Introduction

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Abstract: Globalisation is a complex phenomenon with a multitude of facets. It involves the greater trade openness and integration of financial sectors, flows of capital and labour across borders, transfer of technology and information technology, the deregulation of regulatory standards among countries and economic, social and political coordination within and across regions. This article provides an overview of certain key aspects of globalisation in an Asia-Pacific context and discusses the main themes of the papers included in this issue.

Keywords: Asia-Pacific; globalisation; liberalisation; currency integration; free trade; pro-poor growth.

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Globalisation is not a new term. Arguably, it was first used by McLuhan and Fiore (1968) when they introduced the concept of the 'global village'. The International Monetary Fund (IMF) defines globalisation as "the growing interdependence (integration) of national economies, in particular as a result of the growing international trade and financial flows" (IMF, 2000). The Economic Policy Committee (EPC) of the European Union note three primary factors contributing to rapid globalisation. Specifically,

1 multilateral trade liberalisation

2 the successful implementation of economic reforms in many developing countries, especially in Asia

3 the development and advancement in information technology (EPC, 2005).

Economic globalisation is characterised by the long distance flows of goods, capital and services as well as information and perceptions that accompany market exchanges (see Dreher et al., 2008). Important driving factors include the reduction in transportation costs, the development in information technology and a neo-liberal move to a more

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market-oriented economy which is associated with economic and financial sector liberalisation. McKinnon (1973) advanced the financial liberalisation hypothesis, which was the fundamental first step towards achieving globalisation and sustainable growth. By the early 1980s, the more mature developed economies in the OECD had become more services-oriented economies with income growth well below 4% per annum. In part, this development as well as capital arbitrage stimulated foreign direct investment (FDI) by these countries. There was a substantial increase in portfolio investment.

The development success of the wealthy developed countries provided lessons on how a developing country could use more market-oriented economic strategies for their own development. This approach was reinforced by the so-called Washington Consensus (Williamson, 1989). Many East Asian economies introduced sweeping economic reforms and liberalisation policies in the mid-1980s to early 1990s. Many emerging economies, impressed by the performance of East Asian economies adopted many of the same policies. Unfortunately, these policies were often poorly implemented and there was a general lack of investment in infrastructure and a commitment to a legal framework which would provide greater investment certainty. This resulted in large variations in growth patterns across countries.

Asia's experience of liberalisation is mixed with several approaches to development planning. However, one common characteristic was greater trade openness and the adoption of export-led growth strategies. The successful development experiences of the East Asian Tiger economies (South Korea, Singapore, Hong Kong and Taiwan) was impressive and encouraged further emulation.

Another interesting development in the move towards broader globalisation that emerged in the aftermath of a series of crises in the 1990s was the formation of (or at least active consideration of) currency blocs and greater regional monetary integration. These views were further supported by the success of monetary integration and adoption of a single currency in Europe. In Asia, the issue of single regional currency blocs received academic attention in the aftermath of regional crises in the 1990s (the Tequila crisis in 1994; the Asian financial crisis in 1997 and the Russian crisis in 1998). An important argument in support of greater regional monetary and exchange rate coordination is the protection of emerging economies from speculative attacks (that were in large measure believed to have exacerbated the Asian financial crisis).

Some leading international finance economists suggested that world currencies would converge to a tri-polar regime where the US dollar, Euro and Japanese yen would dominate the global currency market (e.g. Mundell, 2003). These economists further argued that most of the countries in the American region would link their currency with the US dollar while the Euro would dominate Europe. The Japanese yen was expected to lead the Asian region. The current Global Financial Crisis notwithstanding, developments in global financial markets have tended to strengthen this view.

One major change that was not envisaged at that time was the emergence of China and India as major players in the global economy. The Chinese yuan is considered to be a major currency in the Asian region today. A huge volume of foreign exchange reserves in China provide a cushion to make it a stable currency. However, it is moot whether a region qualifies as an optimum currency area. No doubt, Europe does; for East-Asia, it is not clear. Nevertheless, some kind of monetary and exchange rate coordination is still a strong possibility for East-Asia.

Historical evidence shows that East Asia has become more economically globalised and this has coincided with higher economic growth for that region. However, other

emerging economies did not follow the example of the early reformers in Asia. Many of the policies involved a process of liberalisation without providing the necessary infrastructure and establishing the norms essential for the success of these policies and for the benefits to be extended to the least advantaged in society. Corruption has been endemic and a major problem (Ariff and Khalid, 2005).

