IS GLOBALIZATION DEAD AND IS IT A GOOD THING?

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The current financial and economic crisis has led many pundits to suggest that the end of globalization as we know it is nigh. One of the more seasoned observers, Dani Rodrik of Harvard, asked in May 2009 whether we are heading towards a "de-globalized world". His answer was that the risk exists, but it does not need to be fatal. Those countries that have based their growth primarily on foreign borrowing or commodity booms are coming to a bad end. The former types of economies have been living beyond their means and have now to tighten their belts, while the latter suffer from the cyclical changes in commodity prices and their failure to diversify the economy in good times. Thus, the impact of both globalization and its slowdown affects individual countries in different ways depending on their model of economic growth.

Rodrik argues, as most other experts also do, that a precondition for the recovery from the crisis is the reduction of macroeconomic imbalances between the surplus and deficit countries, especially between China and the United States. The Chinese should increase their domestic spending and the Americans their savings. On the other hand, the economic recovery of the peripheral countries can only be based on the expansion of their modern sectors and the growing supply of tradables to the world market. But how the leading economies are able to absorb these tradables in their markets if they have to limit imports to restore the external imbalances? Rodrik's solution to this dilemma is that the second- and third-tier countries have to apply explicit policies to promote and diversify their industrial production and exports, and undervalue their currencies. One should realize, though, that such a strategy contains a risk of growing trade protectionism and countermeasures by the World Trade Organization (WTO).

THE PRIMACY OF FINANCE

The current crisis has revealed the reality of globalization, especially the deep integration of the international financial markets. As we will discuss below, it is often maintained that protectionism in international trade is the biggest risk for economic globalization. The case can be made, however, that the failures in the international financial system are an even greater peril both for globalization and many national economies. Recent experiences also suggest that people are more prone to protest against the failures of the financial systems as street demonstrations in Hamburg, Hong Kong, Reykjavik, Riga, and elsewhere show. Crises in the banking system touch upon people more directly and rapidly than, for instance, shrinking exports.

The International Monetary Fund (IMF) has developed a financial stress index for emerging economies which was published for the first time in April 2009 in its *World Economic Outlook*. The index starts from 1996 and shows, not surprisingly, that the level of stress in 2008 was both in advanced and emerging economies higher than in any preceding year (only in 1998, when the Long-Term Capital Management, LTCM, collapsed was the stress near the present level).

The important point in the IMF index is that it shows show "how linkages fuel the fire", i.e. how rapidly and pervasively financial stress is transmitted from advanced to emerging economies. Theories of "decoupling" of the national financial systems and of the financial and the real economy turned out to be unfounded. If "shadow banking", based on unregulated institutions and networks, was a major problem in advanced economies, traditional banks were the main culprits in transmitting the crisis to emerging economies. Economies in Central and Eastern Europe (CEE) stand out as borrowers from the banks in West European countries. The net flow of private capital to CEE countries increased from $20-30 billion in the beginning of the 2000s to $340 billion in 2007 to decrease to $250 billion in 2008.

This is shown by the fact that when at the end of 2007 the assets of banks in all emerging economies accounted for 2.5 per cent of the GDP in Canada, Japan, and the United States, the corresponding share in Western Europe was 10 per cent. In Austria, the credit exposure of banks to the CEE countries reached at the end of 2008 an incredible 77 per cent of its GDP and in Switzerland 13 per cent. In concrete terms, banks such as Reiffeisen of Austria and Swebank of Sweden, have risked their own existence by the reckless borrowing to Central Eastern Europe and the Baltic countries, respectively. Only the precautionary measures taken by the owners of these banks have prevented, so far, the realization of the nightmare.

Obviously, economic globalization has always been supported, or arrested, by politics. The twenty-five year wave of globalization, that is now in jeopardy, was released by the liberalization of international capital flows in the 1980s and the separation of most central banks from the governmental control. Instead of supporting

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the national economic policy and employment, the main task of the central banks became to prevent inflation by monetary means in the conditions in which money became abundant and cheap. The liberalization of the capital account has been expected to offer new opportunities for efficiency and productivity as the market becomes the driver in allocating capital. There is, of course, no guarantee that the money will go to purposes that would promote a long-term sustainable growth of the economy.

