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6th Raúl Prebisch Lecture

GLOBALIZATION, ECONOMIC RESTRUCTURING AND DEVELOPMENT

By

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THE RAÚL PREBISCH LECTURES

GLOBALIZATION, ECONOMIC RESTRUCTURING AND DEVELOPMENT

THE SIXTH LECTURE OF THE SERIES DELIVERED BY

PROFESSOR JOHN H. DUNNING

PROFESSOR OF INTERNATIONAL BUSINESS
STATE UNIVERSITY OF NEW JERSEY, RUTGERS,
UNITED STATES

ON 29 APRIL 1994
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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The **Raúl Prebisch Lectures** were instituted in 1982 by Gamani Corea, the then Secretary-General of UNCTAD, to honour Raúl Prebisch, UNCTAD's first Secretary-General. The **first** lecture was given by the late **Dr. Prebisch** himself. The **second** one was by the late **Shrimati Indira Gandhi**, Prime Minister of India, on the occasion of UNCTAD VI (Belgrade, 1983), the **third** by **Dr. Saburo Okita** (Japan) on the occasion of UNCTAD VII (Geneva, July 1987), the **fourth** by **Academician Abel G. Aganbegyan**, one of the principal economic advisers of the Government of the United Soviet Socialist Republics (USSR), on the occasion of the twenty-fifth anniversary of UNCTAD (Geneva, 1989). The **fifth** lecture was jointly given by **Dr. Bernard T. Chidzero**, Senior Minister of Finance, Economic Planning and Development of Zimbabwe, **Mr. Michel Rocard**, former Prime Minister of France, and **Mr. Enrique Iglesias**, President of the Inter-American Development.

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Welcoming address by Mr. Carlos Fortin
Officer-in-Charge of UNCTAD

It is a great honour and pleasure for me to welcome you all to the sixth in the series of Raúl Prebisch Lectures organized by UNCTAD. As you are aware, this lecture is the first event being undertaken in the context of the celebration of the 30th anniversary of the Organization.

This series of lectures was initiated by Mr. Gamani Corea, former Secretary-General of UNCTAD, to honour Raúl Prebisch who, as we all know, was the first Secretary-General of the Organization. It was precisely Dr. Prebisch himself who delivered the first lecture in July 1982, here in Geneva, on the theme "*The Crisis of Capitalism and the Periphery*". That event was important since, among other things, it projected an insight into the thought of Dr. Prebisch at the beginning of the 1980s and showed how his fertile and creative intelligence had continued to develop his original contribution so as to adapt it to the major changes that had been taking place in the world economy. It further showed, however, that Dr. Prebisch had not abandoned his seminal contribution. There was, and there still is, continuity in his thinking as the central elements of his analytical and political propositions of the 1950s are still valid, but they are brought up to date and adjusted to the profound changes which the international environment has undergone. A good manifestation and illustration of the continuing validity of his thinking is found in the interview which Dr. Prebisch accorded to Mr. Marco Flaks of Swiss Radio International at the end of his term of office as Secretary-General and in which he presented his thought as of the late 60s. The text of the interview, preceded by an analytical foreword by Mr. Kenneth Dadzie, is available to you all.*

The other lecturers in the series were equally prominent personalities. The second lecture was delivered by Shrimati Indira Gandhi in Belgrade in June 1983 on the theme "*Peace and Development*", the third by Dr. Saburo Okita in Geneva in July 1987 on the theme "*The Emerging Prospects for Development and the World Economy*", and the fourth by Academician Abel G. Aganbegyan in Geneva in July 1989 on the theme "*Restructuring in the USSR and International Economic Relations*". The fifth lecture, held on the occasion of UNCTAD VIII at Cartagena de Indias in 1992, was jointly delivered by Dr. Bernard T.G. Chidzero, Mr. Enrique Iglesias, and Mr. Michel Rocard and the theme was "*Economic Development: Towards a New Partnership*".

Today, we have the privilege of having with us Professor John Dunning who has kindly agreed to give the sixth in the series, on the theme "*Globalization, Economic Restructuring and Development*".

Professor Dunning was until 1987, Head of the Department of Economics of the University of Reading and Chairman of the School of Applied Management Studies at the University. He was then appointed as ICI Research Professor of International Business and

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* UNCTAD/EDM/ERCP/6.

directed a research project investigating the implications of the globalization of markets and production for the British economy. Since 1992 Professor Dunning has held this appointment jointly with a State of New Jersey professorship in International Business in the Graduate School of Management at Rutgers University of New Jersey.

Professor Dunning is the author and editor of more than forty books and monographs and many articles on international investment, business economics and regional economics. He is also the General Editor of a twenty-volume *United Nations Library on Transnational Corporations*.

Before giving the floor to Professor Dunning, I should like to say how deeply honoured we are to have among us both Mr. Gamani Corea and Mr. Kenneth Dadzie, former Secretaries-General of UNCTAD, who have left an indelible imprint on the work of the Organization.

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Professor John Dunning:

Your Excellencies, Distinguished Delegates, Ladies and Gentlemen,

I am deeply honoured to present the Sixth Prebisch Lecture. This is partly because of my respect for Raúl Prebisch's intellectual prowess and my esteem for his ideas and ideals. It is partly because I recognize I follow a most distinguished group of lecturers; and it is partly because of this very special occasion of UNCTAD's 30th Anniversary. I hope very much that what I have to say matches the tenor of Dr. Prebisch's insights, even though we now live in a very different world to the one in which he made his pioneering contributions on regional integration and the centre-periphery attributes of international capitalization.

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GLOBALIZATION, ECONOMIC RESTRUCTURING AND DEVELOPMENT

1. INTRODUCTION

On November 9, 1989, just over 75 years after the outbreak of World War I, the Cold War ended. Both events were primarily political landmarks, but each symbolized a turning point in modern economic history. The first marked the end of a period of path breaking technological advances and unparalleled economic growth. The second signalled not only the full renaissance of the democratic market system, but the beginning of a journey towards a new global economic order, the like of which our grandparents could scarcely have envisaged.

But for most of the present century, the world has been on an economic "roller coaster". The 1920s and 1930s were a period of fragile peace and economic instability, and a time when most nations sacrificed the benefits of cross-border trade and commerce for narrow and elusive national interests.

The post-World War II years started promisingly enough. *Pax Americana* and the international trading and monetary regimes, crafted at Bretton Woods, provided the institutional framework for a period of sustained growth, particularly for developed countries.[1] But, the prosperity was short-lived. The 1970s saw the end of US hegemony, and the reemergence of floating exchange rates. They also witnessed a determination, by many newly self governing developing countries, to shed the yoke of economic imperialism. In spite of valiant efforts by the United Nations to establish a new international economic order, both the income and ideological gaps between the rich and poor nations widened.

Yet, however understandable, the quest for economic autonomy was already beginning to look unattainable. A fresh wave of technological and organizational advances were starting to weave a new tapestry of economic interdependence. There was also a growing disenchantment about the benefits of inward-looking development strategies and socialist economic policies; although such disenchantment was nothing compared to the political maelstrom about to occur in Central and Eastern Europe and in China. Towards the end of the 1980s, the wind of liberalization was blowing through almost all nations. Today, the world stands on the threshold of a new era, which, while, in some respects, is a harkback to the golden years of the nineteenth century, is likely to be qualitatively different from it - both in its characteristics and in its consequences.

In my address this morning, I wish to suggest that, notwithstanding the dramatic social and political events of the last century, it has been the growth in the world's capacity to innovate new goods and services, which has provided the main engine of economic

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[1] For a contemporary review of this era in international politics, see Kuttner (1991).

progress. This capacity is epitomized not only by such inventions as the steam engine, electricity, the computer, the micro-chip and the laser; but, no less significantly, by the gradual and continuous, upgrading of human skills and experience, and of organizational competences. These developments have been mainly market driven, but the extent to which they have been translated into welfare enhancing goods and services has been influenced by the actions of national governments and supranational regimes.

In many respects, the globalizing economy of the 1990s is the latest stage in the enlargement of the spatial dimension of economic activity that dates back to pre-industrial times. Essentially, its speed and direction has been conditioned by advances in transport and communications technologies; and by the actions of governments in affecting the creation, management and disposition of physical and human assets. Yet, it is only in our lifetime that the role of trade, foreign direct investment (FDI) and cross-border strategic alliances has become such a critical determinant of economic progress. And, it has only been in the last twenty years that the world economy has become so structurally interdependent that the use of the world *global*, as distinct from *international*, has become justifiable.

I will explain my reasoning for this statement a little later in my address. But, first, I would like to set out exactly how the present trajectory of the world economy is different from those which preceded it. I will then go on to discuss some of the likely benefits and costs of globalization - particularly for sustainable development - before considering some of its implications for the macro-governance of economic activity.

I would like to identify three ages, or eras, in the development of capitalist economies. The timing of each age is approximate, and is decided by what I shall call the "dominant" paradigm of techno-economic organization, and the socio-institutional framework of capitalism prevailing at the time. Each age also has an identifiable spatial dimension; and each is associated with the leadership of a particular country or group of countries. My intention is to briefly describe the characteristics of each age; and to consider their consequences for the governance of economic activity, for sustainable development and for human welfare.