The 'new' debate in the corridors of the IMF and the World Bank is the role of development as a 'pro-poor growth' strategy. This leads to another important question: Does globalisation contribute to economic growth? The issue to the question posed in this simple form is a qualified 'yes' (see Dreher et al., 2008). However, there are reservations about whether globalisation leads to more economic volatility and vulnerability to external shocks. Another related issue, and perhaps politically more fundamental issue, is whether globalisation can help the 'working poor' or reduce 'inequality'. Here the answer is less encouraging (Dreher and Gaston, 2008).

To summarise the above discussion on globalisation, we refer to a summary measure of globalisation. To be in a position to evaluate the consequences of globalisation in a rational and scientific manner, objective indicators are needed. To assess the extent to which any country is more (or less) globalised at any particular point requires much more than employing data on flows of trade, migration or FDI. We use a measure of globalisation that is defined in a very broad manner. Specifically, we use the KOF index (see Dreher et al., 2008).[1] It is based on 25 variables that relate to different dimensions of globalisation – economic, political and social. The sub-index on actual economic flows includes data on trade, FDI and portfolio investment. Trade is the sum of a country's exports and imports and portfolio investment is the sum of a country's assets and liabilities (all standardised by GDP). The KOF index includes the sum of gross inflows and outflows of FDI and the stocks of FDI (again, both standardised by GDP). While these variables are standard measures of globalisation, income payments to foreign nationals and capital are included to proxy the extent to which a country employs foreign labour and capital in its production processes.

The second sub-index refers to restrictions on trade and capital using hidden import barriers, mean tariff rates, taxes on international trade (as a share of current revenue) and an index of capital controls. Given a certain level of trade, a country with higher revenues from tariffs is less globalised. To proxy restrictions on the capital account, the KOF index includes data on 13 different types of capital controls.

The KOF index classifies social globalisation in three categories. The first covers personal contacts, the second includes data on information flows and the third measures cultural proximity. The index on personal contacts measures the direct interaction of people living in different countries. It includes international telecom traffic (outgoing traffic in minutes per subscriber) and the extent of tourism (incoming and outgoing). Government and workers' transfers received and paid (as a percentage of GDP) measure the extent to which countries interact, while the stock of foreign population is included to capture existing interactions with people from other countries. Finally, the average cost of a phone call to the USA measures the cost of international interaction.

While personal contact data are meant to capture interactions among people from different countries, the sub-index on information flows measures the potential flow of ideas and images. It includes the number of internet hosts and users, telephone mainlines, cable television subscribers, number of radios (all per 1,000 people) and sales of daily newspapers. Cultural proximity is arguably the dimension of globalisation most difficult

to grasp. One indicator is the number of McDonald's restaurants located in a country. For many people, the global reach of McDonald's is symbolic of globalisation itself.

To proxy the degree of political globalisation in each country the KOF index includes the number of embassies and high commissions, the number of international organisations in which a country has membership and the number of United Nations peace missions participated in.

The variables are combined into six groups: actual flows of trade and investment, restrictions, variables measuring the degree of political integration, data quantifying the extent of personal contact with people living in foreign countries, data measuring trans-border flows of information and a proxy for cultural integration. These dimensions are then combined into an overall index of globalisation with an objective statistical method.[2]

The KOF index is summarised in the following figures (taken from Dreher et al., 2008, p.67). As can be seen from Figure 1, high income OECD countries are, on average, the most globalised. Low income countries are the least globalised. Richer countries seem to be, on average, more globalised than poorer ones. On the face of things, globalisation seems beneficial. Figure 2 shows that in last 30 years, globalisation has been pronounced in all regions. Western European and other the industrialised countries display the greatest integration, South Asia and Sub-Saharan Africa are the regions least globalised.

Given the importance of globalisation today, the Globalisation and Development Centre at Bond University organised an international conference in September 2008 with the theme 'How Globalisation is Shaping the Asia-Pacific'. This special issue includes some selected papers from this conference. The papers included in this volume are all relevant to the above discussion on globalisation namely, bilateral trade issues, globalisation and FDI, globalisation and exchange rate arrangements, banking sector reforms and development and theoretical explanations of globalisation.