If the national regulatory institutions are not up to the task, the sudden inflow of international capital will in all likelihood create a bubble in which overvalued currency and the diversion of resources into non-tradable goods and services, including spas and golf courses, that sap the lifeline of the productive economy. This happened in Finland in 1990-93 when the country lost 13 per cent of its GDP and the unemployment rate climbed to 20 per cent. Policy-makers and regulatory institutions were unprepared to the looming crisis and the Finnish economy went into a free fall. From this decline it could be rescued only by bold political measures that saved the economy but produced also long-term damage in terms of chronic unemployed and a lost generation among the youth. It appears that the present economic crisis in Spain, or the Asian crisis in the late 1990s, resembles in some important ways the Finnish financial and economic predicament in the early 1990s.

As a heavily export-dependent country, Finland is suffering from the present crisis more than almost any other EU countries; its GDP is expected to decline by 6-7 per cent in 2009. On the other hand, because of the lessons learned from the previous crisis, the Finnish macroeconomic and fiscal systems are much more resilient to the downturn. In fact, the Finnish and Swedish experiences in the early 1990s are used by many governments as a blueprint for their actions. The Finnish and Swedish cases also show that it is possible to recover rather successfully from a deep economic disaster that has now befallen on most economies of the earth.

THE US PRECEDENT

During the years of expansion and growth, a lot of liquidity was pumped into the world economy and the resulting boom increased the opportunities of some to get rich while others remained poor. It was widely felt that globalization favored capital rather than labor and the wealthy rather than the poor. Globalization was promoted by political decisions to liberalize and deregulate the economy under the assumption that the market will stabilize itself without having to suffer from inflation and downturn. Alan Greenspan, who served for almost two decades as the Chairman of the FED, is often regarded as the father of these relaxed policies. It is true that he has been a staunch advocate a liberal form of capitalism in which private ownership and competition in the market is the key element.

In his memoirs, *The Age of Turbulence* (2007), Greenspan admits all this, but laments, however, that in the administration of George W. Bush "political operation was dominant"; i.e. public money should be used in the first place to enhance the political prospects of the Republicans. It is clear in the memoirs, though, that Greenspan went along with Bush on his extensive tax cuts expecting, in vain, them to be followed by decrease in public spending. Greenspan is duly concerned with the rapidly growing federal deficit in the Bush era and praises Clinton for his budget surplus, but sees the deficit only as one factor contributing to the current account imbalance. He sees that balance as a complex category instead of it being "a sovereignty-delineated national measure". In spite of the caveats made, it is clear that the Bush Administration, and the FED headed by Greenspan, were in charge in the United States when money supply was ample and the twin deficits exploded.

The ultraliberal trend was spearheaded by the United States and most other industrial countries followed the suit. Some of the emerging economies resisted the extreme forms of liberalization and deregulation because they had benefited earlier from the use of state power for industrial policy to promote their export-driven model of development. The main effort to break the resolve of leading Asian countries to retain the political control of the economy was made during the Asian economic crisis in the late 1990s. Then the United States and the IMF put strong pressure on them to open up the financial markets and give up capital controls. As a result, in South Korea and Taiwan politics is now less in command of the economy than before the crisis (and their domestic politics has become more volatile).

In China, political power is still centralized but only because the government has continued to comply in its economic policies with the demands of the market. Like other trade-driven economies, China has suffered in the present crisis from a major setback in its export performance. In May 2009 exports plunged by 26 per cent compared with the previous year. Yet, its economy is expected to grow by 8 per cent in 2009 that is obviously the highest national figure in the world. This is possible for the reason that the domestic demand in China has been modest and the savings rate as high as 40 per cent of the GDP. The external debt burden, at 20 per cent of the GDP, is also very low in China and the currency reserve of roughly $2000 billion offers a comfortable cushion.

Using the economic leverage available to the government, Beijing initiated in 2008 a stimulus package of $585 billion which accounts 13 per cent of the GDP. A main part of the stimulus package comprises infrastructural investments, especially the construction of 16.000 miles of high-speed rail tracks. This is the largest construction project in the world which not only will underpin economic growth in the future but will also employ workers who have been laid off from export industries. Thus, in an open economic system, the state is needed to stimulate the economy but also prevent political instability. It is feared more than anything else by the Chinese one-party government as it would possibly threaten its monopoly of power. The Chinese case shows that capitalism and autocracy can be combined with each other, but in the conditions of the global economic crisis it also has to turn inward in the policies to stem the political opposition to the regime.