The three techno-economic paradigms , as identified by several authors[2] are the *craft* or *batch*, *mass* or *scale*, and *flexible* or *innovation-driven systems* of production The three forms of capitalism are *entrepreneurial*, *hierarchical* and *alliance capitalism*; and the three

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[2] Notably Best (1990), Gerlach (1992), Lanzonick (1992), Kenney and Florida (1993), Harrison (1994) and Oman (1994). In an earlier contribution, Carlota Perez (1983) presented an evolutionary model of the capitalist economy in which she sought to integrate two sub-systems of development - the techno-economic and the social and institutional. She argued, as we do later in this paper, that new technological trajectories, characterized by "quantum jumps in the best practice frontier" (Perez, 1983, p. 358), if they are to be successfully implemented and diffused, require adaptations to existing socio-institutional systems, which, in turn, feed back on technological styles or patterns. Perez, however, dealt with only two of the three models of techno-economic production embraced in our paper; although, she acknowledged that the third - i.e. flexible production - was then (i.e. in the early 1980s) beginning to emerge. See also Perez and Freeman (1988).

spatial dimensions related to these systems and stages of capitalism are the *sub-national or national*; the *national or international*; and the *regional or global.*

2. THE AGE OF ENTREPRENEURIAL CAPITALISM; THE ERA OF CRAFT, OR BATCH, PRODUCTION; FROM LOCAL TO NATIONAL MARKETS, CIRCA 1770 - 1875

The first century following the industrial revolution was dominated by a micro-organizational system which reflected the technical characteristics and spatial limitations of the time. This was the age of the steam engine, of mechanical power and of batch production. It was the age of entrepreneurial capitalism and of the privately owned and managed firm. It was the age in which the UK was the hegemon nation. It was the age in which the factory system replaced the putting out system of work, and labour markets became internalized. Yet, value chains were short, innovations were largely process driven and capital requirements were modest. It was an age of unitary organizational structures. It was an age when firms enjoyed few economies of scale or scope. It was an age in which inter-firm cooperation was confined to a few sub-national agglomerations of related activities, e.g. the Lancashire cotton textile and textile machine industry. It was the age when, for the most part, firms served only local or national markets.

For most of the nineteenth century, the international allocation of activity was based on the disposition of natural resources, and trade reflected a Ricardian comparative advantage of these resources. Apart from finance capital, there were few cross-border transactions in created assets; although there was a substantial exodus of people and knowledge, especially across the Atlantic. Until the advent of the telephone and telegraph in the 1870s, inter-continental communications were extremely rudimentary. At the beginning of the era, it took days or weeks for a simple message to be transmitted between continents, while the difficulties of cross-border travel were well dramatized by Phineas Fogg in Jules Verne's *Around the World in 80 Days.*

The predominant allocative and signalling device in the craft era was the market; and almost all transactions were "arm's length". The multi-activity - much less the multinational firm - had hardly emerged. There was little vertical integration or horizontal diversification by firms. Neither did governments much intervene in market transactions. Following the dictum of Adam Smith, they viewed their main tasks as the providers of the socio-economic and institutional infrastructure necessary for market led economic development, the administration of law and justice and the defence of the realm. Domestic macro-economic policy was largely circumscribed by the discipline of the gold standard. Macro-organizational policy reflected the "laissez faire" thinking of the time. As the period progressed, some latecomer nations began to protect their infant industries from foreign competition. But, for most of the nineteenth century, the only international coordination of resource deployment was that exercised by market forces.

Although entrepreneurial capitalism was accompanied by a simple division of labour, the distribution of economic power was strongly centripetal. Moreover, even when developing countries were brought into the network of world commerce, the benefits accruing to them rarely spread beyond enclaves, whose sole *raison d'être* was to serve the needs of foreign buyers and customers. Indeed, it was during the craft age that the dual economy was born.

3. HIERARCHICAL CAPITALISM: THE AGE OF MASS PRODUCTION: FROM NATIONAL TO INTERNATIONAL MARKETS: CIRCA 1875 - 1980

Like its predecessor, the second industrial revolution was heralded in by a series of revolutionary technological discoveries. These stemmed largely from the US, which, during the third-quarter of the nineteenth century, assumed the economic leadership from the UK. Although, perhaps, the more conspicuous of the new inventions were the electrical generator, the internal combustion engine, and - often neglected by scholars - the calculating machine[3] no less far reaching was the introduction of precision machinery and instruments, which helped perfect the interchangeability of components and parts, and which, in turn, made possible the large scale production of standardized finished goods. It also led to the replacement of entrepreneurial by hierarchical capitalism.

For most of the following century, and fuelled by a series of transport and communications innovations - which dramatically encapsulated the time and cost of traversing space - the mass or scale system of production became the dominant techno-economic system of production, especially in the more dynamic sectors of industrialized economies. The focus of the system was very much directed to the production of goods rather than of services. The factory was the temple of wealth. Its logo - the relentless conveyor belt - was brilliantly satirized in Chaplin's film *Modern Times*.

The dedicated mass production system order was different from that which preceded it in six important ways. First, to effectively exploit scale economies, it required substantial amounts of investment in plant, machinery and equipment, which were often beyond the ability of individual entrepreneurs to finance. Hence, the genesis of limited liability and managerial capitalism. The order also required a regular and uninterrupted flow of inputs, large and stable markets, and good distributional facilities.

Second, in contrast to the craft system, the main impact of the mass production system were felt in the fabricating or assembling, rather than in the processing sectors. And, it was in the former sectors where, in order to better coordinate the stages of production, and to reduce the risk of supply, irregularities and uncertain delivery dates, that firms began to internalize intermediate product markets and to engage in vertical integration. This, indeed, was the origin of the multi-product firm, the multidivisional or M form of organizational structure, and of hierarchical capitalism.

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[3] Charles Babbage was the inventor of the calculating machine in 1856, the direct descendent of which is the modern day computer. For a recent appreciation of the role of Babbbage as an economist, see Rosenberg (1994).

Third, the scale system altered the relationship between the managers of firms and the employed labour force. By the time the system had been perfected by Henry Ford in the 1950s - hence the coining of the term "Fordism" - the factory worker was regarded as a "cog" in the production process - or a cost to be minimized; and, in no way, as a contributor to the innovatory or decision taking process. At the same time, the emergence of labour unions increased the vulnerability of the production process to disruptions and strikes. The response of management was two-fold. The first was to replace manpower by machine power wherever it was economic to do so; and the second was to combat the possibility of unwelcome labour practices by paying workers above the average wages (which also helped fuel the market for the goods they produced).[4]

Fourth, the scale system required modifications to the socio-institutional framework which best suited the craft system. In particular, it made more demands on governments as the creation of knowledge became more firm specific, so markets were less able to provide the right signals for socially optimum innovatory activities. This was partly because the market price of technology did not fully capture its extra-market benefits, and partly because it was increasingly taking on the characteristics of a public good - i.e. it was expensive to produce and inexpensive to reproduce. Hence, the introduction, by governments, of the patent system. Moreover, to maintain the momentum of economic growth, production processes had to be continually improved and upgraded. This required more scientists, engineers and technicians; and this, in turn, demanded additional expenditure by governments on education and training. Governments also began to accept more responsibility for providing the kind of public goods, e.g. utility, road and rail and communication services, which firms needed to draw upon if they were to be competitive. Finally, the scale system compelled governments to take a more active role in regulating abuses of power by large firms in heavily concentrated industries.

Fifth, as technological advances continued to push out the limits of growth, firms began to look overseas for their inputs and markets. At the same time, as US corporations began to replicate their domestic activities abroad, the scale system became more widely adopted in Europe, Japan, and in some larger developing countries. This further widened the area of competitive space. It also changed the nature of cross-border transactions. Whereas much trade of entrepreneurial capitalism had been between countries with different *natural resource* endowments, an increasing proportion of trade of hierarchical capitalism was directed towards nations with similar patterns of *created* assets; and the specialization of economic activity became less dependent on the distribution of natural resources, and more based on the exploitation of economies of scale and the distinctive needs of consumers located in different countries. This is not to suggest that trade between

[4] In their responses to imperfections in both intermediate product and labour markets, and for most of the present century, firms have preferred to adopt an "exit" rather than a "voice" strategy (Hirschman, 1970). The former strategy is one by which a problem is circumvented by finding an alternative solution (e.g. the internalization of markets by hierarchies). The latter is to resolve, rather than escape from, the problem (e.g. by working with suppliers and labor representatives to reduce transaction and communication costs, and enhance a spirit of cooperation and goodwill).

developed and developing countries was insignificant, but simply that the location of new economic activity began to increasingly favour the more advanced countries.[5]

Sixth, the scale era also led to new organizational forms of international transactions. Throughout the last half century in particular, trade has become increasingly concentrated in the hands of transnational hierarchies which, as the scope of their foreign operations has widened, have increasingly sought to integrate their global production and marketing systems (UNCTAD, 1993). While generally welcomed by some smaller industrializing nations, for the most part this new international division of labour, until comparatively recently at any rate, was viewed with some scepticism by most larger developing countries - and particularly by those who, in the early post-war period, gained their political independence.

Seventh, when extended beyond its national boundaries, hierarchical capitalism, although leading to a centrifugal distribution of value added activity, also tended to increase the centralization of economic power. It was precisely the concern that developing countries might be locked into a static international division of labour, which inhibited the upgrading of their indigenous resources and capabilities, that led Raúl Prebisch to advocate the promotion of import substitution policies by such countries, and the formation of economic groups among themselves. While some of his advice was certainly heeded, that part which required governments to pursue efficiency enhancing macro-economic policies was, to a large extent, ignored. Indeed, it is an irony that it was largely countries from that part of the world about which Prebisch had least to say and write, viz East Asia - and especially Korea, Taiwan and Singapore - that have been the most successful in turning hierarchical capitalism to their own advantage; and this they have done by a judicious combination of market led import substitution and export led development strategies, and sound macro-economic policies.

