Responding to globalization

An introduction[1]

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The processes of economic globalization – the increasing integration of input, factor and final product markets across countries coupled with the increasing salience of multinational enterprises' (MNEs) value-chain networks in international economic flows – are reshaping policy landscapes. This volume examines the strategies of governments and firms to respond to the opportunities and threats created by these processes. The pace, depth and impact of globalization is uneven within and across countries and industries. Though globalization is neither inexorable nor inevitable, there is sufficient evidence to suggest that it is causing long-term structural changes in the world economy (Hirst and Thompson, 1996; Strange, 1996; Rodrik, 1997; for an opposing view, Chase-Dunn, 1994). Globalization has both economic and non-economic dimensions, but this volume focuses on the responses to economic globalization only while acknowledging that the non-economic dimensions pose policy challenges for business and public policy.[2]

Cross-border economic linkages have existed for centuries. The trading exploits of Marco Polo and the sea-based trade between the Indus Valley and the Mesopotamian civilizations are well documented. Based upon indicators such as the ratio of exports to gross domestic product (GDP) and the levels of capital flows, some suggest that cross-national linkages were more salient on the eve of World War I than they are now (Rodrik, 1997). The Great Depression and World War II reversed such trends. International economic flows picked up in the 1950s, 1960s and 1970s, primarily through expansion in foreign trade. Since the 1980s, the depth and pervasiveness of cross-border economic linkages have accelerated, this time led by the MNEs. Thus, globalization differs from previous experiences of market integration in terms of the expanded role of the MNEs (Cox, 1993).

One indicator of the MNEs' key economic role is the rising level of intra-company trade that now exceeds arm's-length trade ($5.3 trillion versus $4.8 trillion in 1993; UNCTAD, 1996). The value chains created by MNEs now span multiple countries, often in multiple regions of the world, accounting for about 7 percent of world GDP (5 percent in the mid-1980s) and one-third of world exports (about one-quarter in the late 1980s)

(UNCTAD, 1998). Traditionally, the global presence of MNEs was equated with the aggregate level of foreign direct investment (FDI); the latter surged from $1 trillion in 1987 to $3.5 trillion in 1997 (UNCTAD, 1998). However, the level of FDI incompletely reflects the extent of MNE activities since MNEs can access foreign markets through a variety of alternative routes, such as alliances, joint ventures, and dedicated sub-contractors that do not require transfers of capital across borders. International production by the foreign affiliates of MNEs foreign affiliates currently outweighs worldwide exports as the dominant mode of servicing foreign markets ($9.5 trillion versus $6.4 trillion) in 1997. Understanding the linkages between the occurrence and efficacy of these alternatives to FDI and technological, institutional, structural and cultural factors is an important research area in the study of MNEs.

Is globalization different from internationalization? Milner and Keohane (1996) employ the term "internationalization" to describe the changes generated by reductions in transaction costs that increase the cross-border flows of goods, services and capital. Others, however, distinguish globalization from internationalization, both at the country and firm levels. International firms still fly the home-country's flag. Critical functions – R&D, systems of innovation and corporate finance – continue to carry the imprints of the MNEs' home countries. National governments still have incentives to be defenders and promoters of both domestic firms and home-based MNEs. Global firms, in contrast, are not associated with or dependent any particular country. They represent a form of "footloose capital," locating their critical activities in countries that best serve their interests (Ohmae, 1991).[3] Many MNEs still are not *global* in this sense but rather *international* in their orientation and activities.

A similar distinction may be made at the country-level between an international and global economy (Metaph and Michalet, 1978, cited by Mittelman, 1996). In an internationalized economy, nation-states continue to define political and economic spaces. Security issues requiring active state involvement remain important in world affairs. Cross-national trade and investment flows are regulated by the state, or supranational institutions established by them. In contrast, production in a global economy is organized in cross-border value-chains largely outside of the control of national governments. A globalized economy functions in a post-Westphalian paradigm where governments lack the capacities and willingness to enforce policies even within their jurisdictions. The primacy of "methodological nationalism," therefore, does not hold in world affairs and governance is articulated at various levels of aggregation, the national level being one of them (Cerny, 1997; 1999).[4]

Instead of taking sides in the globalization versus internationalization debate where both are treated as *end-states*, this volume views globalization as a *process* of market integration, primarily through the establishment of geographically dispersed value-chains. If internationalized and globalized

economies are conceptualized as end points of a continuum, most countries and MNEs are between these extremes, depending on the policy arena or industry sector. The power of governments has diminished in certain areas but governments still have effective instruments to respond to globalization (Hirst and Thompson, 1995; Boyer and Drache, 1996; Cohen, 1996; Evans, 1997). MNEs still largely retain their national character (Pauly and Reich, 1997; Prahalad and Lieberthal, 1998) even though their critical functions are being spread across countries. The Westphalian system has weakened but the post-Westphalian world order has not yet appeared.

MNE-led global market integration suggests that key decisions on resource allocation are increasingly taken within firms, not by markets or state planning agencies.[5] This does not imply either that the state is withering away, that a "borderless world" (Ohmae, 1991) is on the horizon, or that the Westphalian era has come to an end. As the recent crises in East Asia, Russia and Latin America suggest, governments still play important roles in market and corporate governance.

At least in the short-run, increased global market integration is not *pareto superior* to the status quo. That is, there are "winners" and "losers" across countries (Prebisch, 1950), sectors (Midford, 1993), firms (Milner, 1988), and factors of production (Rogowski, 1989), and the losers are not always compensated for their losses by the winners so that any aggregate gain benefits everyone to some extent (or at least leaves them no worse off). Because of this, there are many political actors with a stake in pointing out the potential harm done by globalization in the absence of better global governance. For example, French Prime Minister Lionel Jospin recently observed that:

> In wanting 'less state' we allowed the development of jungle . . . where we wanted to have 'more freedom' we allowed the installation of the law of the strongest . . . These crises carry with them, in my eyes, three lessons: capitalism is unstable; economics is political; and globalization calls for regulation . . . the globalization of economic activity demands . . . an equivalent globalization of politics.
>
> (*Wall Street Journal*, 1998: A18)

The impacted actors have incentives to address the consequences of market integration and to proactively influence the terms of their future engagement with it. A satisfactory political economy of globalization will deal with the strategies adopted by various stakeholders to influence the distribution of costs and benefits. Such an approach is crucial to explaining and understanding responses to globalization. This volume, therefore, addresses the following questions:

- How does globalization affect a given actor's (government's and firm's) set of opportunities and threats? Six of the eight chapters focus

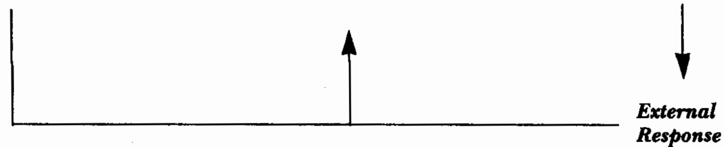

Figure 0.1 A framework for globalization processes.