THE POLITICS OF GLOBALIZATION

The recent wave of economic globalization has been in many ways beneficial. It is, however, shortsighted to attribute all positive developments, ranging from economic growth to peace, to it. In effect, economic globalization reached its new heights only in the 1990s as a result of freer trade and capital flows. The postwar economic miracle is more due to the structural transformation of most economies. In the old industrial countries manufacturing boomed first and then came the transition to the service economy. The rapid rise of basic industries, especially in East Asia, and equally rapid transition from low-end to high-end manufacturing helps to explain their economic boom. No doubt globalization was a necessary but not a sufficient condition for unprecedented economic growth. Both of those conditions were met by the quantitative and qualitative breakthrough in manufacturing, supported by the rapid technological change.

One should not, of course, deny the fact globalization has stimulated productivity and economic growth and has thus helped to alleviate poverty. Before the present crisis erupted, the world was on the way to achieve a Millennium Development Goal (MDC) to halve the poverty rate by 2015. Although absolute poverty remains a pervasive problem especially in South Asia and Africa, the economic boom has lifted many boats. Now the record is becoming more mixed and, as a result of the crisis, at least 60 million more people will fall into absolute poverty, according to the estimate of the United Nations Development Programme (UNDP). Much of the decrease in poverty has been due to the economic growth in China, but also other parts of Asia and Latin America have seen improvement in this regard.

If the world had been organized only by the nation states, competing, and occasionally cooperating with each other, we would have probably witnessed lower rates of economic growth and more frequent interstate wars. Such counterfactual claims are difficult to prove, but the humankind has obviously benefited from abandoning traditional balance-of-power and protectionist policies and moving into more market-centric arrangements. This argument implies that various hegemonic and unipolar theories of international cooperation are inadequate in today's world. They suggest that the predominant United States can provide leadership and public goods in organizing international cooperation and without its central role the world would be in a chaos. It is widely believed that due to the transition from the Bush Administration to Obama's, the United States is again taking its rightful and necessary role as the organizer of multilateral cooperation.

However, thinking of relevant examples across various domains—ranging from free trade through climate change to peace and stability—it is clear that the United States is unable to provide hegemonic benefits for the international community. This conclusion is not dependent only on the failures of the Bush Administration, but is also a structural condition; Washington has neither the sufficient relative capability nor enough "smart power" to persuade other key actors to fully accept its priorities. This is not to deny that in economic and military terms, the United

States is the leading power in the world which any likely coalition of other powers can overtake. The United States continues to be a pivotal actor in international relations, but it does not have the veto power it previously had.

Economic globalization, technological breakthroughs in communication, and the expansion of the global political agenda to new subject matters have made politics so complex that no single power is able to provide consistent leadership. Effective global governance must be both more representative (more countries must be involved), more pluralistic (business and civil society must play a role), and more effective (in terms of achieving results). States are needed to improve global governance as their budgets provide resources and their parliaments are needed to ratify international treaties, but the process of governance must be increasingly plurilateral in character.

NEW ECONOMIC REALITIES

On the other hand, the opening up and integration of national economies and the ensuing transition to a global economy have influenced heavily the *modus operandi* of transnational corporations and facilitated the huge expansion of an autonomous transnational financial sector. Industrial companies establish production networks that cross routinely borders on the basis of the transnational comparative advantage that cannot be defined any more in national terms. The transnational organization of production permits greater flexibility and secure more lucrative profits, but it also demands new ways of making decisions and managing the company. Technological revolutions in computing and communication have facilitated the decentralization of corporate management without sacrificing significantly its efficiency.

Now the tide may be turning, however. No doubt business will continue to move to those regions of the world where the economy and consumer demand are growing because it makes sense to produce closer to the customers. Electronic gadgets and paper are just two examples of product categories in which consumption is growing especially in Asia's emerging economies but also in Latin America. The innovative capacity of China and India is also growing. In most sectors of the economy, transnational companies do not have an option to stay away from the growing Asian markets. In particular in the present situation, inability to keep or capture markets shares there is tantamount to a business failure.