In summary then, the combination of US led hierarchical capitalism, advances in transport and communication technologies, and the emergence of many new, independent nation states has helped fashion the internationalization of economic activity for most of the present century. Yet such internationalization could hardly be called global as it excluded the most populated countries in the world - China and India - and the whole of the Communist bloc. Moreover, although throughout the period, the economic structures of countries were becoming increasingly linked by aid, trade and investment, it has only been in the last twenty years or so that hierarchical capitalism - mainly in the guise of TNCs - has fused national economies in such a way that their fortunes have become inextricably bound up with each other.

Finally, to help avoid a reoccurrence of destructive unilateral trade policies of the inter-war years, the first major international economic regimes were set up in the mid-1940s. These were of two main kinds. The first, typified by GATT, the IMF and the

[5] To give just a couple of figures, in 1914 about two-thirds of FDI was directed to developing countries, and about four-fifths of TNC activity was of a resource-seeking kind; by 1980, both these proportions had fallen to one-quarter (Dunning, 1993a).

World Bank, established ground rules for trade and a mechanism by which various forms of international market failure might be reduced by a better coordination of domestic macro-economic policies. These international organizations were supplemented by a variety of formal and informal regional arrangements and a bevy of bilateral or multilateral agreements favouring particular sectors or countries.[6] A feature of all these supranational regimes, however, was that they viewed the world as consisting of two major economic blocs - the developed industrial economies led by the US, and a diverse group of developing countries.

The second kind of international organizations set up were less formal, and their main objective was to provide a forum for an exchange of views on a variety of international issues; and, where appropriate, to recommend to national governments specific courses of action. The United Nations, is, perhaps, the best example of this kind of organization, and in the 1960s and 1970s, it and its various agencies provided the focal point for discussion and recommended action on matters particularly germane to the interests of developing countries.

4. THE AGE OF ALLIANCE CAPITALISM; TOWARDS FLEXIBLE PRODUCTION; FROM AN INTERNATIONAL TO A REGIONAL AND GLOBAL ECONOMY; CIRCA 1980 AND BEYOND

Quite often, the very success of any organizational structure sews the seeds of its own demise[7] if for no other reason than success breeds inertia and a reluctance to acknowledge and adapt to new situations. While it is too early to record the passing of the mass production age, the last decade has seen the emergence of a new form of economic organization, which may well become the dominant mode in the years to come. The essence of this new paradigm is captured in the techno-economic concept of flexible and innovation-led production, and the socio-institutional concept of alliance capitalism.[8]

The world of the mid-1990s is, indeed a very different place to the one into which most of us were born. The hegemony of the UK in the 19th century and the US in the 20th century has been replaced by a triarchy of economic power comprising the US, Japan and European Union. The production of goods is no longer the major focus of economic activity. Services now account for three-fifths of the GDP of developed countries, and nearly one-half of that of developing countries (World Bank, 1993b).

Increasingly - as is most vividly illustrated by Japan and Singapore on the one hand, and Zaire and the old USSR on the other - the economic prosperity of a country is less

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[6] Examples include the Lomé Convention, and the Multi-fibre Agreement (MFA).

[7] What Schumpeter (1947) has called "creative destruction".

[8] The concept of flexible production is, perhaps, best articulated by Piore and Sabel (1984), Best (1990), OECD (1992) and Ruigrok and Van Tulder (1995), and that of alliance, or collective, capitalism by Gerlach (1992) and Lanzonick (1992).

determined by the natural resources it possesses, and more by its stock of knowledge, the skills and expertise of its people, and the capability of its institutions - both private and public - to efficiently organize these assets. Issues to do with the quality of life and the structure of governance are in the process of a radical rethinking. It is not just competitiveness and development which has risen to the top of the political agenda, but *sustainable* competitiveness and development. And most dramatically of all, the political contours of nations - or more correctly nationhood[9] - and regions, as recognized by most of us, are being redrawn by the fusing forces of economic integration on the one hand, and the ideological schisms and cultural disintegration on the other.

There have already been a plethora of books, articles and newspaper stories written on the nature and extent of globalization. Only in this last six months, three volumes with the intriguing titles *Global Embrace*, *Global Dream* and *Global Paradox*[10] have seen the light of day. Of the various definitions of globalization, my preference is for the one given by Anthony McGrew, who in a jointly edited book *Globalization and the Nation States*, published in 1992 (McGrew and Lewis, 1992), writes

> "Globalization refers to the multiplicity of linkages and interconnections between the states and societies which make up the present world system. It describes the process by which events, decisions, and activities in one part of the world come to have significant consequences for individuals and communities in quite distant parts of the globe. Globalization has two distinct phenomena: scope (or stretching) and intensity (or deepening). On the one hand, it defines a set of processes which embrace most of the globe or which operate worldwide; the concept therefore has a spatial connotation. ... On the other hand it also implies an intensification on the levels of interaction, interconnectedness or *interdependence* between the states and societies which constitute the world community. Accordingly, alongside the stretching goes a deepening of global processes" (p 23).

In short, then, globalization is leading to the structural transformation of firms and nations, and is creating new relationships and new dependencies. Sometimes, the transformation takes place at a regional level; much of the integrated production networks of TNCs is so focused. Sometimes, it occurs at a global level. For example, the contemporary global financial system is one in which national markets throughout the world, though physically separate, operate as if they are in the same place (Stopford and Strange, 1991). One scholar has put it even more dramatically by averring that global financial integration is "the end of geography".[11]

The main causes of globalization are well-known. I have time to focus on just two.[12] The first is the pressure on firms - by consumers and competitors alike - to continually

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9 Peter Gray has defined nationhood as "the desire to preserve national identity". For an exposition of this concept, see especially Gray (1990, 1993) and Gray and Lundan (1994).

10 See Wendt (1993), Barnett and Cavanagh (1993) and Naisbitt (1994).

11 O'Brien (1992), quoted in Kobrin (1993).

12 For a more extensive treatment see, for example, OECD (1992, 1993), Oman (1994), Ruigrok and Van Tulder (1995) and Dunning (1994).

innovate new products and upgrade the quality and/or reduce the price of existing goods and services. At the same time, the escalating costs of research and development, coupled with ever shortening product life cycles, are compelling firms both to curtail the scope of their value added activities and to search for wider markets. Moreover, in order to effectively and speedily exploit their core competences, firms are finding they need to combine these with the core competences of other firms and, those of governments. Hence, the emergence of strategic alliances and networks to which I shall give more attention later in this address.

The second cause of globalization - which in many ways is better described as a removal of an obstacle - is the renaissance of market supporting policies pursued by national governments; and the growth of market led regional integration. In the last five years alone, more than thirty countries have abandoned central planning as the main mode of allocating scarce resources; while over eighty have liberalized their inward FDI policies. The privatization of state owned enterprises, the liberalization and deregulation of markets - especially for services - and the removal of a bevy of structural distortions - have all worked to stimulate cross-border corporate integration, both within TNCs and between independent firms, or groups of firms.

Underlying and reinforcing these two explanations for globalization and fashioning its character, have been changes in the organization of economic activity; and it is on these that I wish to dwell for the next few moments. At a micro level, the changes are best exemplified by the introduction of a more flexible, yet systemic, approach to production, together with a growing appreciation by firms of the need to form close and ongoing relationships with other firms to fully capture the benefits of their own competences. At a macro level, they reflect the changing costs and benefits of alternative systems of allocating scarce resources, and particularly the demands being made by globalization on national governments and supranational regimes.

Since we are in the midst of these techno-economic and socio-institutional changes, it is premature to judge either their extent or their consequences for the world economy.[13] But, the clues we have been able to discern so far, point to a very different path of economic development than the one we have lived through over the past twenty or thirty years.

First, then, the micro-organization of business activity. There are several forces at work which are leading firms to replace the Fordist or mass production system, which I earlier described. First, improved living standards - particularly in the Triad nations - have

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[13] In an examination of some of the changes now taking place in the Baden-Württemberg province of Germany, Herrigel (1993) observes there are tensions between managers from the transforming firms (e.g. Robert Bosch) who believe that the systemic logic of Fordism can no longer reproduce itself in the current economic environment of truncated product cycles, rapid technological change and organizational decoupling; and managers from the traditional firms who argue that turbulent markets are ephemeral, that rapid product change and high development costs are more than balanced by traditional products and markets, and that the well-tried strategies of hierarchical fragmentation are still the best way of protecting firm-specific proprietary assets.

caused consumers to reorient their spending habits. Price competition is down-sized; quality and other forms of *non*-price competition are up-sized. There is a greater expectancy of fault-free products, continuous product improvement and the innovation of new goods and services. At the same time, competitive pressures are demanding that firms should reexamine their cost control procedures from inventories, to manning levels and to advertising budgets. Lean production has become the order of the day.

Second, the new technologies of the 1980s and 1990s, such as computer aided design and manufacturing techniques and the miniaturization of components, are not only enabling firms to exercise more rigorous quality control, but are permitting the use of multi-purpose machinery and equipment.

Third, contemporary technological and organizational advances are demanding a much closer synthesis and interactive learning between the innovatory and production functions of the firm. Indeed, in the words of Kenney and Florida (1993), "the factory itself is becoming a research laboratory - a setting for both product and process innovation" (p.303). In this new environment, knowledge and intellectual labour are being mobilized on a collective basis; and the skills and ideas of shop floor workers are being actively tapped to raise product quality and productivity. Such innovation driven production both facilitates the functional integration of tasks and more explicitly socializes the organization of production (Kenney and Florida, 1993, p. 305).