Institutional contexts and responses to globalization

The impact of globalization on the domestic political economy is mediated through domestic and international institutions. For example, if governments rely on private bankers and stock markets for their borrowing needs rather than on multilateral agencies, they are more susceptible to the credit ratings of Moody's or Standard and Poor's. As a result, governments may have less autonomy in deciding on the pace of and instruments for domestic "reform." Similarly, a country's membership in the World Trade Organization (WTO) and its predecessor the General Agreement on Tariffs and Trade (GATT) may prevent governments from raising tariffs in response to rising imports.

Domestic institutions are also important since they may shield (or expose) some sectors of the economy more than others from (to) globalization processes. For example, if the wages of organized labor are fully indexed to inflation, trade unions may oppose currency depreciation less forcefully. Domestic antitrust policies (and now, external ones as well) may impede domestic firms from using mergers and acquisitions as strategic tools for responding to globalization processes.

Historical contexts and responses to globalization

Policy responses are path-dependent; that is, history plays an important role in shaping choices in the present and in the future. History affects the perceptions of interests, costs and benefits of policies, and the appropriateness of specific ideas. History is also embedded in institutions. Since this volume investigates responses of governments and firms to a major structural discontinuity in the world economy – globalization – historical contexts in which these policies are articulated need careful examination. Historical contexts can take many forms such as the legacies of: Communist rule and central planning in China (Chapter 1), Russia (Chapter 7), Yugoslavia and Bulgaria (both Chapter 8); ethnic conflicts in Russia, Yugoslavia and Bulgaria; the rise of the developmental state in Japan (Chapter 3) and South Korea (Chapter 2); import substituting industrialization in Australia and Latin America (Chapters 4 and 6); and regional cooperation in Western Europe and Latin America (Chapters 5 and 6). These legacies were important in shaping governmental and firm-level responses.[6]

Within these institutional and historical contexts, ideas and interests critically impact policymakers' choice of strategies. By ideas we mean notions about the origins and impact of globalization and appropriate responses to it. Interests connote the perceptions of interest groups regarding the costs and benefits of globalization for their members. The roles of ideas and interests are discussed further below.

Ideas and responses to globalization

Ideas are beliefs held by individuals.[7] Political ideas are beliefs that are put forward publicly as part of a public political discourse. Many argue that the dominance of political ideas about the desirability and efficacy of market-based integration has been critical in furthering globalization (Polanyi, 1957; Scott, 1997). In particular, the role of the global media industry and the "new media order" has been highlighted (Poster, 1995; Babe, 1996; Perry, 1998). MNEs and developed countries are viewed as major beneficiaries of globalization because they monopolize cross-border information, trade and investment flows. The contention is that this monopoly is employed to legitimize market integration. Power, defined here as the ability to shape preferences and outcomes, is being exercised subtly to shape political discourse. Gramsci (1988), in particular, distinguishes hegemony from dominance. Hegemony reflects and advances the interests of the hegemon. What distinguishes hegemony from dominance is how these interests are advanced. A hegemon is successful in presenting its interests as if they were universally desirable. Such interests, therefore, tend to be accepted uncritically and consensually. Market integration, adherents of the Gramscian view argue, represents a new form of hegemonic domination since the discourse is dominated by its proponents (particularly MNEs and financial traders) who emphasize its inevitability and the potentially universal benefits of adapting successfully to it. The domination of specific kinds of ideas about roles of markets and governments in allocating resources, therefore, becomes the defining influence in responding to globalization (Mittelman 1996; Douglas, 1999).

The flow of ideas is indeed important in shaping identities and giving legitimacy to market integration. In this volume, ideas are incorporated into the equation in two places. First, they are embedded in the flows of factors, inputs and final products and hence do not have an independent ontological status.[8] Notions of corporate governance are embedded in FDI flows (for an excellent discussion, see Kester, 1996). Similarly, ideas about desirable life-styles and consumption patterns are embedded in the cross-border flows of entertainment products (Appadurai, 1996; Watson, 1998).[9]

However, significant variations remain within and across countries on the desirable consumption patterns, the role of government, the trade-off between environmental issues and economic growth, and the architecture for corporate governance. Along with globalization and the emergence of supranational identities as embodied in the euro (Fratianni, Chapter 5), there is a rising tide of localization manifesting in resurgent civil society and ethno-nationalism (see Crawford's Chapter 8 on this subject). The global information infrastructures that enable MNEs to reduce transaction costs of managing their value-chains and permit their managers to leverage a global mind-set, also empower local groups to network and assert their identities.

In this context, it is instructive to trace the relationship of globalization to managerial orientations. Globalization can be viewed as having two components: first, market integration (similar to the definition of globalization adopted in this volume); and second, the evolution of a global mind-set among key decision-makers.[10] International business literature, in particular, gives importance to managerial orientations. Perlmutter (1969) differentiates among three categories of managerial attitudes and orientations: ethnocentric, polycentric and geocentric. Employing this classification, one could hypothesize that managers in international firms have polycentric perspectives while in global firms they have geocentric attitudes.

This leads to a familiar chicken-and-egg issue. Are firms globalized because managers have geocentric attitudes or vice versa? We believe that a specific orientation is not the defining feature of or the causal variable for globalization. It is a response to globalization processes. As Robles argues in Chapter 6, managers in many Latin American firms are now increasingly adopting a regiocentric mind-set, thereby viewing Latin America as the relevant economic landscape for their firms. They believe that a regiocentric orientation gives them a competitive advantage over MNEs whose managers have geocentric or ethnocentric mind-sets and cannot, therefore, meet the idiosyncratic challenges of the Latin American markets.

Nevertheless, ideas alone provide under-specified explanations of policy outcomes. With competing sets of ideas, strategic choices of policymakers in response to pressures from interest groups play important roles in privileging one set of ideas over others (Hall, 1986; Mendelson, 1993). Thus, ideas and interests together, in given historical and institutional contexts, provide a better specified explanation of how policymakers respond to globalization.

Interests and responses to globalization

By redefining economic and political spaces (cultural space as well, but that is outside the ambit of this project), globalization may weaken "domestic bargains" between labor and capital, between financial and non-financial capital, between agricultural and non-agricultural sectors, among ethnic groups, and between central and local governments.[11] It is often noted that globalization is eroding the power of governments, at least in the economic sphere. Inasmuch as governments were the guarantors of domestic bargains, such compacts are enfeebled, thereby necessitating a realignment in or restructuring of the domestic political economy.