The regional dimension of the world economy is being emphasized by the present crisis; even though the leading Asian countries cannot alone pull the world economy out of the crisis, their quick recovery is drawing international attention. The point is not only the continuing rapid growth of China and India, but also countries like Singapore and South Korea have returned to a growth trajectory. An important reason for the quick recovery appears to be the expansion of the intra-regional trade in East and Southeast Asia. It has been duly warned that this expansion builds on trade in parts and components that are converted into finished goods for markets in old industrial countries. The continuation of the robust growth in the emerging economies would require, then, the recovery of the capitalist core of the world economy as well. This counterargument seems to miss, though, the point that the domestic consumption and infrastructure investments in several Asian countries are creating a genuinely new growth dynamic in the region.

The trend towards the regionalization of production and trade is affected also by extra-business factors. The fuel prices will probably continue to rise discouraging the reliance on integrated global supply chains and favoring subcontracting in near-by countries. The demands posed by the climate change control will also favor spatially more concentrated supply chains in which proximity may also reduce political and business risks as a report from the World Economic Forum recently claimed. The reorganization of Opel's production chain, in which the Russian carmaker Gaz became one of its owners, seems to reflect this broader change in supply networks. The German and Russian auto industries will become more closely integrated as has happened already in the Czech Republic and Slovakia. The global market integration will no doubt continue, but its national and regional tones will be more pronounced in the future. This trend may increase disparities between regions as the large transnational companies will probably squeeze the prices paid to the subcontractors to support their own return to profitability.

THE RISK OF PROTECTIONISM

The spatial reorganization of supply chains is closely associated with the problem of protectionism which is not any more only a trade issue, but touches upon also foreign direct investment and financial systems. Political leaders of the world have repeatedly committed themselves—as they did in the London summit of G-20 in April 2009—not to resort to protectionist measures in their trade policies. According to a recent World Bank study, practically all governments have done so in the last couple of years. Many still remember the shrinking spider web that Charles Kindleberger draw to describe the contracting volume of the world trade in the 1930s as a result of Smoot-Hawley tariff and other protectionist measures. In reality, in the current crisis, the world trade has been shrinking more rapidly than it did in the start of the Great Slump.

Therefore, the risk of protectionism, which easily leads to retaliatory responses, should not be underestimated, Its spread can contribute to economic deglobalization. There is no lack of examples of protectionist measures undertaken by individual countries. The United States has imposed tariffs on the Chinese exports of cheap car tires, Mexican trucks cannot any more use American roads despite the provisions of NAFTA, the South Korean government has doubled the import tariffs of several raw materials, and India is restricting the imports of Chinese goods. These individual examples should not cloud, however, the bigger picture. Yes, there is a protectionist trend in the world trade, but it is still rather moderate and more obvious in the policies of the developing than developed countries. In the European Union, it is repeatedly emphasized that the single internal market, which is its major accomplishment, should not be jeopardized by protectionist measures and subsidies that distort competition.

In a crisis, international trade is increasingly shaped by extra-economic factors. Traditionally, national security has been the main constraint on free trade in strategic industries, but the gradual integration of the defense markets across borders has reduced its impact on trade policies. Now climate change is creeping into trade policy. In particular France and the United States have expressed concerns about the deterioration of their economic competitiveness if the costs created by the restrictions on greenhouse gas emissions for the industry are exploited by the emerging economies opting for less stringent limitations. If the restrictions on greenhouse gas emissions are not universal, there is a risk of "environmental shopping" by transnational companies, especially in the energy-intensive sectors.

Indeed, it has been suggested that the green economy could become the next trade battleground. To put this claim in the context, it has to be realized that the threat of "green protectionism" is for the time being used mostly as a bargaining chip in the great game leading to the Copenhagen summit and the eventual post-Kyoto agreement. It is exploited by the old industrial countries as a counterargument to the claims by some emerging economies that their restrictions on the emissions should be compensated by the old industrial countries. After all, these countries have created the entire problem in the first place. In Copenhagen, the main political issues will obviously concern the redistribution of economic burdens and political responsibilities in coping with the global climate change. Hardly ever before have the global needs and national priorities confronted each other in an equally intense manner.