This more flexible and coordinated approach to value added activity has considerable "spin-off" effects - especially in the fabricating sectors - as, more often than not, in order to improve the quality, performance or reliability of the finished product, there has to be a simultaneous improvement in the quality of bought-out components, parts and materials. The design of a new auto, aircraft or word processor is no longer a matter only for the auto, aircraft or word process assemblers, but involves successive tiers of component and part producers throughout the value chain. Yet, the present tendency for firms to shed activities not directly related to their core assets is increasing their dependency on external subcontractors. To ensure that this does not involve unacceptable transaction and coordinating costs, the firms are then having to understand and work closely with these sub-contractors. Hence, the terms "relationship" or *filière* enterprises; and that of "quasi integration" to describe the growth of vertical cooperative arrangements and networks. Hence, too, the growing importance of a "voice" rather than an "exit" strategy in customer-supplier relations (Helper, 1993).[14]

This closer inter-firm cooperation on innovation and quality upgrading has also extended to the prompt and reliable delivery if another characteristic of the flexible production system - viz keeping the costs of inventories down - is to be accomplished. Thus, the need for close and timely contact with several suppliers has tended to encourage clusters of firms situated within a few hours travelling distance of each other.

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14 In contrast to the situation in hierarchical capitalism, see footnote 12, page 15.

Inter-firm cooperation has not only been confined to suppliers. As we have seen, the rising costs of innovation, the need for speedy adjustment to technological change, and the fact that technology is becoming increasingly systemic or generic in its character means that firms need to share the costs and risks of R&D; and often to do so with firms who, in many other respects, are their competitors. Indeed, such alliances have been the most rapidly growing form of international business activity over the last decade (Hagedoorn, 1993). Such interactive learning and innovation are achieved by the loose coupling of firms in alliance capitalism is in marked contrast to the active pursuit of a vertical or horizontal integrated strategy of hierarchical firms.[15]

The growing integration between the innovatory and production functions of firms, the disaggregation of the value chain, the miniaturization of key components and the increasing importance of networks and alliances in knowledge sharing and joint development is having enormous implications for the ecosystems and organizational structures of firms. Increasingly, the way in which a firm manages its assets and combines these with the external economies offered by the system of which it is part is becoming as important a competitive advantage as the possession of the assets themselves. This is why the flexible production system has been called "organcentric" in contrast to the "technocentric" or "machinocentric" production system of the Fordist era and why the "hierarchical" enterprise is being replaced by the "alliance" enterprise, and by "enterprise networks" (Sydow, 1992).

At the same time, the post-Fordism production system is upgrading both the quality and the status of some kinds of labour. Labour is now regarded more as a multifunctional asset than as a cost; and as a critical participant in the wealth creating process. The *quid pro quo* of industrial relations has also changed. In exchange for job security and more involvement in the decision taking process, the individual worker has to be prepared to switch jobs on the factory floor to be continually retrained, and to be part of a team-based organization of work designed to promote the functional integration of tasks. In flexible production, the pyramidal structure of decision taking, which was a hallmark of hierarchical capitalism, is superseded by a flatter and more heterarchical system of governance. The entrepreneurial process is being decentralized to middle and front line management, as top management increasingly sees its function as a creator of organizational purpose and a setter of performance standards (Bartlett and Ghoshal, 1994).

I have described at some length the characteristics of the flexible or innovation-led techno-economic system,[16] because it is likely to have far-reaching implications for the future path of globalization, and, in particular, for sustainable development. These I shall turn to discuss very shortly. But, let me first acknowledge that, although the flexible system is challenging the scale paradigm as the dominant mode of organizing production, different countries, sectors, firms and plants have embraced the principles and procedures

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[15] An extreme example is quoted by Williamson (1985) of the Ford Motor Company's "behemoth at River Rouge" where its empire included ore lands, coal mines, 70,000 acres of timberland, saw mills, blast furnaces, glass works, ore and coal barges and a railway.

[16] Sometimes also called post-Fordism, the New Competition and Toyotism.

of the system to different degrees. It is, for example, no accident that it has taken deepest root in Japan and in the auto industry; as economic, cultural and institutional conditions in that country and that industry particularly favoured its adoption. Today, the name Toyotism is synonymous with the concepts of demand-driven production, pull-through work flow, zero defect components, just in time delivery, total quality management, and with the way in which the flagship, or core firm, in any network of relationships empowers and guides the various activities of the network.

In the last decade, political, economic, technological forces have all combined to encourage the widespread adoption of flexible production systems and alliance capitalism. It is, for example, a system better suited than its predecessor to the production of dynamic goods and of producer services. At the same time, the internationalization of networks and cooperative arrangements would not have been possible without the liberalization of cross-border markets; or without the recognition by anti-trust authorities that some forms of cooperation between firms promote the objectives of a market economy rather than impede them.

In short, the globalization of economic activity, coupled with network related flexible production systems, are changing the face of capitalism - and in the main, for the good. In the Triad countries, at least, bureaucratic and authoritarian regimes of hierarchical governance are being replaced - albeit, sometimes at a very slow pace - by less adversarial relationships between the various participants in the wealth creating process. The governance of production, itself, relies as much on the discipline of mutual trust, forbearance and consensus, and the readiness to exchange ideas and to share tasks and responsibilities as much as on legalistic work rules, sanctions and the threat of punitive action.

Alliance capitalism is also reconfiguring the location of production; but how much it decentralizes the key wealth creating activities of firms depends on the nature of the alliances formed. While some industrial districts and clusters of related activities are mainly made up of small to medium size firms, the majority of networks now being formed are comparable to a stellar galaxy in which a central star outlines the rest. According to Bennett Harrison (1994), although small and medium sized firms are likely to play a more important role in alliance capitalism, most will still be part of networks dominated by large or flagship firms. As examples, he cites the global webs of small firms centred around Benetton - the Italian clothing firm - and Nike, the giant running shoe TNC. Harrison argues that both production systems illustrate the principle of "concentration without centralization"; and the fact that network relationships may be highly asymmetrical and foster, rather than inhibit, dualism in cross-border labour markets. However, there are exceptions to this rule. The knitwear industry in the province of Modena in Northern Italy comprises over 4,000 firms, most of which are extremely small, and comprised of artisans and their families and friends[17] (Lazerson, 1993).

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17 The Modena "network", in fact, is an example of the resuscitation of the putting out system which was largely replaced by the factory system of the nineteenth century. Indeed, a feature of alliance capitalism is that it can accommodate a pluralism of organizational forms.

For national governments and socio-institutional systems, the key implications of globalization and alliance capitalism are twofold. The first is that the cross-border mobility of created assets - especially knowledge and information - is widening the locational options of firms - and particularly TNCs. Hence, it follows that actions by national governments, which affect the profitability and competitiveness of these firms, may also influence the former's ability to attract or retain the latter's presence.

The second implication for national governments is that the kind of complementary assets required by firms to create or sustain their own core competences, and to exploit them efficiently, are frequently influenced by the actions of such governments. The assurance of an educated labour force and of telecommunications services of international standards are the most obvious examples. This suggests that if, it is to succeed, alliance capitalism needs a less confrontational and more cooperative, partnership between the private and public sector, than that which existed (and still exists) under hierarchical capitalism.[18]

The net result of these attributes is that the kind of governmental action needed to facilitate an efficient market system in the current phase of internationalization, is very different from that of the other two. While accepting the fact that in a market economy, firms are the main wealth creators and that most attempts by government to intervene in the decisions of firms have been counter productive, (and incidentally, the Japanese score card in this respect is no better than the US or European scorecard),[19] it is, nevertheless, the case that governments are being forced to give more attention to ensuring that the economic environment over which they have some influence is conducive to promoting competitiveness. I shall return to this point later.

The new system of flexible production also has important implications for the geography of economic activity. If the competitiveness of firms is advanced by being part of a domestic network of activities - the Japanese *keiretsu* is a classic example - by continuous process improvement (*kaizen*) and by just in time (JIT) system of deliveries, it is reasonable to suppose that these same firms might be reluctant to engage in foreign production. At the same time, I have suggested that, as competition becomes more global, firms cannot avoid extending their territorial horizons to capture new markets, acquire new knowledge, monitor the behaviour of their competitors and secure cheaper sources of supply. This puts the relational firm in a dilemma. While ideally it may prefer to service global markets from a home base, it, more than the hierarchical firm, recognizes the value of establishing ongoing and symbiotic relationships with foreign suppliers, customers, governments and workers. Sometimes, the relational firm may attempt to short circuit this process by encouraging other members of its domestic network to move abroad with it.

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18 This point is further taken up in several chapters of Dunning (1993b).

19 A recently published study by Beason and Weinstein (1994) for example, finds that Japanese industrial policy in the 1955-1990 period was generally unsuccessful in targeting winning sectors.

This, for example, explains the substantial presence of Japanese owned auto component affiliates in the US, Asian and European networks of the Japanese auto assemblers.[20]

The importance of combining the global and local dimensions of transnational business strategy is becoming increasingly acknowledged by scholars and practitioners alike. Several years ago, Akita Morita, the Chairman of Sony, coined the expression "glocalization" to depict a situation in which firms - Janus like - worked in two dimensions at once - the global and the local. While seeking to reap the benefits of cross-border integration, the glocalizing firm also took care to acknowledge and respect differences in consumer preferences, business customs, cultural values and worker attitudes across countries. This, however, does not mean that adaptation must only be one way. According to Percy Barnevick, the Chief Executive Officer of Asea Brown Boveri (ABB)

> "Global managers have exceptionally open minds. They respect how different countries do things and they have the imagination to appreciate why they do them in that way. But, they are also incisive, they push the limits of the culture. Global managers do not passively accept it when someone says you cannot do that in Italy or Spain because of the unions or you cannot do that in Japan because of the Ministry of Finance. They sort through the debris of cultural excuses and find opportunities to innovate."[21]

All this suggests that there are many and diverse spatial implications of the globalizing economy. At the one extreme, we have the example of the integration of the world's financial markets. As Walter Wriston (1992) has observed:

> "The new world financial market is not a geographical location to be found on a map, but rather more than 200,000 electronic monitors in trading rooms all over the world that are linked together."[22]

At the other, even the most globalized integrated firm must respond to a range of government laws and regulations which go down to state, county or town level within a country. In between these two extremes, is the regional dimension in which, as I have said, most international integration of production by TNCs has, so far, taken place.