Many structures of corporate governance represent bargains between labor and capital, as well as between financial capital and managers. For example, the *keiretsu* system in Japan is predicated on an implicit bargain between labor and capital, whereby, in exchange for lifetime employment guarantees and gradually rising wages, labor gives up the right to undertake industrial actions. Similarly, the close nexus between the lead *keiretsu*

bank and manufacturing firms ensures that firms have easy access to long-term funds in exchange for accepting the bank's influence on corporate strategy. Globalization processes are weakening such bargains. In response to continued recession in the Japanese economy and the economic crisis in East Asia, Japanese firms have begun to lay off employees, and banks have become less forthcoming in proving new credit to manufacturing firms, including fellow *keiretsu* members. In general, economic integration provides asymmetric benefits within and across countries and hence puts stress on domestic bargains. As Katzenstein (1985) has argued, domestic bargains in the small open economies of Europe were designed precisely to cope with fast changes in the world economy. Some bargains, however, are more fragile than others. As recent changes in Japan, Korea and Germany indicate, the post-war bargains between labor and capital are under severe stress.

What are the defining feature of domestic politics in response to market integration? The ususal suspects are factors of production (Rogowski, 1989), sectors (Midford, 1993), and firms (Milner, 1988). Further, non-governmental groups that apparently do not derive any material rewards or bear costs are important players. The incentives and abilities of various groups to influence policy response is critically dependent on the distribution of costs and benefits of globalization – the more concentrated are the benefits or the costs, the greater are the incentives to organize.

Foreign and transnational interest groups may also impact domestic bargains and how policymakers evaluate various strategies. Examples of such groups include non-governmental organizations, international aid agencies, international organizations, and foreign governments. The lowering of information exchange and organization costs due to the telecommunication revolution, particularly the Internet, has played a key role in enabling such groups to network and to influence domestic policy debates. The roles of aid agencies in Yugoslavia and Bulgaria (Crawford, Chapter 8), non-governmental organizations, particularly human-rights organizations, in China (Yang and Su, Chapter 1), international organizations, particularly the IMF, in South Korea (Moon, Chapter 2) in impacting domestic politics are noteworthy.

Major themes

This volume examines the response to globalization in countries in the midst of major structural and institutional transitions: from planned economies to market-based ones (China, Russia, Bulgaria and Yugoslavia), from import substitution policies to liberal ones (Latin America and Australia), from developmental state paradigm to Anglo-Saxon corporate governance (Japan and South Korea), and from country-level strategies to regional-level responses (Latin America and Western Europe). These transitions, that could be exorable and reversible, set the institutional and historical

contexts in which policy responses evolve. We do not take a normative position regarding their desirability. Our effort is to understand why and how policymakers choose one set of policies over others in responding to globalization.[12]

From planned economies to market-based economies

One of the significant structural changes in the international political economy is the acceptance of market-based systems across countries to allocate resources. Centralized planning has few defenders left. This transition manifests in the rejection of the Communist system in the transitional economies of China, the former Soviet Union, and Eastern and Central Europe. It also manifests itself as support for deregulation, privatization and "reinventing government" in the United States and Western Europe. The degree of change, and the success in achieving societal objectives such as maintaining economic growth and reducing unemployment, varies across countries.

The transitional economies face unique problems in responding to globalization. Most of them are undergoing transitions from an authoritarian to democratic systems. They do not have adequately developed systems of market and corporate governance. Market-based processes work efficiently when transaction costs are low, property rights are clearly defined and are easily enforced (North, 1990). Since transitional economies have had little (recent) experiences in managing private property-based systems, contract law and other types of commercial law are not well developed. Workers and managers trained to work in collective and state-owned enterprises are generally ill-prepared to function in a market economy. After an initial spurt in privatization of state-owned enterprises and new legislation to establish a legal framework for a private property-based market, progress toward further expansion of the domestic private sector generally slows down. Thus, policymakers in transition economies are constrained by the historical and institutional legacies of central planning and authoritarianism in devising successful strategies for responding to globalization.

Among the transitional economies, China has done relatively well in facing the challenges of globalization. To a significant extent, the Chinese government has retained the necessary autonomy to decide on the pace, sequencing, and choice of policy innovations. As Dali Yang and Fubing Su point out in Chapter 1, one of the most visible features of Chinese engagement with the global economy is the increased inflow of foreign direct investment (FDI). In recent years, China has emerged as the second largest recipient of FDI behind the United States, attracting $45.3 billion in 1997 (UNCTAD, 1998). As discussed previously, the increasing salience of FDI as part of the establishment of international value-chains by MNEs is one of the distinguishing features of market integration since the 1980s. Other

indicators of China's integration with the world economy are also impressive. Its foreign trade has risen nine-fold since 1980: from $38 billion to $325 billion in 1997, excluding Hong Kong. Its trade–GNP ratio has risen from 10 percent in 1978 to 40 percent in 1995. Clearly, foreign trade and investment have been major engines of economic growth.

Yang and Su examine the changes in government strategies and the debate on "national" industries in the light of growing FDI. They contend that with increasing levels of FDI flows and other forms of market integration, China has "normalized" in that its leaders have shed the revolutionary rhetoric and now talk about respect for international norms and market rules. Notions about profits and becoming rich are no longer derided as unhealthy capitalist influences. To institutionalize its increasing engagement with the world economy, China has entered the World Bank, the International Monetary Fund (IMF), the Asian Development Bank, the Asia-Pacific Economic Forum (APEC), and is negotiating membership in the World Trade Organization (WTO). Thus, as part of its response to globalization, China is seeking to change the institutional context of its engagement with the global economy.

China seeks to acquire foreign technologies while preserving the existing political system and controlling the pace and extent of institutional change. Instead of a "shock therapy," it is slowly dismantling the huge and inefficient public sector. The legacy of colonial exploitation and instability also makes the leadership careful in selecting policy instruments and accelerating the pace of change. The party apparatus and the Peoples Liberation Army (PLA), in particular, are powerful interest groups against quick changes.

The effectiveness of China's policies has varied over time. When market-oriented reforms were initiated in the early 1980s, few investors came. As the economy grew and reforms speeded up, China's attractiveness for FDI increased, giving China some leverage over these flows. The leverage was limited, however, as the Chinese leadership found out while adjusting its investment policies in the mid-1990s. Nevertheless, Yang and Su contend that the central government appears to have succeeded in having MNEs bring technology and know-how into China. They also examine Chinese policies to meet its growing energy shortage, especially its forays in the international oil business. They suggest that Chinese policies are designed to tame an unruly market, not to supplant it. Their overall conclusion is that China has responded to globalization by speeding up economic reforms, especially in terms of forcing the Chinese government and firms to meet international competition and play by the market rules.