A serious new phenomenon is the spread of protectionism from trade relations into other spheres of the economy. Developing countries, including Argentina and 15 other governments, have asked the WTO whether the stimulus packages and bail-out plans in the North amount to protectionism against which they have the right to initiate retaliatory measures. This query is justified as many stimulus measures have no doubt contained protectionist elements. The cases range from "Buy American" clause introduced by the Obama Administration through the demand by the Sarkozy regime that the bail-out money for the French auto industry should not be extended to its subsidiaries in Eastern Central Europe to the decision by the Indonesian government that all of its 4 million civil servants should wear only locally made shoes.

While many of the demands for domestic preference have been diluted under international pressure—coming in the case of "Buy American" especially from Canada but also the EU—the stimulus packages will probably distort international trade and investment patterns for years to come. For instance, Canadian and European companies are barred from participating in the American stimulus program whose value amounts to $800 billion. The inward turn of economic policies in many countries is sometimes due to a simple fact that even though governments may want to avoid—in the fear of retaliation and due to their international commitments—protectionist measures, many of the decisions to spend stimulus money are in the hands of local authorities. Their natural preference is to favor local contractors as only the EU has regional rules to stipulate and enforce open rules for competitive bidding.

TOWARDS A NEW INTERNATIONAL CURRENCY?

An even more indirect way of practicing so-called home bias relates to the efforts to improve the resilience of the national financial systems. There are mainly two variants to do so; either that governments invest in banks and effectively nationalize parts of them over a short term or they infuse money into banks to strengthen their capital base. In both cases, the national element in banking, in which transnational operations have been in recent times dominant, will accentuate. It is not difficult to imagine that in nationally supported banks, financial needs of domestic companies and private citizens will receive a more serious consideration. Of course, there is little doubt that the global element in the financial system will remain strong in the future and actors in the area will find new means to operate across the borders. However, it is difficult to avoid the tendency towards fragmentation of the financial systems along national and regional lines. Gillian Tett of *Financial Times* has put this matter succinctly: "the concept of an integrated global capital market is coming under renewed strain".

One aspect of this strain is the intensification of the debate on the future of the U.S. dollar as the leading reserve currency. This is not a new topic, but it has surfaced, as Jonathan Kirshner has shown, with surprising regularity since the 1960s when de Gaulle started his effort to diminish the role of the dollar. So far, the dollar has been able to retain, however, its preeminence, but the growing U.S. imbalances may take the dollar to a trajectory of a long decline. The process will be as much political as financial and the outcome will not be the replacement of the dollar by another single currency. Politically, it would be useful to keep in mind the observation by the Nobel laureate Robert Mundell that "great powers have a great money". If the dollar declines significantly, the status of the United States as a great power is under challenge, but neither there is any alternative great power with "great money" in the horizon. Therefore, any serious alternative to the dollar as the international reserve and anchor currency is some kind of a "negotiated currency".

Recently, the head of the People's Bank of China and the summit of the BRIC countries held in June 2009 in Yekaterinburg, Russia, have demanded the creation of a new international money to replace the dollar. These demands are motivated by at least two concerns. First, the emerging economies want to send a signal to the United States that the era of monetary unipolarity will soon be over. They want to gradually convert their economic success into tangible changes in the global political, institutional, and financial arrangements. The redistribution of the voting power in the decision-making bodies of the IMF, whose capital base is about to be tripled to $750 billion, will be one of the first political tests of the success of this transformation. A key issue will be whether the leading Western powers are ready to give up their de facto veto power in the IMF and who will be ready to reduce their own influence to satisfy the legitimate demands of the emerging economies.

Another reason for calling for an alternative international reserve currency is that those surplus countries, such as China and Russia, which hold significant dollar holdings are worried about the future of their investment. The deep imbalances in the U.S. current account and federal budget, amounting now to 12-13 per cent of the GDP, will very likely lead to the weakening of the dollar that would, in turn, damage the international holders of the federal bonds. The Chinese sovereign wealth funds (SWFs) have already seen their international investments to melt down and have become much more cautious and inward oriented in their operations.