I do not wish to get into the debate of whether the structural integration of regions is a building block or a stumbling block towards globalization. As it has so far progressed, it is probably a little of each. The evidence suggests that, while firms initially choose to extend their territorial boundaries by trading with or investing in neighbouring countries, or in countries in which they have language or ethnic ties, the amount of inter-regional trade, investment and alliances in high technology sectors. At the same time, there is no

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20 Banerji and Sambharya (1994) have shown, for example, that 27% of the first tier suppliers to the major Japanese automobile manufacturers have invested in the US. Of the 130 Japanese firms which have invested, 89.2% were members of vertical keiretsus dominated by one or other of the leading automobile manufacturers.

21 Quoted in Wendt (1993) page 100 and initially in Taylor (1991).

22 As quoted in Kobrin (1993).

denying that there are critical areas of tension and conflict between regions, separated by economic or psychic distance which, if not removed, could lead to the formation of regional fortresses. Unfortunately, most of these are a reflection of institutional and structural impediments which cannot easily be resolved within the context of existing international regimes; but, over time, and particularly, if the authority of these regimes could be widened and strengthened, I think it unlikely that regional economic interests will thwart the benefits of globalization. On the other hand, there are other areas of nationhood related tensions now emerging, which compels me to take a less optimistic view of the future. These I will return to a little later in my address.

I would like to make one other observation before considering some of the effects of globalization. That is that the flexible production system and alliance capitalism are not only reshaping the socio-institutional structure of domestic economic activity; they are also promoting new modalities of cross-border transactions. Clearly, movements towards regional and corporate integration reinforce each other; economic and political forces complement each other; and networks of firms lock nations into regional or global webs of interdependence. On the road to globalization, there are signs that nations, like firms, are reassembling the building blocks of interdependence. This has important implications for both the sovereignty and legitimacy of nation states.

5. THE CONSEQUENCES OF GLOBALIZATION

I now turn to examine some of the likely consequences of globalization for economic development. In doing so, I propose to argue that just as globalization is qualitatively different from previous stages of internationalization; so its effects on development are distinctive. Indeed, I wish to go further and suggest that the international economic order of the 1970s is no longer appropriate for the 1990s, and that this needs to be replaced by what we might call a global economic order.

So far in my presentation, I have painted an optimistic view of globalization, and it is true that the structural transformation of the world now occurring does hold out great promise for the future. It is also the case that the political changes and technological advances of the last decade have provided a stronger basis for economic growth than at any other time since the mid-1940s. The world has the necessary resources, knowledge and experience. It has the technical means by which these assets can be transmitted between countries. It has the economic systems, policies, institutions and structures capabilities capable of translating human and physical resources into the goods and services which people want. Moreover, at first sight, the "organcentric" production system, with its focus on smaller production runs, multi-purpose machinery , economies of scope, and relational networking; its renewed reliance on the "putting out" of some value activities; and its greater respect for the individual in the work place, appears to be particularly well suited to the needs and capabilities of developing countries, and to the linking of these with those of the flagship nations in the global economy.

Already, we see signs of the fruits of alliance capitalism in East Asia, where much of the expansion of cross-border activity has taken the form of networking by small and medium sized firms. We also see a much greater willingness of the newly emerging TNCs from China, Korea, Mexico and Thailand to collaborate with local firms, than was earlier demonstrated by their US and European counterparts. To my mind, one of the great promises for development which ranks at least as highly as regional integration and intra-Southern hemisphere trade and investment is the emergence of a new brand of capitalism, which blends the richness of the Confucian ethos of cooperation with that of the staunch individualistic culture of the West.

Unfortunately, however, these are down-sides to globalization. There is, in John Naisbitt's words, "a global paradox" (Naisbitt, 1994). The most immediate and visible consequences of the down-side - which all countries of the world are currently experiencing, is the increase in structural unemployment brought about by competitive pressures, the implementation of new technologies and the introduction of more market-oriented and, in the long run, I believe, more employment-creating systems of governance. Across the globe, for developed and developing countries alike, change is bringing economic hardship. And, it is transforming the life styles of people, and their expectancies of the future. Nowhere is this more conspicuously seen than in Central and Eastern Europe; and in the dynamic, but internationally mobile, sectors of economic activity.

It has long been recognized that the invisible hand of the market is only acceptable if there is some way that the losers from market forces are compensated by the winners; and this primarily means helping the losers to adjust to political and technological change. And, as I see it, the possible Achilles heel of globalization and alliance capitalism is that they could so easily become dysfunctional if they cannot accommodate the desires of ordinary men and women looking for and willing to work; and, if they (and I include in they the actions of governments) fail to equip individuals with the skills and talents necessary for the kind of jobs which are now being created.

This, indeed, is one of the most daunting challenges of the 1990s. For there can surely be little doubt that long-term unemployment is one of the most socially divisive and destabilizing forces of modern times. While, as we have seen, innovation-led production system offers more purposeful, responsible, and rewarding job opportunities for those in work; it does not, in itself, help reduce unemployment - at least not in the short run. This is because the new system requires a different mix of labour skills than of the one it is replacing, and to match these needs, not only do labour markets need to be more flexible, but quite huge retraining programmes are needed.

More generally, if global economic interdependence offers the prospects of higher productivity and living standards, it also more closely links national economies to exogenous financial and other disturbances. The world economy of the 1990s is intrinsically more fragile and vulnerable than that of 30, 40 or 50 years ago. No longer is it just the case that if the US sneezes, the world catches a cold. Economic shocks originating in any one of the five or six leading economies are now electronically and instantaneously transmitted across the globe, with possibly devastating effects on nations which may have had nothing to do with the causes of the shocks. Even being part of a micro-network of value-adding activities can bring external costs, as well as external benefits to the participating firms. This is why a much more systemic approach to the management of macro-economic affairs, and a more educated understanding of the spatial implications of economic turbulences, needs to be high on the political agenda of national and regional governments in the next ten years.

If a globalizing economy may lead to greater economic instability, it may also have unacceptable - not to say frightening - implications for national security, social dumping, environmental erosion, the spread of epidemics, drug abuse, terrorism and ethnic violence. Bad news travels just as fast as good news; and crime, disease and war know fewer territorial boundaries than once they did. Other than acknowledge their critical moment, it is not my intention to deal with these non-economic issues of globalization this morning. In this respect, however, I would like to draw your attention to the *Commission on Global Governance*, set up, two years ago, here in Geneva.[23] The purpose of the Commission is to examine the implications of the kind of global integration we have been considering for the governance of the world community. Its task goes well beyond the economic implications of globalization. Indeed its central concern is with issues of peace, security, the environment, poverty, democratic values; and on the adequacy, legitimacy and transparency of existing institutions to effectively cope with these issues. I welcome this Commission, and am particularly pleased that the structure of its membership - composed, as it is, of 29 members drawn from every walk of life and from 25 different countries - is, itself, an excellent example of the kind of networking I have been talking about in this presentation.

I would, however, like to make just two brief points. The first is that while the forces of globalization are leading to a convergence of the spending habits of the world's consumers, they are also exposing substantial differences in the way people think and behave. Indeed, not all countries welcome the effects of globalization, as they fear it may erode their traditional life styles. As I have observed, this leads to a global dilemma. On the one hand, the universality of such goods as the motor car, the television set, the Sony Walkman, Coca-Cola, hamburgers and jeans, and such services as tourism, sport and pop-music are leading to cultural convergence. On the other, most people want to remain loyal to their distinctive customs and institutions. The task of peacefully resolving this dilemma is, indeed, likely to tax the minds of both scholars and politicians well into the next century. How, for example, does one balance the advantages of sovereignty with those of interdependence, of homogeneity with diversity, of centralization with decentralization, of communitarism with individualism and so on? There is, of course, nothing new in these perplexities, but globalization has put them in a new and starker perspective, and given their resolution a new urgency.

There seems little doubt that the end of the cold war, and the growing pressures towards economic "at-oneness" are refocusing the attention of people towards cultural and ideological and religious issues; over which - let me remind you - most of the wars in history have been fought. I also sense that the battle lines are being drawn are not primarily between the haves and have-nots, but between groups of nations with different

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23 The Commission is a privately sponsored initiative which has the backing of the Secretary General of the United Nations.

ways of looking at the world. The picture painted by Samuel Huntington in a recent issue of *Foreign Affairs* (1993) on the future relationships between the major civilizations of the world is not an optimistic one. My own feeling is that there is more in common among the ideologies and religions of these civilizations - at least what they preach about attitudes and conduct - than there are differences; and that a focus on these similarities, rather than on the differences, offers the best hope for the global peace.

My second remark must be even shorter. I have already referred to the dominant organizational system now evolving as that of alliance capitalism. This is because the unit of economic activity - the individual firm - in order to fully promote its own objectives, needs - and needs increasingly to be part of - i.e. allied to - a network or web of related activities. I believe that this concept can be extended to a global level. From the time of the Roman Empire and beyond, history is littered with the debris of once all-powerful nations. For much of the nineteenth century, the UK really did rule the economic waves. The pound sterling was the business currency of the world and the principles of the craft system was practised by all industrial countries. The mantel of economic leadership passed to the US around 1870; and the mass, or scale, production system became the symbol of its hegemony. But, today there is no single dominant nation. Instead, as Dr. Fred Bergsten (1990) has observed, it is likely that the leadership of the world over the next century will have to be collectively shared by the European Community, Japan and the US. Such an alliance of flagship nations, particularly if widened to embrace China - which, according to some authorities, already has the second largest GNP in the world - will require all the bonding characteristics of inter-firm collaborative schemes - and some more!