Globalization poses special challenges for the transition economies that are also undertaking the task of nation-building. This volume examines three such countries: Russia, Bulgaria and Yugoslavia. These countries were under Communist rule and composed of multiple nationalities and ethnicities. One of the benefits of the spread of Communism was supposed to be

the transcendance of national differences. What this meant in practice, however, was an effort to enforce a regime of centralized political authority, linguistic uniformity (e.g. the "Russification" of the Soviet Union), and religious suppression. The legacy of the Communist rule and of (suppressed) ethnic conflict, and the ongoing transitions from authoritarian systems to democracies, significantly constrain the choice of policy instruments and the pace of their implementation in response to globalization.

Steven Solnick (Chapter 7) examines the special challenges for Russia posed by globalization in the attempts to redefine the boundaries of its public and private spheres. In post-Communist countries, the collapse of the centrally planned economy created an institutional context where the role of the state was unclear and the transnational entities often enjoyed greater legitimacy than domestic governments. In Russia, this crisis has been deepened by the internal divisions of the federal polity: the central state must redefine itself on the world stage while simultaneously renegotiating the division of powers with subnational governments.

One of the hallmarks of a well-functioning market economy is competitive markets. Since such conditions were difficult to establish quickly in domestic markets, the Russian "reformers" sought to use international competition as a proxy by making their national currency fully convertible. This, however, lead to unforeseen consequences such as large currency devaluations that were harbingers of a larger trend toward macroeconomic instability (high inflation rates, high unemployment and low economic growth). Though increased international capital inflows offered a quick and effective route to injecting new capital into the economy, some state enterprises were sold at very low prices in local currency terms, leading to a nationalist backlash. In their attempts to solve an economic problem, the reformers created a political problem. Further, since the welfare system was administered at the workplace under central planning, privatization left laid off and unpaid, but still employed, workers without social safety-nets. Thus, as the institutional context in post-Communist Russia changes through privatization or simply through closing down state and collective enterprises, new domestic bargains must be negotiated as the previous ones have lost relevance.

Solnick identifies five elements of the "Russia syndrome" that significantly impact the abilities of the Russian economy to coherently respond to globalization. The first is the fragmented economic space due to disruption of the vertically integrated production chains that were deliberately spread all over the former Soviet Union. One of key requirements of well-functioning markets is low transaction costs, a point also made by Fratianni (Chapter 5) in his examination of the prospects of the euro. A fragmented economic space clearly made firms in Russia less competitive by making them high-cost producers. Second, there was a strong need for capital to modernize and restructure the economic base. Capital could come either from domestic savings or from foreign inflows. Due to severe economic

dislocation and persistent government deficits, investment from the private sector has been crowded out by government borrowing and foreign capital flows were not sufficient to meet the requirements of modernizing the economy.

Third, a weak legal culture and a lack of institutions for enforcing contracts created a high-risk environment for foreign capital. Solnick contends that Russian businesses were more constrained by corrupt bureaucrats and the Russian mafia than by market risks. The fourth element is the slow evolution of Russian identity in a post-imperial world. As Solnick points out, the national anthem that is supposed to epitomize the national identity, still has no lyrics. This lack of coherence is reflected in a variety of policy arenas, and consequently, Russia is unable to respond adequately to the pressures from the global economy. Finally, the fifth aspect is the unwieldy federal structure that consists of twenty-one ethnically-defined republics and sixty-eight other subnational governments. The central government's failure to secure a sustainable tax base has ushered in a chronic fiscal crisis while the processes of globalization make it harder for central state actors to consolidate control over economic and political resources. If officials at the center fear that globalization will relegate them to the margins, they may be tempted to launch a pre-emptive strike against liberalization. On the other hand, if transnational actors provide adequate assurances that the central governments will remain essential participants in any significant cross-border transfers of capital, labor, or goods, the officials could provide valuable support for institutionalizing the processes of market integration.

Any analysis of strategies to respond to globalization in states like Russia must be sensitive to the shifting perspectives of different actors. Solnick examines four key groups of actors – federal officials, regional officials, financial–industrial groups, and citizens – with particular attention to issues of foreign ownership of privatized industrial assets and foreign participation in the exploitation of valuable natural resources. He suggests that domestic politics is structured around the following issues: What is at stake in the trend towards globalization? What are the particular challenges and opportunities confronting each group as a consequence? And how do the strategies of one group for coping with these phenomena alter the incentives perceived by other groups?

In Chapter 8, Beverly Crawford examines the challenges posed by globalization for Bulgaria and Yugoslavia, which are attempting to create nation-states in the face of "identity politics." Conceptually, her chapter investigates the broader question of whether globalization hastens social disintegration and exacerbates social conflict, and, if so, what potential strategies might mitigate its role in social disintegration. The global imperatives of "state shrinking," economic liberalization and fiscal reform have clearly affected social integration throughout the world. Particularly throughout the post-Communist world, the transition from central plan-

ning to a market economy and the pressures of liberalization have weakened the state's capability to allocate resources and to meet the obligations of past domestic bargains that contained potential social conflicts (also see McGinnis, 1999). In those places where ethnicity and religion had been previously politicized, struggles over declining resources often resulted in communal violence as old institutions were dismantled and old social bargains broke down.

Thus, the forces of globalization can have a dual negative impact on state and society. They can weaken those state institutions that ensure social peace and can cause distinct cultural groups in multi-ethnic societies to suffer disproportionate economic hardships. Under the disintegrating power of these two forces, "ethnic entrepreneurs" can emerge to articulate grievances and to create a parallel political authority among distinct cultural groups. This can mean that culture becomes the primary political cleavage in society, and that cleavage, combined with the weak legitimacy of established authority, can lead to violent social conflict.

Crawford compares the responses of Yugoslavia and Bulgaria to the disintegrating forces of globalization. She shows how Bulgaria's institutions responded well to globalization and avoided social disintegration, while Yugoslavia's policy responses exacerbated the problem of social fragmentation, leading to a violent cultural conflict. The two countries are strikingly similar in terms of historical legacies, social composition and economic structure. Both suffered from the legacies of Ottoman rule that left Muslim enclaves within largely Christian populations. Both suffered the economic and political distortions of Communism's command economy layered over ethnically-segmented markets. In both countries, ethnicity and religion were highly politicized. Even during Communist rule, participation in the global economy left their economies with high foreign debts and highly uncompetitive industries. In both countries, the economic hardships associated with the fall of Communism and an opening to the international economy fell disproportionately on politicized cultural groups. Both experienced struggles over the allocation of declining resources in the wake of Communism's collapse, both emerged from the Communist period with politically charged ethnic competition, and both saw the rise of "ethnic entrepreneurs" who attempted to usurp political authority in the face of weakened political institutions. Indeed, Muslim minorities in Bulgaria had been systematically oppressed during the Communist period, while in Yugoslavia they had been given increasing autonomy. Yet Yugoslavia erupted in violent conflict, while Bulgaria did not.