The surplus countries have a natural interest to diversify their dollar holdings into other currencies. The problem is, however, that there is no real alternative in that regard; the euro comes closest to an alternative, but it is not ready to take over the dollar yet. The EU itself is too fragmented and it also seems to be late to recover from the economic malaise. The Special Drawing Rights (SDRs) of the IMF have been suggested as an embryo of the new international money, but it has several drawbacks. Even the replenished SDRs account only for a maximum of 5 per cent of the world currencies and they are held only by the central banks. Business cannot use them as a medium of exchange and there is no stock or bond market organized around SDRs.

A positive aspect of SDRs is that they are in effect a basket of currencies in which the share of the dollar, 44 per cent, is less than in the global currency market where it hovers around the three-thirds. The share of the euro is 34 per cent and the rest is divided evenly between the yen and the pound. The prospect for SDRs becoming a new international currency would require that the IMF becomes a much more powerful institution, essentially the central bank of the world. That change should be acceptable to major economic powers but it seems to be highly unlikely to pass in the U.S. Senate and other pivotal places. The United States has been benefiting for decades from the unique role of the dollar as the international reserve currency that has permitted Washington to transfer its own economic failures to the shoulders of others. It is far-fetched to think that in the current crisis the United States would give up this privilege unless it is forced to do so under the growing pressure of economic realities.

This does not exclude some sort of a negotiated settlement. A big risk, emanating from the deep macroeconomic imbalances in the world economy, is the increasing volatility of exchange rates. As long as the Chinese yuan continues to be pegged to the weakening dollar, the main victim of such volatility would be the euro. The *Trade and Development Report 2009* of the UN Conference on Trade and Development (UNCTAD) suggests that the key governments should aim at a pact on the stability of real exchange rates. Such a pact has been reached before in the 1980s in the Plaza and Louvre accords and might well make sense even in the current circumstances. Other old ideas have been revived as well, including the so-called Tobin tax on international financial transactions. The idea has received much scorn and skepticism, especially in the business community, but it has been seriously proposed by such serious people as Bernard Kouchner, the French Foreign Minister, and Lord Turner, chairman of the British Financial Services Authority.

THE DISTRIBUTION OF BENEFITS AND LOSSES

In a globalized economy, political costs imposed by the state regulations are considered by companies as a disadvantage in spite of the fact that they often serve a common good. Partly as a result of the present crisis, the discrepancy between the public interest and the private gain seems to be growing. In a deregulated market economy, the benefits of risks taken by business actors usually benefit them, while in the case of a business failure the costs are born by the taxpayers. As will be discussed below, it is no wonder that people are becoming more critical of the business and its leaders. As *Fortune* recently pointed out, there has been for quite some time a growing tension between the Wall Street and the Main Street. In the public debate, “robber barons” are back in vogue and there is a widespread feeling that their “greed” must be limited.

While globalization fosters productivity and growth, which in turn help to alleviate poverty, its competitive mechanisms lead to the uneven distribution of material results. Practically every empirical study shows that the degree of economic and social inequality is growing in the world. The specific results depend much on the methods and data used; whether, for instance, macroeconomic data or household surveys are used and whether countries are considered single units or intra-country distributions are taken into account. Because of the higher growth rates in the emerging economies and the lower rates in the old industrialized countries, the international distribution of wealth is becoming more even (which does not, of course, mean that some countries are relative and even absolute losers).

A somewhat greater equality among the nations does not mean, however, that the people of the world are becoming more equal; to the contrary both within countries and among the entire humankind economic inequality is growing. This is more due to the rise of a new class of rich and even superrich people both in the old and emerging economies and less to the absolute deprivation of masses. There is an ongoing debate on whether the growing economic disparities are due to rapid technological changes, distributing its benefits unequally, or economic globalization that makes the entire world a market place. Probably these changes interact in reality, but the impact of globalization should not be neglected. It has clearly tilted the balance in favor of capital income instead of wages which in a deregulated economy has favored the educated and wealthy urban classes. No doubt, the meltdown of the stock market has made a tent in the wealth of the rich, but its recent recovery has brought back some of the earlier gains.