7. THE DEVELOPING ECONOMIES

But what of the developing countries? How and where do they fit in to the future? What, indeed, does globalization mean for the trajectory of economic development? You may feel that, so far in my address, I have paid too little attention to the specific problems and needs of the developing world. If this is so, this is partly because I believe the opportunities and challenges of globalization cut across the traditional North/South divide, and partly because, over the next twenty-five years, it is likely that many millions of the descendants of yesterday's impoverished generation will come to enjoy at least the basic creature comforts which we, in the richer countries, so easily take for granted.

But, that is in the future, and, notwithstanding the possibility that the East Asian miracle might spread Westwards to India and Northwards to China; and that more developing countries will be drawn into North-South regional integration schemes, I think there is little prospect that most of the poorer countries in the Southern Hemisphere will derive much immediate benefit from the new global economic order. Indeed, according to the Division on TNCs and Investment of UNCTAD, the share of new FDI going to the least developed nations in the early 1990s was only one-half that of the 1980s (UNCTAD, 1994).

At the same time, the prospects for economic growth in the 1990s are considerably better than that actually achieved in the "lost" decade of the 1980s. The World Bank has projected that, on average, the GDP growth rate of developing countries will be 4.7% per annum between 1992 and 2002, and that even in the poorest countries - excluding India and China - the rate of growth will be 3.5% (World Bank, 1993a).

The World Bank offers four main reasons for their cautious optimism. The first is that the macro-economic and organizational reforms introduced in the 1980s are now starting to show results. The second is that internal supply-side sources of growth, e.g. domestic savings rates, incentives to invest and the emergence of a production system less dependent on the economies of scale, are expected to improve. The third is that commodity prices are predicted to stabilize in real terms - a sharp break from their twenty-year declining trend. And, the fourth cause for optimism is the increased flow of capital now being directed to the third world. Between 1987 and 1992, for example, developing countries attracted 30% of the new FDI compared with 20% for most of the previous decade. Private portfolio flows rose even more dramatically - from $6 billion a year between 1982 and 1988 to $34 billion in 1992 (World Bank (1993a). In recent years, too, such investments have been supplemented by new financial instruments, e.g. debt-equity swaps, depository receipts; and also by the setting up of new financial institutions, e.g. European Development Bank.

Overall, then, I sense that the portends for real growth in the developing world - taken as a whole - are probably better than they have been for many years. There is a huge untapped reservoir of young and energetic manpower and an equally huge unmet set of consumer needs, waiting to be activated; and the example of countries like Japan and Singapore, which lack the natural resources which were the foundation of nineteenth century development, ought to provide good heart to even the poorest of countries. Increasingly, as we have seen, the key to economic prosperity in the twenty-first century lies in the ability of firms and countries to acquire and create new knowledge - and in the case of smaller developing nations, new markets.

To what extent is economic development currently being led by exogenous - mainly Triad related - globalizing forces; and to what extent is it being endogenously induced? The answer to these questions will, obviously vary from country to country, depending, for example, on the size and structure of the economy, its stage of development, and the government policies it pursues. However, even the larger and most prosperous developing countries now accept that - to paraphrase from John Donne - "no nation in this global age can afford to be an island". The only question at issue is "how far", "with whom", "in what way" and "by what means" should developing countries engage in alliance capitalism?

I earlier suggested that the hierarchical production system was centrifugal in as much as it decentralized the production of labour intensive activities to low wage countries. This resulted in a scale related division of labour, with consequences broadly similar to those arising from the resource based division of labour in the nineteenth century. While this system aided development, it was an uneven development. While it encouraged interdependence, it was an asymmetrical interdependence. All too frequently, the foreign sector was not fully integrated into the host economy; as a result, the syndrome of the dual economy began to emerge.

In both kinds of international specialization, it was the smaller economies which usually benefited the most, although both in Latin America and East Asia, regional integration schemes did lead to some intra-regional alliance capitalism. Most larger developing countries also had trading and investment links with the developed world, but, as the main objective of several of these economies - particularly in the 1970s - was to use these links as a means of advancing their own economic autonomy, there were few genuine cross-border alliances and only a limited transfer of organizational systems.

The embracement of alliance capitalism, at a time when most developing nations are modifying their internal economic strategies to better benefit from economic interdependence, is encouraging such countries to play a more pro-active role in the globalizing economy. At the same time, the extent which alliance capitalism is primarily a phenomena of the Triad nations is yet to be seen. Certainly, outside the apparel and footwear industries, the great majority of joint ventures and networks so far concluded have been between firms in the dynamic industrial or service sectors, and to involve at least one developed nation (Hagedoorn, 1993). Moreover, the experience of smaller European nations, both within and outside the EU, suggests that their counterparts in the developing world may find it extremely difficult to create the sophisticated infrastructure which networks require.

History also suggests that the probable winners are likely to be those developing countries which can offer the best educational and communication infrastructures to foreign firms, and are geographically close to the industrial heartland of the Triad. However, by the late 1990s, it may be expected that at least the larger and more prosperous developing countries will have built up their own internal networks; and that their firms will have established alliances with firms from developing countries in the same region. In so doing, they will take the first step towards developing-world led globalization. Indeed, it is already occurring in the Chinese economic space of East Asia; and in the Malaysian-Thailand axis. And, as more Latin American countries adopt outward looking development strategies, it is likely to happen there too (World Bank, 1993c). By contrast, because of ethnic, religious and cultural differences, the prospects for intra-regional integration in East Asia, the Middle East and much of sub-Saharan Africa would seem less promising.

Although, as we have suggested, there are aspects of flexible production systems and interactive learning which favour the resources and capabilities of developing countries and may lead to a revitalization of the "putting out" system of production; there are others, notably the increasing role played by costly created assets in the competitive process, and the need for a physically close and ongoing relationship between firms in dynamic sectors along the value chain,[24] which are centripetal in their effects. Because of this, it follows

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[24] The increasing need for close proximity would appear to run counter to the reduction in transaction and coordinating costs arising from telecommunication advances. Yet, the example of the City of London is instructive. While many of the routine banking, financial and insurance operations have been decentralized, a network of the core and innovating activities remains firmly embedded in the square mile. This is because of the perceived gains from face-to-face contact between the constituents of the network are greater than ever. As manufacturing firms - at least in dynamic sectors - upgrade their R&D and skilled

that, at least for the foreseeable future, and with the possible exception of China and India, developing countries are unlikely to be the flagships of global alliance capitalism. However, there are reasons to suppose that some at least could become hubs of regional alliance capitalism. Singapore is already bidding to be the leading financial and high technology centre and cruise gateway of South East Asia, while US computer firms are increasingly favouring the Caribbean as a regional centre for their software facilities.

For the poorer developing countries, most of which are far removed from the critical nodes of growth, the impact of globalization and alliance capitalism is likely to be marginal - except in so far as they may benefit from a "trickle-down" effect of some kinds of subcontracting.[25] This, however, should not be taken to mean that these countries will not benefit from other economic events in the 1990s; but rather that any such gains will be the outcome of internal economic and institutional reforms, and of the higher spending power of the faster growing nations; and, in the case of resource rich countries, the stabilization of commodity prices, the direction of resource related innovation and the emergence of new sources of supply. But, in their attempts to upgrade their wealth creating abilities, I believe that the least developed nations will continue to have to rely mainly on aid and loans from foreign governments and international institutions. This is simply because their most pressing need is to improve their educational, legal and commercial infrastructures which, in the past at least, private investors have been unwilling to finance.

At the same time, with the introduction of more market-oriented macro-organizational policies, I would expect the threshold at which FDI becomes viable to fall. I would also like to think that such policies - and the kind of technological advances I earlier described - will make it easier for both governments and firms from the poorer nations to explore the possibility of partnerships and cross-border alliances; and the promotion of more regional economic cooperation.

It would be interesting to know what Raúl Prebisch's reactions would have been to flexible production systems and alliance capitalism. On the one hand, as I have suggested, it probably lowers the obstacles facing firms from developing countries in upgrading their competitive advantages, as the *ownership* links with firms from developed countries are no longer as critical as they once were. Moreover, the optimum size of many value added activities is falling, where the opportunities for out-sourcing to even the smallest firms are opening up. Individual entrepreneurship is also playing a more important role in the "new" competition (Best, 1990). On the other hand, I have argued that, to be successful, a

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labour, they become more closely interdependent in their informational and technological needs; and as trust and forbearance become a more important component of transactions, then, at least at the top end of the value chain and in the early stages of their production cycles, the need for close physical proximity increases rather than diminishes. This need was recognized nearly thirty years ago by Raymond Vernon (1966). The idea of the factory as a research laboratory, also suggests closer physical linkages between R&D and production activities (Kenney and Florida, 1993).

[25] For example, in the garment and footwear industry, although the first tier suppliers of flagship MNEs are usually located in the more advanced developing countries, e.g. Hong Kong and Singapore; these suppliers may, themselves, "put out" the more labour-intensive production processes to small firms and artisans as far afield as Bangladesh, Sri Lanka and Nigeria.

post-Fordist firm needs to maintain a close and ongoing access to the assets and capabilities of other firms; and it is the extent to which such firms are located in other countries, and/or are dominated by large TNCs, which is likely to determine whether or not developing countries can truly evolve and sustain a path of economic development which best suits their own interests. Prebisch's advocacy for a closer networking among firms from developing countries is as appropriate today as it was twenty-five years ago; as, indeed, was his belief in a strong and supportive role of government in the developmental process, a subject to which I now wish to turn.