Figure 1 Globalisation by country income group (see online version for colours)

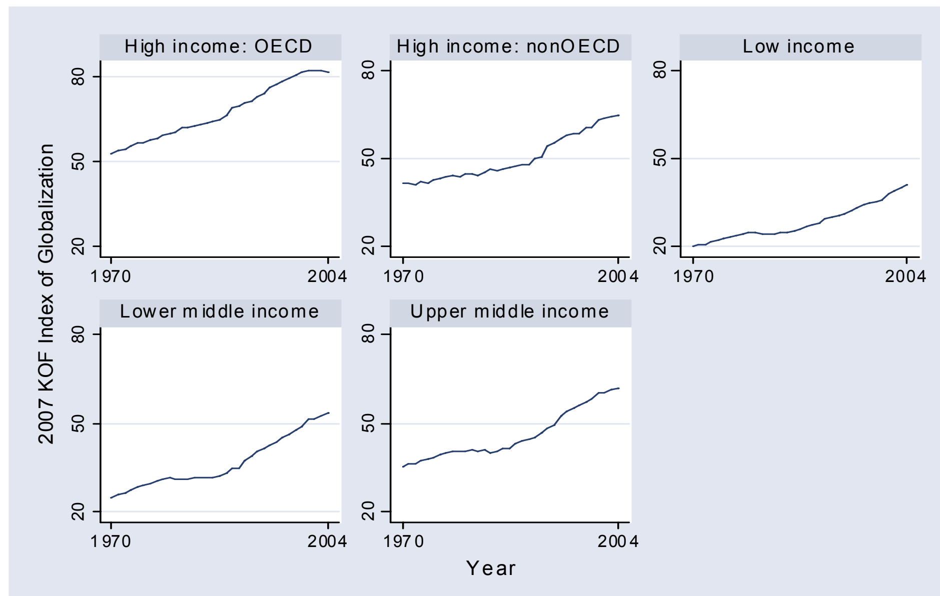
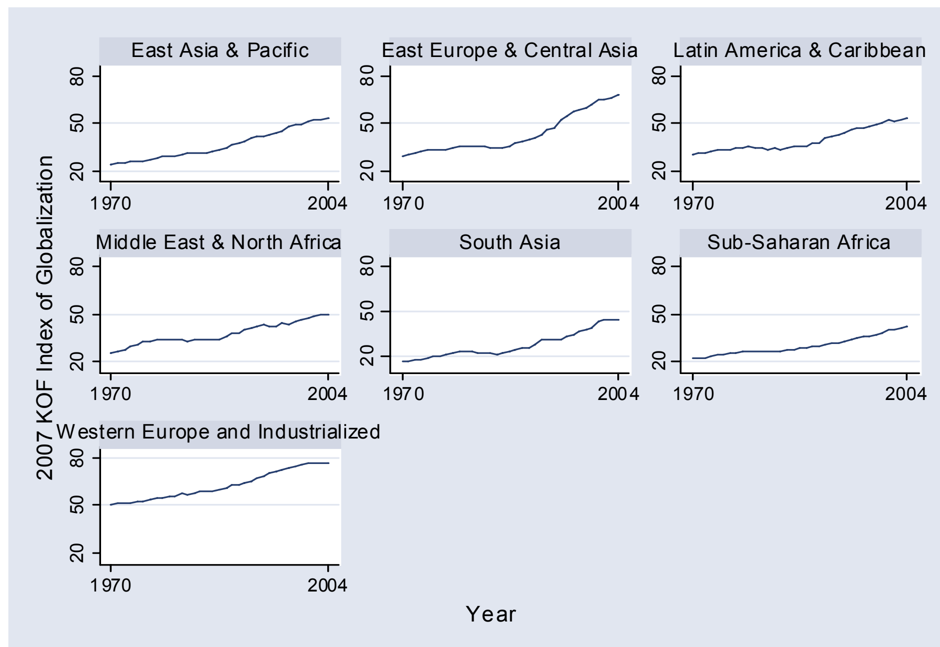


Figure 2 Globalisation by region (see online version for colours)



The paper by Rahul Sen provides a detailed discussion on the theoretical literature on the implications of 'New Regionalism' with a focus on the Singapore-Australia free trade agreement (SAFTA). Discussion of the earlier literature on bilateral trade agreements suggest that such an arrangement is an inferior option and could lead to more trade diversion than creation. However, this earlier literature does not incorporate the complex nature and diverse coverage of new bilateral trade agreements like the SAFTA. Sen therefore focuses on the post-SAFTA empirical evidence. Using statistics on bilateral trade between Singapore and Australia since 2002, the paper shows that Singapore benefited with improved trade linkages, intra-industry trade, trade flows to Australia and trade in the services sector. The paper gives some interesting insights on recent developments about the move from bilateralism to the globalisation of trade linkages and identifies issues warranting further investigation.