The former Bulgarian Communist regime was the guarantor of a domestic bargain between the Bulgarians and the Turkish and Pomak minorities that provided the minorities with economic security. Ethnic Turks were concentrated in the tobacco industry. The state purchased tobacco from them, thereby ensuring full lifetime employment. With the

fall of Communism, however, the inefficient and uncompetitive tobacco industry was privatized, and its failure in global markets left the majority of Turks unemployed and destitute. This created an opportunity for Turkish political entrepreneurs who sought to mobilize the Turkish population against the liberalizing policies of the new regime by labeling unemployment as ethnic "genocide". Crawford notes that in its aid policies, the West has (unfortunately) focused exclusively on the protection of collective human rights, while the economic situation of minorities has worsened.

In Yugoslavia, federalism before the fall of Communism, and the failure to institute a competitive political system that transcended ethnic identities after 1989, exacerbated ethnic tensions in the face of growing international pressure. Historically, the system of regional resource allocation had provided ethnic entrepreneurs with tangible resources to build political support. Further, Yugoslavia was also handicapped in that Tito, a critical guarantor of the domestic bargain in terms of ensuring a balance of power among the various nationalities, was no longer alive to oversee the transition from Communism to a more plural order.

In effect, Crawford explores the role of globalization in cultural conflict by looking at both its differential impact on diverse cultural groups in multicultural societies and its impact on the state's ability to support institutions that provide social order or repress dissent. She contends that the institutions of political participation and resource allocation are the crucial factor affecting social integration, and key institutions differed in Yugoslavia and Bulgaria. Globalization is a "trigger" for cultural conflict, but not an underlying cause. Responding effectively to globalization can attenuate social conflict but not erase it. However, policy response should establish or strengthen institutions that ensure that social cleavages are cross-cutting and not mutually reinforcing.

The developmental state and responding to globalization

The recent crisis in East Asia has led policy scholars to re-examine various models of economic development, especially the efficacy of the so-called "developmental state" in promoting economic growth. It has forced business strategy scholars who were proclaiming the superiority of "alliance-capitalism" over the Anglo-Saxon version to re-examine the strengths and weaknesses of the various architectures of corporate and market governance. The East Asian Tigers had been praised for their agricultural reforms, export-orientation, and investment in human capital. Their rise from relative poverty in the 1950s to affluence in the 1990s was impressive. Though some predicted that their growth would decelerate due to the lack of technological innovations and productivity growth (Krugman, 1995), the timing and ferocity of the crisis came as a surprise.

It started as a crisis in Thailand and was dismissed as "a cyclical correction that is not expected to be deep or prolonged," by IMF

Managing Director Michel Camdessus (*Wall Street Journal*, 1998: A18). Instead, it turned into a crisis of staggering magnitude affecting most of the countries of the world. Consider, for example, the size of recent IMF-negotiated assistance packages for various East Asian countries: $18 billion for Thailand, $43 billion for Indonesia, and $57 billion for South Korea. And as the Asian flu spread to other parts of the world, Russia was promised assistance of $23 billion and Brazil $30 billion. The IMF has committed about $171 billion over a period of 15 months for fighting what was initially described as a cyclical correction.[13]

The economic downturn in South Korea, perhaps the most ambitious of the East Asian Tigers, raises important questions for scholars of international political economy. In Chapter 2, Chung-in Moon examines the dynamics of globalization in South Korea. Korea has traditionally been known as the hermit kingdom. Its modern history has witnessed many struggles between reformers favoring interaction with the outside world and the conservatives favoring a closed door. The legacy of Japanese colonial domination strengthened nationalism and xenophobia, and the continuing conflict with Communist North Korea reinforced both. Thus, South Korea had a unique foreign policy combining Communist containment and economic nationalism pursued jointly by a state focused on national security objectives and a "private" sector deeply collusive with state actors. Although the government aggressively promoted exports, it continued to support an import substituting industrialization policy until quite recently. South Korea's economic success could be attributed to strategic industrial policy managed by a coalition of state and business actors (Haggard, 1990; Wade, 1990).

Success breeds its own problems. There are diminishing returns to economic nationalism, especially in an era of increasing globalization. There were some structural problems as well – the most serious being the burgeoning domestic and external debt (external debt grew from $44 billion in 1993 to $153 billion in 1997) due to high financial leveraging of the major manufacturing firms (the largest of these are called *chaebol*). The Korean government controlled the preferential allocation of credit to the *chaebol* through a sort of "window guidance" familiar to students of both the French and Japanese economic systems. Banks were instructed by the Ministry of Finance to make credit available for purposes deemed to be in the national interest. This was done initially to allow Korean firms to deepen the industrialization that had occurred as a result of the adoption of import substitution policies. The government indicated its preferences and thereby absorbed some of the risks that the private firms assumed when they borrowed funds from the banks. This system permitted the larger firms to invest first in heavy industrial production (ships, iron and steel, etc.), then in consumer durables (automobiles, refrigerators), and most recently in high-technology electronics (DRAMs, liquid crystal displays).

The *chaebol* system permitted the firms to make risky long-term investments, but it also prevented them from correctly gauging the demand for final products. As a result, manufacturing firms often invested in extremely capital-intensive industries that were plagued by overcapacity. A prime example of this was Samsung's decision in 1997 to invest in high-volume automobile production. Capital-intensive industries have high break-even points and a slight drop in demand can cause major liquidity and solvency problems. Currency depreciation (from 808 won/dollar in 1993 to 2,000 won/dollar at its lowest) added to the *chaebol's* woes by sharply raising the value of foreign debt carried by these firms. However, due to excess capacity worldwide, many firms were unable to export their way out of their predicament. Currency depreciation also created problems for the banks who saw the value of the assets pledged by manufacturing firms as collateral drop sharply. After a series of unexpected bankruptcies, banks' earnings declined suggesting that some of their outstanding loans to the *chaebol* might be non-performing. Banks became more and more concerned about lending additional money to highly leveraged domestic firms. As they cut back on their lending, the consequent credit crunch unraveled the industrial system. Further, the reluctance of banks to discount corporate bills caused a severe liquidity crisis for small firms that had traditionally relied on discounted corporate bills and promissory notes for working capital requirements.