8. THE IMPLICATIONS OF GLOBALIZATION FOR NATIONAL GOVERNMENTS

For the last few moments of my address, I would like to consider some of the consequences of globalization and alliance capitalism for national governments and international economic regimes. Unquestionably, the most significant of these arises from the increasing ease with which competitive enhancing assets can move across national boundaries. This means that any action governments might take which affect the competitiveness of these assets cannot be divorced from the actions taken by other governments. The theory of competing governments suggests that, in the last resort, a country's citizens can respond to high taxation - or any other unacceptable government policies - by "voting with their feet" (Brennan and Buchanan, 1985), i.e. by emigrating to another country. This idea can readily be extended to explain the locational choices of firms, as they may be affected by tax and macro-organizational policies. No longer can governments assume that the firms, resources and capabilities presently located in their areas of jurisdiction are inextricably bound to those territories; nor that they are impotent to attract resources and capabilities now sited in other countries. Finally, there are suggestions that the actions of governments are becoming increasingly interdependent of each other. Governments - on behalf of their constituents, and like firms - may compete as oligopolists.[26]

Yet, while most large TNCs have responded to the demands of globalization and alliance capitalism by reconfiguring their organizational structures and decision taking procedures, there is little evidence that governments have elected to do so. The result is that most are singularly ill-equipped to deal with the consequences of globalization. Exceptions include some East Asian administrations, which are not only taking a more holistic approach to the organization of their tasks and functions; but are replacing a "hub and spoke" hierarchical structure of governance by a "spider's web" network structure, in order to encourage more fruitful interdepartmental exchanges of information and cross-fertilization of ideas.

I believe that the main reason for the reluctance of governments to embrace new structures of governance is the inflexibility and intransigence of established institutional

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26 This is particularly the case as between governments of countries of a similar size, economic structure and stage of development.

regimes, and the opposition of powerful sectoral interests within the executive branch to changing the "status quo". It is, I think, no accident that the administrations with the least institutional impedimenta are those which are most successfully adapting to the needs of the global marketplace. To this extent, developing nations could well have a comparative organizational advantage - particularly if their cultures are sympathetic to alliance capitalism.

The second issue I wish to raise concerns the direct impact of government behaviour on the competitiveness of the firms located in their territories. This impact arises because many of the complementary assets needed by firms, to create and effectively exploit their core competences, are, themselves, government owned or influenced. This suggests that the ability of governments and private firms to work together (e.g. with respect to innovatory activities, retraining, environmental protection and the promotion of inter-firm alliances) might be a competitive advantage in its own right. Again, developing countries would do well to take note of this particular aspect of alliance capitalism as they seek to evolve their unique strengths in a global economy.

The third consequence of globalization is that it requires national governments to reappraise their role as overseers of economic activity. To the economist, the only justification for such a role is that the net benefits arising from it can be achieved at a lower real cost than any other form of organization, such as the market, individual hierarchies or networks of firms. It has long been recognized that, as well as being responsible for the defense of the realm, law and order, and the definition and enforcement of property rights, governments are particularly well equipped to supply - or to organize the supply of - some kinds of public and social goods; and especially those whose benefits accrue as much to the community at large as to the producing institution.

Yet, there is nothing fixed or immutable about *which* organizational form is best suited to produce particular products. Yesterday's case for the public ownership of public utilities or transportation systems may no longer hold today. Technological developments, for example, have undermined most of the *raison d'être* for a government monopoly of mail and telephone services. New methods of monitoring and charging for the use of highways have better enabled private firms to supply these products; while the growth of inter-firm networks offer an alternative to government funding of expensive capital projects.

At the same time, it would be wrong to conclude that the renaissance of the market system should reduce the role of government to a minimalist one. It is yet another paradox of globalization and alliance capitalism that, to ensure its efficient functioning, there needs to be a closer cooperation between the public and private sectors. The underlying characteristics of most markets of the 1990s are very different than those of the craft or the scale production eras. There is more uncertainty attached to them. The specificity of assets has enormously increased. There is more information asymmetry between buyers and sellers. There are more opportunities for opportunism. Markets cost more to set up and monitor; and they generate more externalities than once they did. Underlying demand and supply conditions are continually changing; and an increasing number of products are taken on the form of "public" goods. Moreover, globalization brings with it its own governance costs, such as those which arise from the structural integration of different cultures and institutional regimes. At the same time, the market system is *par excellence* an example of a social good; and it is the government's responsibility to see that this system works to the interests of its constituents.

Too often, I believe, governments, hierarchies and markets are considered as substitutes to each other. This is a fake dichotomy. Today's economy requires a pluralism of organizational modes, each working in tandem with the other - each supporting the other. Too often taxation is regarded as a necessary evil, rather than a price which has to be paid for the supply of competitiveness enhancing public or social goods and services. Too often, too, governments are perceived as regulatory and controlling agencies, rather than as facilitators of markets, and as suppliers or stimulators of the appropriate learning systems and mind sets for the upgrading of human and physical assets.

Elsewhere (Dunning, 1994), I have asserted the need for a fundamental rethink of the functions of government, or, if you like, a "perestroika" of government. This, I believe, is not primarily a question of increasing government expenditure - although the demands of technological change may require large sums of money to be spent on infrastructure (especially in the area of worker retraining and innovatory activities); but of reconstructing the building blocks of governance to achieve a more holistic and integrated set of macro-economic and macro-organizational policies.[27]

In many respects, governments of developing countries are in a good position to meet the demands of the global economy. In almost all countries there is a history of strong interventionist governments; and also an ability to change trajectory speedily. In the last decade, there has not only been a marked realignment in macro-economic policies; but, also a movement towards a less confrontational stance between governments and the business community. Some of the actions taken - such as the introduction of the policies I have already identified - normally take several years to have any real effect. Others involve major institutional and attitudinal changes, which could take a generation or more to accomplish.

But as a guide to the principles of modern government, I can do no better than refer to a recently published book by two US scholars, David Osborne and Ted Gaebler (1992) called *Reinventing Government*. While the authors are mainly directing their thoughts to an American audience, I think what they have to say is no less relevant to governments all over the world. Chapter titles such as *Entrepreneurial Government, Competitive Government, Catalyst Government, Flexible and Adaptable Government, Empowering Government, Mission Driven Government, Market Oriented Government, Anticipatory Government, Consensus Government* and *Customer Driven Government* give some of the flavour of what the authors are recommending. But, it all comes down to the need for a reconsideration of what government is, or should be, about; and if the discipline of globalization hastens this reconsideration, I welcome it.

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27 Which may, too, embrace some social policies insofar as the outcome of these may no less affect competitiveness.

9. INTERNATIONAL REGIMES

I cannot, however, end my presentation without making some reference to the role of supranational forms of governance. Because there is little time left, I will do little more than acknowledge the role of privately sponsored international associations or consortia of firms.

Perhaps the most frequently asked question about globalization is:

> As the globe is becoming more structurally integrated by the activities of large and powerful private corporations, and also by the actions of national governments to protect the interests of their own citizens, does this not require some form of supra-national polity to ensure that the behaviour of both corporations and national governments is consistent with global economic welfare?"

I propose to answer this question by identifying the circumstances in which supranational economic regimes are likely to be a superior form of governance than markets, hierarchies, networks of firms or individual governments. I hope you have well recognized some logical progression in my analysis. I began by discussing the costs and benefits of alternative forms of organizing production and transactions by firms within a market oriented economy; and of how these costs and benefits had changed over time. I then went on to suggest that if they were to properly fulfil their social function, techno-economic production systems - be they made up of individual firms or networks of firms - required a macro-organizational framework which only governments, as custodians of the interests of their citizens, could provide. Again, because of technological advances, changes in economic policies and the opening up of the world economy, this framework itself, became increasingly questioned. In particular, I argued that in the contemporary age of alliance capitalism, governments needed not only to take a more systemic approach to their varied economic functions, but to better recognize that, because of the increased mobility of wealth creating assets, they are increasingly competing with each other for investment dollars.

There are two main reasons why supranational regimes may be necessary in a global economy. The first is that the unilateral behaviour of governments, which is geared to promote the good of their own citizens, may not be globally welfare maximizing. This is because of the possible adverse affects, i.e. negative externalities, of this behaviour on the citizens of another nation. These might arise, for example, from the pursuance of geo-economic and rent seeking strategies by one government, which might lead to retaliatory action by other governments. The "beggar my neighbour" trade sanctions imposed by governments of industrial countries in the inter-war years are a classic example of welfare reducing policies; and it was precisely to deter this kind of behaviour that GATT was established in 1946 to draw up the "rules of the game" for international trade. But, as we have seen, the globalization of the world economy has considerably widened the scope of competition and interdependence among governments. This has, consequently, enlarged the international playing arena, and has made it necessary for more rules to be established if geo-economic conflict is to be avoided, and the game is to be played fairly and to the benefit of all (Luttwack 1993).