In his paper, Craig Freeman discusses the impact of globalisation on Japanese FDI. Freedman critically evaluates the progress that Japan has made in planning and managing investment decisions during the last five decades. He also investigates the determinants of Japan's FDI. The paper provides an extensive discussion on economic development in post-war Japan which transformed Japan into the second largest economy in the world. This progress reflects the informed decisions made by bureaucrats, investors and individuals. The book value of Japan's total foreign investment in the manufacturing sector in 1972 was US$1.74 billion, about 5% of the US FDI during the same period. By 1989, Japan's FDI was US$70 trillion. (for 2004, FDI was approximately US$30 trillion). Freedman compares the differences in the way in which Japanese and the US companies operate and how this affects their FDI. A main focus is both countries' FDI in China. Although the US dollar value of Japan's FDI in China is about five times that for the US,

the author suggests that the main difference is that Japanese use China as an export base, while the US strategy tends to focus on the Chinese domestic market itself. Freedman argues that the recent move to more liberalised trade will further strengthen Japanese firms' prospects to reap benefits through FDI.

It is argued that globalisation increases the vulnerability of emerging economies to shocks within and across regions. The exchange rate serves as the main transmission mechanism for such shocks. It is, therefore, imperative for emerging economies to decide on an exchange rate regime that can moderate these shocks. Sajid Anwar and Syed Zahid Ali theoretically analyse exchange rate mechanisms in developing countries. Their paper develops a small open economy model to analyse the direct supply-side effects of exchange rate options including

1. a fixed exchange rate policy
2. a perfectly flexible exchange rate policy
3. leaning against the wind
4. leaning with the wind.

The authors find that leaning against the wind is the most appropriate policy. One caveat is that if wages are less flexible, then a fixed exchange rate policy is more useful. This result is therefore consistent with an orthodox Keynesian view.

The recent trend towards globalisation has also forced domestic financial markets to change their operating mechanisms. This is especially true for the banking industry where liberalisation has allowed the entry of foreign banks. As such, domestic banks are under pressure to improve efficiency in order to compete with foreign banks. India presents a fascinating case study. Milind Sathye investigated the efficiency of banks in India. India undertook major steps to reform its domestic banking industry in 1991. These reforms included privatisation, changes in the regulatory framework as well as more autonomy for the Reserve Bank of India. Sathye compares the Indian banking industry during the pre- and post-reform periods through a detailed discussion of the policies implemented to

1. reduce concentration
2. improve profitability
3. improve efficiency.

Using data from 1992–1993, 1999–2000 and 2008 and standard measures such as the Herfindahl Hirschman Index and the return on assets, Sathye finds that reforms have been successful in making the Indian banking industry far more competitive and efficient, with improved profitability.

Finally, Neil Karunaratne discusses the theoretical aspects of globalisation using standard macroeconomic models. As a starting point, he considers the free-market model as typified by the Washington Consensus. Karunaratne discusses a variety of models relevant to the discussion of openness, regional integration and globalisation. These include models of the pure theory of international trade; the small open economy model; growth accounting; absolute and conditional convergence; endogenous growth models; the gravity model; portfolio diversification and models of currency crises. One common theme of each of these models is to explain how a country can achieve sustainable economic growth. The author claims that these models fail to explain why the benefits of

openness or globalisation have not been distributed equally among countries and among individuals within a country. The paper concludes that for developing countries to get out of the poverty trap "requires the proper sequencing of measures to nurture human capital and establish institutions to make globalisation work for (them) through proper policy design".

Globalisation is indeed a broad issue that cannot be fully addressed in one volume. However, the papers included in this special issue consider specific questions relevant to its discussion. The papers discuss the implications of globalisation for the emerging economies in the Asia-Pacific, as well as the need to devise strategies that the benefits of globalisation may be distributed more widely. Surely during these dark days of the current Global Financial Crisis and the real threat posed by protectionist rhetoric and posturing and the possible retreat from the further globalisation and internationalisation, the papers here are salutary and timely.

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Notes

[1] The KOF index has been increasingly used in the economics literature. It is probably the best known and mostly widely-used index of globalisation. Dreher et al. (2008, 75–78) list 36 journal articles published between 2003 and 2008 that employ the KOF index in statistical analyses.

[2] Dreher et al. (2008) describe the method in more detail. The annual data are publicly available at: http://globalization.kof.ethz.ch/static/rawdata/globalization_2007_short.xls.