The reality of economic inequality among the people predated the current financial and economic crisis, but it has exacerbated both the reality and perceptions of inequality. The polls

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conducted both by the BBC World Service and the Financial Times/Harris over the last several years corroborate these perceptions. In the samples, there were a few countries—such as Brazil, Indonesia, the Philippines, and Turkey—where respondents felt that globalization was progressing too slowly. Significantly enough, there was not, however, a single old industrialized country in which people would have been worried about the slow advance of globalization; to the contrary, especially in France and Spain, some two-thirds of the people felt that globalization is growing too quickly. To make the picture more complex, also respondents in China and Egypt felt pretty much in the same way despite the fact that in China 84 per cent of the people perceived a major improved in their lot (the data are from 2007). The most widespread perception of the worsening economic conditions appeared, not surprisingly, in Italy where 86 per cent subscribed to this view.

In all surveys, the majority of people in almost all countries felt that social and economic inequality was increasing and that the captains of business were receiving too generous rewards. It needs to be stressed that these results were obtained before the eruption of the present crisis and indicate thus the existence of a deep-rooted social phenomenon. It appears to be associated with the relative deprivation of many segments of the middle class which have not been able to befit from globalization and who have felt the squeeze on the welfare state (teachers, researchers, nurses, etc.). The middle class is, partly because of its heterogeneity, slow to react to changing realities, but its feeling of the economic malaise seems to be a structural condition.

These tidbits of information suggest that the public perception of the effects of economic globalization is a very complex and diverse phenomenon. The protests against the meetings of international institutions in Seattle, Genova, and elsewhere have been to a large extent media events that have only limited bearing on wider social and political ramifications of globalization. The real issue seems to be that the uneasiness with globalization in the public opinion does not seem to be directed against the market economy, or capitalism, as such but against its social consequences. In only a very few countries—including Australia and Canada, and surprisingly Nigeria—people felt that the economy is fair. The dominant opinion was that the distribution of benefits and burdens of globalization have been uneven and unfair. This state of affairs helps to understand why the so-called Nordic model has recently become so popular both among the politicians and even business people. The model offers a potential solution by combining and open economy, integrated in the world market, with the services of the welfare state should people experience sickness, unemployment, or other misfortune.

CONCLUSION

There is evidence that economic globalization is slowing down. World trade is shrinking and the international private capital flows are now much below the previous levels. It can be said, of course, that these phenomena are only a temporary aberration due the financial and economic crisis that reduces demand and make banks reluctant to move capital around. Once the economy starts to recover, globalization will continue unabated. An alternative view states that the tendencies towards deglobalization - such as the rise of the state power, trade protectionism, and political nationalism—are a more permanent condition. Transnational economic interdependence, fostered by globalization, creates restraints on the return of national politics, but is still too weak to prevent politics from shaping the world. The middle-class resentment about globalization and inequality offers fuel for the politicization of issues.

Personally, I venture to suggest that once the present crisis is over, and the slow recovery has started, globalization in trade, investment, and finance will continue. Too much political and business capital has been invested in globalization, and too many influential groups have benefited from it, that it could be stopped on its tracks. The global governance of the world economy will be restructured; G-20 embraces the wider circle of political stakeholders, there is a commitment to finish the Doha round in 2010, international financial institutions will be restricted, and there are efforts to weed out the worst excesses of financial capitalism and establish new financial watchdogs. These and other reforms will produce some new normative standards, international institutions, and political practices, but they will hardly be able to create a new framework for globalization. Once the crisis is over, the process will continue pretty much in the same way than in the past. The behavior of bankers is showing even now that there is no fundamental change offing in their *modus operandi*.

It has to be remembered, though, that globalization is a very complex and uneven process which leads to contradictory results. It contains a continuing dialogue between the advocates and the opponents who both perceive the reality in their own ways. The realization of the profit opportunities by the business appears for the middle and lower classes as relative deprivation and growing inequality. The unevenness of globalization means that the zones of stability and instability continue to coexist and their differences may become even sharper. According to some estimates about one-quarter of the world's states have either "failed" or faces the risk of failure. It is unlikely that such states can be integrated in the global economy in a balanced and constructive manner. It is more likely that they are or become sites of political repression, military conflicts, and terrorism. The international community has to spend political and material resources to stem the spread of these of these "bads" that should be used to promote positive and inclusive global governance that would be badly needed in the present era of economic crisis.

MÓNICA LLEÓ

PUNTO DE FUGA. 2006