The second reason for supra-national regimes is that there are some cross-border market failures which cannot be fully compensated for, or surmounted, either by the actions of hierarchies or by national governments. The presence of international politico-market failure is most dramatically seen in the fields of satellite communications, the exploration of the sea bed, the protection of the ozone layer, environmental pollution and military security. In each of these instances, supra or inter-governmental action may be necessary either to reduce the coordinating and transaction costs of such activities, or to capture the extra-territorial benefits of inter-country networking. The twenty-first century seems certain to witness a growing number of these international public and social goods, each of which will require pluralist governance structures if they are to work for the global good.[28]

It is, perhaps, worth reminding ourselves that inter-government cooperation on non-economic matters dates back many years. Agreements on technical standards, weights and measures, and meteorological systems were all first concluded in the last century However, the idea that supranational regimes may be an appropriate means of governing *economic* activity is relatively new, and is still very controversial. But, two things should be said. The first is that it is becoming increasingly difficult to distinguish between what is and is not an economic activity. For example, each of the examples of politico-market failures I have just described, affect, in some way of other, the infrastructure of modern economic activity. The second is that the emergence of the global economy, alliance capitalism and the widening competing interface between governments, is forcing a reappraisal of our attitudes towards the role of transnational economic regimes.

There are essentially two ways of implementing supranational governance. The first is by the subordination of the sovereignty of nationhood to some kind of supranational authority. One form of such subordination is a merger of nation states - which carried to its extreme - leads to world government. While all the evidence seems to point to the disintegration, rather than the integration, of nation states, we are also witnessing - and here there are some interesting parallels with what is happening in the corporate world - the growth of inter-country alliances, or networks. These are usually set up to achieve a specific objective, but they all address problems, challenges and opportunities which can only be effectively dealt with at a supranational level.

In the economics arena, however, supra-national control is likely to be primarily exercised at a functional or issue level. In spite of the recent protracted and tortuous GATT negotiations, there is a lot of room for grafting on other issues to the GATT agenda. The indirect ways in which national governments can, for good or bad, affect trade and FDI is growing all the time. Besides the most obvious of below cost competition, i.e. dumping, price competition, industrial, environmental and social policy, can all be used as instruments for tilting the level of the playing fields. Perhaps the newly established World

28 For a more detailed examination of international regimes and politico-market failure, see Eden and Hampson (1990).

Trade Organization (WTO) (I say newly established, although it was first recommended nearly fifty years ago) will provide the institutional framework for this. I believe that international labour standards have already been placed on the agenda of the WTO.

Alongside the strengthening of global governance systems - particularly at an issue level - regional governance systems are also becoming more important. It is much more likely that national governments will be prepared to surrender parts of their economic jurisdiction to a supranational authority made up of nations with similar institutional, cultural and ideological backgrounds to their own, than to one which comprises nations which are widely different in these respects.

At the same time, there is nothing to prevent representatives of regional schemes from getting together to discuss issues of extra-regional interest. This, in fact, is what the G7 is mainly about, and it has had a good deal of success in the past. While I would anticipate that regional integration - of one form or another - is likely to be an increasingly preferred way of supranational governance - particularly where the harmonization of national policies is desired - I can foresee a whole set of new alliances among nations being established in the next few years; and these could pose new problems for the coordination of governance itself. Again, I think there are lessons to be learned from the success and failures of inter-firm networking.

The other main (and complementary) avenue to supranational governance[29] is, in many respects, more in the spirit of alliance capitalism, in that its success rests less on mandates and regulations and more on the sharing of ideas, cooperation, trust, reciprocity and forbearance of its participants. The focal aim of this form of polity is to coordinate the actions of national governments in their response to cross-border market failure.

Such attempts to achieve this objective usually originate in the debating chambers of the United Nations and its various agencies, the OECD, the European Community, ASEAN and similar institutions. But the influence of such bodies should not be taken lightly - particularly as it affects developing countries. I certainly do not see these institutions playing a less important role as globalization proceeds; indeed, I am more sanguine that, with the ending of the cold war, and at least some harmonization of economic policies among governments, that in tackling the remaining, but no less serious, problems facing the nations of the world, that a spirit of fusion, rather than fission, in the ideas expressed and decisions reached will prevail.

In particular, I believe that Raúl Prebisch would have relished the challenges and opportunities now facing UNCTAD. Far from being constrained in its activities by the initiation of such institutions as the WTO, I can envisage it taking on additional responsibilities. In this respect, the arrival of the erstwhile UN Centre on Transnational Corporations in Geneva is of critical significance. For, as I have indicated, both trade and economic development are being increasingly fashioned by the cross-border equity and non-equity investment relationships forged by TNCs. Moreover, as it seems likely that a

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29 In this talk, I do not intend to deal with the issue of bilateral governance.

higher percentage of TNC activity will be directed to developing countries in the next decade or more, it is entirely appropriate UNCTAD should take this new area of research and advisory work under its wing.

But, more than this, UNCTAD has always taken an eclectic view of its terms of reference; and has studied and given advice on many subject areas which indirectly, rather than directly, affect trade and development. Competition policy and environmental issues are just two examples. As an increasing number of trade related issues, previously thought to be of purely domestic relevance, now increasingly impact on trade, FDI and so UNCTAD's responsibilities should be widened to embrace these. In particular, I foresee matters to do with the evolving techno-economic structure of production and the socio-institutional framework of nations - and especially those of developing nations - as demanding the highest priority as UNCTAD embarks on its next thirty years of research programs. I wish it well.

In summary then, I believe that the twin forces of globalization and the movement toward multi-polar, rather than hegemonic, politics are demanding a reappraisal of the kind of supranational regimes that have dominated world politics over the past half century. The time has surely come to ask such questions as:

> What aspects of the organization of economic activity are best coordinated at an international level; and how is this changing with the advent of the global economy? In what way do the existing supra-national institutions need to be revamped to better accommodate the needs of the structural integration of the world economy? How can newly emerging institutions like the EBRD[30] be accommodated into the existing scheme of things, and what are the appropriate rules or regimes for managing the world economy? Should international coordination aim to promote economic convergence or diversity and specialization? Is the current organizational structure of international institutions suited to the needs of the twenty-first century? What form should policy coordination take and how should it be policed in an age of alliance capitalism? To what extent should there be more jointly shared responsibility between supranational institutions and private firms?

It is questions such as these that should be engaging the minds of our best scholars, of the business community and of governments over the next decade.[31]

10. CONCLUSIONS

To sum up, then, I believe globalization is requiring the adoption of a new form of capitalism - which I have called alliance capitalism - if it is to be successful in promoting economic welfare and sustainable development. The distinctive feature of alliance capitalism is that its success depends upon the harmonious interaction between the wealth

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30 European Bank for Reconstruction and Development.

31 Some of the questions I have listed are precisely those of a three year research project about to commence at the London Business School (Currie, et al, 1993).

creating constituents in society. Cooperation and competition go side by side; they are opposite sides of the coin of economic progress.

I have argued that the concept of alliance capitalism has relevance for both the micro and macro organization of economic activity. As far as the former is concerned, I believe the continual upgrading of consumer demands, the accumulation of created assets and the learning experiences of human beings are the main vehicles of economic progress; and the way in which these resources and capabilities are organized is likely to become an increasingly important determinant of commercial success in the years to come. In particular, I have suggested that, whereas for most of modern history the interaction between individual firms and markets has been the cornerstone of economic development, progress in the globalizing economy is likely to depend more on the way firms create new competitive advantages and manage these in conjunction with the core assets of related firms; while the efficiency of individual firms and markets is increasingly likely to rest on how these firms and markets interact with others which are part of the same network of production and exchange. I have also argued for a close partnership between the various stakeholders of firms; and between firms and governments, particularly in the building of the human and physical infrastructure for tomorrow's wealth creating activities.

I have further asserted that, in the formation of their macro-economic and organizational strategies, governments are being forced to interact more closely with each other. Sometimes, this interaction takes the form of competition,[32] and sometimes of voluntary or involuntary cooperation. At the same time, the globalizing economy is demanding a re-examination of the scope and authority of supranational economic regimes, both to minimize the global welfare reducing actions by national governments, and to encourage the harmonization of these actions whenever they can help reduce the costs of organizing cross-border production and transactions.

Finally, I have argued that the transition from hierarchical to alliance capitalism has very considerable implications for sustainable development. On balance, I believe these implications to be welfare-enhancing, although the extent and form of the benefits is likely to differ between sectors and countries. At the same time, I also believe that it is desirable for developing countries to try to create their own networks of value added and inter-active learning activities, and to do so in a way which promotes their own comparative dynamic advantage. I am less optimistic that, in the near future, that the most impoverished nations, and particularly those which are most distant from the hubs of economic power, will gain much from globalization *per se*, although the secondary, or spill-over, effects of other economic and political events may be more positive.

At the end of the day, I believe that the success of globalization and alliance capitalism will rest on the extent to which the peoples and governments of the world can learn to live in peace and harmony with each other. For, if Samuel Huntington is right and if our global dream is not to be turned into a global nightmare, the clash of civilizations must be avoided.

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32 As described, for example, by Ostrom (1971), quoted in McKenzie and Lee (1992).

Now civilizations are - and always have been - largely differentiated by religious convictions. Today - as in the past - there is much which is different between these beliefs; and certainly I see little prospects - nor would I advocate - that one religion should "take over" another. Yet, as far as the "rules of the game" which guide the civilized behaviour of individuals and communities are concerned, I believe there is much more which unites Buddhism, Judaism, Islam and Christianity (to name just four of the great religions) than that which divides. Is it too unrealistic to ask that a G7, eight - or whatever the appropriate number is - of the world's spiritual leaders be convened; and that their brief be to establish common ground rules for the values and behaviour of their followers? A naive or impossible dream? Perhaps. A useless exercise? Maybe. But I fear without some consensus of spiritual values among people of good will from widely different cultures, any gains in material welfare which global interdependence might bring, could be completely destroyed by a clash of civilizations, the like of which is too terrible even to contemplate.

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