Moon contends that prior to the crisis, globalization was used as a slogan to connote rising level of exports; reforming the domestic economy was not on the agenda. Attesting to the importance of the impact of ideas on policy outcomes, in 1994, President Kim Young Sam adopted globalization (*segyehwa*) as a slogan to capture the imagination of the masses, especially because the previous slogans relating to democratic reforms were perceived as being stale. In the quest for making South Korea a member of the prestigious Organization for Economic Cooperation and Development (OECD), President Kim also ushered in a series of new economic liberalization efforts. The increasing levels of international trade gradually exposed South Korea to internal and external pressures (primarily, American bilateral pressures) to open and liberalize. Financial liberalization led to the accumulation of short-term foreign debt to finance long-term investments – always a risky proposition.

The resultant economic crisis that began in 1997 posed significant challenges to extant systems of market and industrial organization, particularly the *chaebol* system. Moon's conclusion is that South Koreans now realize structural limits to mercantilism and that a deeper integration with the world economy that requires reforming domestic economic institutions is unavoidable. The newly elected government of President Kim Dae Jung that assumed office in 1998 represented a coalition of mid and western regions, workers, and small and medium firms. The previous coalition served the interests of eastern regions and big business. Thus, if

responding to globalization required restructuring the *chaebols*, perhaps the current president is in the best position to do so. This was, however, impeded by the fact that there were no clear domestic winners, at least not in the short term, from domestic restructuring who could champion the painful process. On the contrary, there were only losers that had significant incentives to mobilize and oppose dismantling of the existing system that had elevated South Korea from the "periphery" to the "core."

The economic fortunes of the East Asian Tigers and Japan are intertwined. The Asian Tigers have mimicked the Japanese developmental state model with varying degrees of success. Though Japan's current economic woes predate the Asian crisis, they have been accentuated by it. Many attribute the continued economic crises as a symptom of Japan's inability to shed the developmental state model and adopt a market-based system for resource allocation. The *keiretsu* system that enabled Japanese managers to think long-term and invest in projects with long-gestation lags, is now viewed as stifling risk-taking and overly insulating the managers of firms from market realities.

In Chapter 3, Marie Anchordoguy explores the Japanese response in the software industry to processes of globalization. The software case is important for several reasons. It is a technologically advanced industry, deemed by Japanese leaders to be key to Japan's future economic success. Yet it is struggling in both operating system and applications software because of the continued reliance on the traditional approach to creating a comparative advantage – boosting economies of scale and focusing on manufacturing expertise to cut costs and increase quality – that worked well in manufacturing industries such as autos, steel and semiconductors. In contrast, the success of US firms is largely due to entrepreneurial efforts in a market-oriented environment sensitive to consumer needs and to their control of dominant standards. Thus, the Japanese software industry is grappling with pressures to converge with the Anglo-Saxon market-based capitalism. Observing the policies they adopt in software provides an important opportunity to understand how the Japanese government and firms currently view the strengths and weakness of Japanese capitalism relative to that practiced in the Anglo-Saxon world.

Anchordoguy lays out two indicators for measuring convergence. The first, technological convergence, measures the degree to which Japanese software companies have responded to international competition by offering products based on international standards. The second, market convergence, reflects the degree to which the state and firms rely on the market to determine products and prices. Needless to say, convergence on these criteria is critically influenced by interests of the major domestic actors and the acceptability of the notion that Japan needs to change its existing system of corporate, market and political governance.

The Japanese form of capitalism was created within a given institutional and historical context. After World War II, the Japanese economy was in

ruins. Japan had not been able, even during the war, to catch up with the West in industrial production. The system that was established after the war was designed to permit the Japanese economy to become an industrial powerhouse by reducing the risk assumed by private firms in investing in capital-intensive production methods. We have already told much of the story in discussing the rise of the *chaebol* system in Korea. The main difference is that Japan was first and Korea was a later imitator. The East Asian countries are often compared to "flying geese:" Japan was the lead goose, Korea was a follower.

The Japanese form of capitalism that evolved after World War II led to unprecedented levels of prosperity. It survived the challenges created by increased energy prices in the 1970s by transforming itself into a slightly different system, less dependent on "administrative guidance" from the state and more dependent on developing a consensus between managers of private firms and government bureaucrats. As Anchordoguy points out, Japan had little experience domestically with "markets"; rather, it had networks of established customer relationships. Further, the Japanese state did not function as an umpire and maintainer of the market system, the necessary attributes of the Anglo-Saxon model. Thus, in grappling with globalization, Japan was forced to rethink and re-evaluate its historical institutions of economic and political governance.

Based on the two indicators, Anchordoguy examines whether Japanese software producers and the state have responded to global pressures by moving away from institutional arrangements and practices that manage market competition toward reliance on relatively unfettered market forces to determine the types, quantity and price of products offered. Her conclusion is that in spite of some progress towards convergence, much remained to be achieved. The Japanese government continued to use markets forces to achieve specific outcomes but did not rely on them for key decisions of resource allocation. The role of path-dependency, the power of interest groups that benefitted from the status quo, and an unease about jettisoning a system that brought Japan unprecedented prosperity and helped in rebuilding its war-torn economy, were important constraints preventing market convergence.

From import substitution to liberalization in Australia

East Asia and Australia are often viewed as jointly constituting a potential regional bloc, one of the three pillars of the so-called triad. No longer viewing itself primarily as an outpost of the West, Australia has steadily and consciously expanded its economic linkages with East Asia. As John Ravenhill points out in Chapter 4, in the early 1980s, Australia had one of the most insulated economies in the OECD. He contends that the most fundamental idea shaping the Australian identity was the consciousness of vulnerability, primarily due to its isolated geographic position. Unlike

many small industrialized economies of Western Europe where corporatist structures were employed to adjust to shifting demands of international markets (Katzenstein, 1985), the compromise between labor and capital in Australia was predicated on insulating domestic groups from international forces. This compromise was also influenced by their desire to avoid the class conflict their ancestors had experienced in nineteenth-century Britain. Thus, the state was given the role of arbiter between labor and capital.

