular movements, and campaigns connected with its goals. It defines itself as 'an anti-imperialist and democratic formation' with 'a broad mass character', aiming to 'coordinate the demo-

⁹³ <http://www.oneworld.net>

⁹⁴ <http://www.twinside.org.sg/twnintro.htm>

⁹⁵ http://www.mnet.fr/aiindex/i_ain/fish.html

⁹⁶ Zutphen, The Netherlands.

⁹⁷ <http://www.nispop.org/ilps.html>

⁹⁸ <http://www.geocities.com/ilps2000/ICC.htm>

cratic struggles internationally and fights among others for the following⁹⁹:

‘National and social liberation from imperialism and all reaction; human rights against state violence, class exploitation, fascism and religious bigotry; peace, against wars of aggression and mass destroying weapons; independent trade union and workers’ rights against mass unemployment; agrarian reform; the rights of women, youth, children, indigenous people, teachers, researchers; the rights of people to health care; environmental protection; arts and culture and the free flow of information.’¹⁰⁰

This makes the League a streamlined anti-globalization movement. It stresses its opposition to multinational companies and international agencies like the IMF, World Bank, WTO, etc. However, it avoids the term ‘globalization’, preferring ‘imperialism’ or at most ‘imperialist globalization’. This ties in with the view of the ILPS founder, Professor Sison: “Globalization is a slick and shallow term. It glosses over the reality of modern imperialism or monopoly capitalism... Corporate executives, bureaucrats, bourgeois academic pedants and imperialist-funded NGOs have circulated the term globalization as if it meant a new shiny and amazing thing.”¹⁰¹ Radical movements such as that often scorn Western-led anti-globalization movements and events. Movements in the South may even evaluate the efforts of organizations like the Porto Alegre Social Forum as acting ‘in favour of imperialist “globalization”, to give a cosmetic layer on the woes and miseries of the working people around the globe, and so-called

⁹⁹ <http://www.geocities.com/ilps2000/charter.htm>

¹⁰⁰ It is important to know that in the vocabulary of the movement, ‘agrarian reform’ or ‘land reform’ does not mean only a sale transaction between the peasant and the landlord, which is what the ‘market-assisted land reform’ of the World Bank covers. The peasant movements of Asia mean by land reform the distribution of land.

¹⁰¹ Sison, Jose Maria (1999), *Advance the People’s Resistance to Imperialist Globalization*. Seattle, November 28. http://www.geocities.com/ilps2000/documents/ims_seattle.htm

“humanization” of the capitalist plan of exploitations are the end result of the meets.’¹⁰²

In Europe and North America, there is quite wide acceptance of non-governmental organizations (NGOs) as an alternative to party politics, but in the developing, aid-receiving countries of Asia, NGOs are seen as parasites or ‘direct agencies of the multinational capital’. They may own telecom companies, banks and leasing companies, they have stakes in housing, marketing and the food industry, and they manage aid projects and get revenue from them. (This takes aid money back to the developed countries again.)¹⁰³

The World Social Forum in Brazil has been criticized on these grounds, while the Porto Alegre forum was called ‘an NGO Olympics’ designed ‘to legitimize and swallow the poison of “globalization”’.¹⁰⁴

The Asian Social Forum

The Second World Social Forum¹⁰⁵ set out to inspire social movements to organize regional, local and ‘thematic’ social forums, several of which have taken place in 2002 and 2003, including Asian Social Forum (ASF) in Hyderabad, India, on January 2–7, 2003. Some 4000 participants dealt there with the following topics:

- * Peace and security.
- * Debt, development, trade, finance and investment.
- * Nation-state, democracy and exclusions.
- * Social infrastructure.
- * Ecology, culture and knowledge.
- * Alternatives and peoples movement.

¹⁰² Hamid, op. cit., p. 1.

¹⁰³ Ibid., p. 3.

¹⁰⁴ Ibid., p. 4.

¹⁰⁵ Porto Alegre, Brazil, end of January, 2002.

The criterion for participation was ‘opposition to imperialist globalization, as well as [to] religious sectarian violence, and commitment to democratic values, plurality and peace.’¹⁰⁶ The main document issued at the ASF was the Statement of the Asian Social, Mass and Peoples Movements and Organizations. It is worth quoting some characteristic parts of the statement:

‘Today the whole of Asia is yet again at the centre of poverty, war and intolerance, with the mass of people facing starvation, impoverishment, displacement, indebtedness, and destruction of livelihoods...

‘The impacts of capitalism and neoliberal globalization... are leading to widespread increases in the levels of poverty and widening gaps between the rich and poor. It has also led to the increasing degradation of the environment and ecology... The combined actions of the World Bank, IMF, ADB, export credit agencies, ODAs and WTO are wilfully and deliberately undermining our economic and political sovereignty while destroying local and national economies. Debt continues to be used by the international financial institutions and donor countries to keep our countries in financial and economic bondage...

‘Capitalism and neo-liberal globalization... have led to the depression of wages, mass unemployment and price increases making people more destitute, leading to tragic consequences like increase in child labour and trafficking in women and children... We believe that not only is Another World Possible¹⁰⁷ but that Another World is Necessary!’¹⁰⁸

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¹⁰⁶ <http://www.forumsocialmundial.org>

¹⁰⁷ This has been the main international slogan of the social forum movement since 2001.

¹⁰⁸ <http://www.wsfindia.org>