The government followed a policy of "protection all around" in which every factor of production was insulated from international competition by an array of mechanisms. The manufacturing sector was protected by import tariffs. Small farmers were compensated for the high costs of manufactured goods through price stabilization programs, subsidized inputs and government-financed R&D. The policy of "protection all around" seemed to work well, especially in developing the infant manufacturing sector. The growth of agricultural protectionism and food crop self-sufficiency worldwide, coupled with the slowing of demand for minerals following the oil price rises in the 1970s, weakened Australia's traditional export sectors. This led to a substantial deterioration in the country's terms of trade in the first half of the 1980s. Slow rates of economic growth forced the government to address the challenges of economic integration. The Australian government in the 1980s dramatically changed its economic strategies at multiple levels – domestically, regionally and in global multilateral institutions. The unifying thread was the emphasis placed on liberalization. Domestic industries were exposed to international competition through a lowering of tariffs. At the regional level, the government engaged in activist diplomacy in pursuit of trade liberalization through the construction of new regional economic institutions. At the global level, the government promoted trade liberalization in the Uruguay Round through its establishment of the Cairns Group of agricultural exporting countries.

By the mid-1990s, the government's emphasis on liberalization as the principal means of responding to globalization was increasingly under attack. High unemployment rates and a rising trade deficit in manufactured goods are forcing a reevaluation of the policies of the 1980s. Not surprisingly, economic liberalism is unpopular with the electorate. Ravenhill concludes by pointing out that Australia has yet to find a substitute for the "protection all round" doctrine to marry the twin objectives of integration with the global markets and domestic social cohesion.

Regional responses to globalization

Import-substitution was an attractive model to develop the manufacturing sector in many countries. As Ravenhill points out in his chapter on

Australia, after significant initial success, diminishing returns had set in by the 1970s. Latin America was undergoing something similar in the late 1980s and early 1990s: experiencing first the declining efficacy of import substitution and then embracing integration with the world economy. Importantly, as Latin American firms sought to become competitive in the world economy by, *inter alia*, tapping into regional economies of scale, they were also pushing for regional economic integration. Thus, the story of European integration is perhaps being retold in Latin America.

In Chapter 6, Fernando Robles suggests that trends towards the formation of a number of new regional trade blocs indicate that regionalism is emerging with a new force, perhaps as a strategic response to the pervasive and relentless process of globalization. After taking a back seat to multilateral efforts to increase trade and investment, regional trade integration has re-emerged as a viable way to shed the constraints of the import-substitution model while insulating powerful domestic economic interests from the competitive pressures of globalization.

This raises the questions of how regionalization relates to globalization. Specifically, is it a "building bloc" or a "stumbling bloc" for global integration (Gilpin, 1987; Lawrence, 1995; Ohmae, 1995)?[14] Robles believes it is the former. Global market integration is unlikely to be uniform within and across countries; some countries (and sectors within them) in a given region may be more integrated regionally than they are with the rest of the world. Further, this could vary across industries. Regional integration could be the result of either "natural" causes such as geographical proximity or conscious policy mechanisms such as establishing trading blocs. Conscious regionalization, which could take the form of adopting regional corporate strategies, establishing regional trading blocs, and/or adopting a common regional currency, is therefore one category of strategy adopted by firms and governments to respond to globalization. However, as the regionalized economies mature and firms find that focusing on regional markets is not conducive to achieving full international competitiveness, regionalization could be expected to lead to globalization.

Regionalization strategies are supported strongly by elites in both private firms and governments in Latin America. Robles identifies two components of regionalism. The first component is economic regionalism, which is based on the desire of economic agents and nation-states to enhance the welfare of their members. The second component is a regional "mind-set" that results from sharing common values and beliefs which shape a vision of what regional members want to become.

Robles focuses on the second component and links it to the corporate strategies of Latin American firms. He contends that a new breed of Latin American corporations is making its mark in response to this new reality of more open economies, globalization and regional integration. These corporations are rapidly exploiting new technologies and other cost-saving techniques. They are leveraging their in-depth understanding of the

region's intricate cultural fabric to compete with global firms and become regional players (at least) in niches neglected by their powerful global rivals. Although a few Latin American corporations are moving quickly to seize opportunities in an integrated American market, the large majority of companies operating in Latin America have not yet embraced a regional vision. These more locally oriented companies using corporate strategies which proved effective under import substitution and an era of weak regional collaboration are being challenged by both more regionally integrated firms and global corporations. Thus, Robles views regionalization as a conscious strategy of Latin American firms to leverage their superior knowledge of the region and to realize regional economies of scale while not overextending themselves by venturing into other regions where the systems of market and corporate governance are different. Further, this change in the mind-set has, to some extent, been accelerated by the formation of the Mercosur and other regional trading arrangements.

The European case is somewhat different from the Latin American one. Regionalism in Latin America overlaps with major political and structural changes in these countries: specifically, a transition from an import-substitution model to an export-led growth model and from authoritarian regimes to a more democratic ones. The members of the European Union do not face these challenges. Most West European countries have had relatively open economies since the 1960s as well as firmly established democratic systems.[15] The European integration project predates the current concerns about responding to globalization. The European Iron and Steel Community, the precursor to the European Economic Community (EEC), was formed in 1952. The Treaty of Rome, which created the EEC, was signed in 1957. The Single European Act of 1987, which amended the Treaty of Rome, addressed the issue of trade impediments and took steps to facilitate greater access of national markets. It also made changes in the governance rules within the European Union, especially by limiting the use of unanimity rule that was stipulated in Article 100 of the Treaty of Rome. The 1991 Maastricht Treaty heralded the monetary and political union. It outlined a timetable for establishing a common European currency and an independent central bank when seven of the twelve EU countries meet criteria on inflation rates, government budgets and interest rates. Consequent to the successful meeting of these criteria (though fudged somewhat), the euro was launched on January 1, 1999.

Clearly, the European integration project had important political and security motivations from its inception. It was partly motivated by the desire of the West Europeans and the United States to permit Germany to recover economically without threatening its neighbors. It was also designed to satisfy the desire of many Europeans to have an alternative to the narrow and corrosive nationalisms that were responsible for the two great catastrophes of the twentieth century – World War I and World War II.

In Chapter 5, Michele Fratianni conceptualizes the euro as a regional

response to the challenges of globalization in the monetary sphere. He believes that the EMU and the euro will improve the abilities of the euro countries to respond to exogenous shocks for two reason. First, the EMU will have fewer linkages to the outside world than the individual economies. Second, the domestic component of the EMU's financial portfolio will be larger than the domestic portfolios of the constituting economies, thereby insulating them from shocks in exchange rate fluctuations, especially between the dollar and the euro.

Currencies are now being internationalized for two reasons: "currency substitution" and "currency internationalization" (also see Cohen, 2000). The former means that a foreign currency becomes the *de facto* tender in the domestic economy, replacing the domestic currency. The "dollarization" of many transitional economies is an example of such substitution. Currency internationalization means that a given currency is used as a unit of account for international transactions by actors of different nationalities. With different currencies competing in the global market, central banks want to protect their monetary space for many reasons including the benefits of seigniorage. Currencies associated with inflationary economies (sometimes called "weak currencies") are deemed less desirable to hold and are more susceptible to being replaced by "strong currencies" (those associated with more stable economies) even in domestic transactions. Central Banks have strong incentives to ensure that the inflation rate in the domestic economy remains low in order to avoid "denationalization" of the domestic money supply.

Historically, there has been a positive correlation between the size of the economy and the transactional domain of the currency. On this count, the US dollar is privileged. To compete with the dollar, the smaller European economies joined together as a monetary union (EMU). Financial markets, however, have judged that a large EMU is likely to produce a weak euro. The announcements that the Maastricht convergence criteria will be "fudged" have been correlated with an appreciation of the US dollar vis-à-vis the German mark, the French franc, and the Italian lira, but not vis-à-vis the British pound.

The EMU will exert a strong centripetal force on domestic financial markets, endowing them with a depth and liquidity close to that of the United States. The levels of financial integration, however, will fall short of the levels prevailing in the United States. As Fratianni points out, the "Excessive Deficit Procedure" and the "Stability and Growth Pact" are poor substitutes for the lack of political integration. Historically, political unification has tended to occur before monetary unification. Further, the European Central Bank's attempts to serve the monetary needs of eleven sovereign countries will generate important political challenges, and many scholars have questioned the ability of the ECB to meet these likely challenges. Nevertheless, Fratianni believes that the EMU and the euro will fundamentally alter the international monetary system. Instead of an

unfettered domination of the dollar as an internal money, the euro and the yen will begin to play more important roles. Each of these currencies will form focal points to which clusters of domestic currencies will be attracted.

Structure of this volume

This volume has three parts. Part I analyzes the response of Asian Tigers, Japan and Australia to globalization. Dali Yang and Fubing Su (Chapter 1) examine China's integration with the world economy. Chung-in Moon (Chapter 2) discusses how South Korea has grappled with global integration both before and after the 1997 economic crisis. Marie Anchordoguy (Chapter 3) studies the response of the Japanese government and firms to globalization in the software industry. John Ravenhill (Chapter 4) examines how Australia has responded to globalization, particularly in relation to its manufacturing sector.

Part II focuses on regional responses to globalization. Michele Fratianni (Chapter 5) describes how the euro is a European response to multiple facets of globalization, including the dollarization of international economic activity. Fernando Robles (Chapter 6) analyzes how Latin American firms are adopting regional corporate strategies to respond to MNEs seeking to expand in the region.

Part III examines the response to globalization in three transitional economies. Steven Solnick examines Russia (Chapter 7) while Beverly Crawford compares the responses in Bulgaria and Yugoslavia (Chapter 8).

Notes

1 We thank the participants of the Alexandria workshop (July 31–August 1, 1998) and the anonymous reviewers for their input. Research and editorial assistance of Jun-ho Kim and Jennifer Baka is gratefully acknowledged.

2 From this point on we will refer to economic globalization as globalization. For a discussion on the various dimensions of globalization, see Prakash and Hart (1998; forthcoming).

3 For measuring the degree of internationalization/globalization of firms, see Kobrin (1991), Sullivan (1994); Ramaswamy, Kroeck and Renforth (1996); UNCTAD (1997); and Makhija, Kim and Williamson (1997).

4 In the context of domestic political economy, Ostrom, Tiebout and Warren (1961) have argued that public goods, governance function being one of them, can be provided efficiently at multiple levels, the country-level being one of them. Thus, methodological nationalism may not hold in the domestic political economy as well.

5 Transaction cost theorists differentiate firms from markets (Coase, 1937; Williamson, 1975). Markets are institutional arenas for exchange while firms are actors undertaking such exchanges. Firms arise to economize on high transaction costs of market-based exchanges.

6 There is a well-established literature on the impact of institutions on policy

decisions. The works are too numerous to be cited. Some key ones include Katzenstein (1985), Vogel (1986), North (1990), Ostrom (1990), Hart (1992). In the domestic political economy, public choice theorists have stressed the role of institutions in mediating between individual strategies and collective outcomes. For a review see, Mueller (1989).

7 Goldstein and Keohane (1993), in an attempt to structure the discussion on the impact of ideas on policy outcomes, identify three categories of ideas: "world views" such as the efficacy of centralized planning versus resource allocation by market-based processes; "principled beliefs" consisting of normative notions of right and wrong; and "causal beliefs" about cause–effect relationships rooted in shared consensus among elites. Constructivists would add beliefs about authenticity and identity to this list (Katzenstein, 1996).

8 An important area of future research is to examine how the variations in cross-border flows of ideas and information impact market integration. In such research designs, the flows of ideas are independent variables that impact levels of market integration (dependent variables). In this context see, Prakash and Hart (1999).

9 These trends are perhaps facilitated by the increasing acceptance of English as the language for international commerce. A recent article in the *New York Times*, "Berlin Has a Word for Its Ambitions: English," describes the increasing acceptance of English in Germany:

> As you drive past posters advertising Volkswagen's "New Beetle" (not "Der neue Käfer"), you may hear a radio advertisement for an Audi that gives you "die power," only to see a newspaper headline about Germany's lack of "jobs" (forget "arbeit") as the radio turns to a discussion of Berliners' growing attraction for "the American way of life."
>
> English, of course, is advancing everywhere, propelled by the Internet and the dominance of American popular culture. It is the most widely studied foreign language in German schools, where most children start learning at the age 11. But its advance has been particularly marked here, strong enough to set off a debate on what it is to be German (1998: A1).

10 We thank Peter Katzenstein for this point.

11 We thank Peter Katzenstein for encouraging us to think in terms of the impact of globalization on various domestic bargains.

12 It could be argued that, instead of being the contexts through which globalization processes are mediated, these transitions are direct results of globalization. We thank the anonymous reviewer for this point.

13 Why did the crisis happen at all? Why in Asia? What explains its timing and the variations in its intensity across countries? Understanding such questions is a booming industry by itself. For an excellent compendium of writings on these subjects, see Nouriel Roubini's website: http://www.stern.nyu.edu/~nroubini.

14 We thank Alan Rugman and John Ravenhill for encouraging us to clarify this point.

15 Spain, Portugal and Greece are the exceptions. Also, if some former Communist countries of Eastern and Central Europe (namely, Hungary, Poland, Slovenia, Czech Republic and Estonia) are admitted to the EU, the existing members will have to deal with their historical and institutional legacies. One way of dealing with such legacies has been to require the aspiring countries to meet stiff conditions that reflect that they have exorcized themselves sufficiently of these legacies.

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