Introduction

The globalization of the world economy is a process whereby national boundaries of economic activity are removed in order to allow freer access to technology, markets of inputs and goods, and a wide range of human tastes and customs, thereby facilitating a higher degree of integration of the world economy. The process is stimulated and fuelled by the inclination of individuals and societies to explore a large set of possibilities in the pursuit of well being and happiness. It is accelerated by improvements in communication and transportation, but decelerated by the reluctance of societies to adjust to changing circumstances and expanding horizons, as well as their aversion to added employment and income insecurity and to loss of cultural and national identity. During such a process, there might be conflicts between economic liberalization and social disparities, uniformity and diversity, and cosmopolitan and national ideologies and sentiments, but a growing awareness of the considerable net benefits that can stem from less restricted flows of capital, labour, managerial inputs, goods and services across nations; the uniformity of standards in production and consumption; and the diversity of skills, customs and preferences. The process stimulates a lower degree of central domestic economic planning and market control, but requires maintenance of domestic institutions for securing property rights and political stability and providing a safety net for groups adversely affected by the added economic insecurity; rule of law and convergence of domestic laws to universally admissible ones; and internationally coordinated management and preservation of the world stock of natural and environmental assets.

The idea of editing a handbook on the globalization of the world economy evolved during my preparation for and coordination of a new course entitled 'Global Economics' in the Department of Economics at the University of Wollongong. Given the wide range of issues to be covered, I sought the collaboration of my colleagues and the contributions of friends in the University of California at Berkeley, the Australian National University, the University of New South Wales and the University of Sydney. The preparation of the manuscript began in September 1995. As the project progressed, its scope was extended to include additional contributions from experts in Columbia University, the University of Reading, the University of Wisconsin-La Crosse, the University of Colombo, Flinders University,

Melbourne University and Monash University. In addition to an extensive e-mail and fax correspondence, the coordination of the project, the monitoring of its progress, the quality of the various chapters, and the commitment of the contributors to complete the project on time benefited immensely from a three-day workshop held in December 1996 at the University of Wollongong.

The Handbook comprises twenty-six chapters divided into five parts. Part 1 considers the issues of global growth, inequality, saving, investment and indebtedness, and includes Chapters 1 to 8. In Chapter 1, Irma Adelman describes the genesis of the current global economic system and analyses the main features of long-term economic performance and economic linkages between developed and developing countries since the Industrial Revolution. In Chapter 2, Amnon Levy-Livermore and Khorshed Chowdhury analyse the issue of per capita income convergence and world level of intercountry income inequality within a geographical context. In Chapter 3, Chowdhury and Levy-Livermore describe the evolution of external debts of developing countries by regions and estimate the interrelationships between the various categories of these debts and output and capital stock. In Chapter 4, Akorlie Nyatepe-Coo assesses the contribution of foreign direct investment to economic growth in South-East Asia, Latin America and sub-Saharan Africa during the period 1963 to 1992 and its dependence on the availability of human capital and other factors that facilitate the absorption of foreign capital, such as financial development and degree of openness. In Chapter 5, Boon-Chye Lee and John Powell outline the magnitude of recent political risk-loss trends as well as the features of international investment contracts responsible for sovereign risk. They analyse sovereign risk by examining governments' option to expropriate or default when minimum consumption requirements are threatened by economic downturns. In Chapter 6, Chung-Sok Suh and Jung-Soo Seo describe trends in the flow of foreign direct investment in East Asia and identify their major determinants. In Chapter 7, Bijit Bora discusses the role played by multinational affiliates in globalizing the world economy and, in particular, the role played by the United States affiliates. In Chapter 8, Ross Guest and Ian McDonald provide an international comparison of the socially optimal levels of saving, investment and current account deficit, and compare them with actual levels.

Part 2 deals with aspects related to the regionalization and globalization of trade. In Chapter 9, Joan Rodgers surveys the international institutions that have had a major bearing on international trade and finance since the end of the Second World War. In Chapter 10, Graciela Chichilnisky argues that external economies of scale produce incentives for expanded

trade and that their existence can defeat the standard arguments for 'optimal tariffs' and mitigate the tendency of trading blocs to divert trade from efficient to inefficient sources. In Chapter 11, Charles Harvie discusses the prospects for further European economic unification and the reasons for the retreat from optimism over its attainment in the early 1990s to that of scepticism by the second half of the decade. In Chapter 12, George Fane considers the issue of trade liberalization in the Asia-Pacific region. He argues that most of the liberalizations were made unilaterally. He explains the high relative importance of unilateral liberalizations and predicts that future trade liberalization will also have to occur unilaterally, or under the World Trade Organization, since APEC lacks the enforcement mechanisms needed to make it effective. In Chapter 13, A.D.V. Indraratna argues that South Asia, with its huge share in the world population and with its per capita real income substantially rising, is bound to enhance the export potential of Pacific countries and therefore should be included in APEC.

Part 3, which encompasses Chapters 14 to 18, deals with the transition of the centrally planned economies to market economies. In Chapter 14, Irma Adelman and Dusan Vujovic trace the typical sequences in institutional reform traversed by former communist countries and analyse the systematics of various aspects of the transition statistically with historical, institutional, external shocks and policy variables. In Chapter 15, Max Gillman uses two-sector real business cycle, tax, and inflation theory to explain the stylized facts of the transition. In Chapter 16, Charles Harvie identifies, analyses and explains the macroeconomic performance of three of the most successful of the former centrally planned economies in Central Europe involved in the transition process to market-oriented economies — the Czech Republic, Hungary and Poland. In Chapter 17, Ray Markey discusses the variations in the nature of the transformation of the state, the historical diversity of the forms of regulation of labour relations under prior communist regimes, and differences in the process of privatization, and their impact upon employees' representation by trade unions and participation in decision-making in enterprises in Eastern Europe. In Chapter 18, Charles Harvie analyses the transition process to market-oriented economies for China and Vietnam and identifies and contrasts the major reform measures adopted in both. He also analyses the performance of these economies with regard to developments in key macroeconomic variables during their respective transition periods and identifies key differences and similarities in their respective reforms and outcomes, which could provide valuable policy lessons not only for each other but for other developing transition economies.

Part 4 is concerned with issues of internationalization and integration of markets. In Chapter 19, Anthony Webber analyses the impact of exogenous adjustments in the exchange rate on a country's tradeable good prices, international trade, employment and output. In Chapter 20, Christopher Adam describes the historical pattern of internationalization and possible integration of financial and capital markets and addresses the central conceptual notion as well as the future of financial market integration. In Chapter 21, Anthony Naughton investigates equity market-return relationships within the Asia-Pacific region and between Asia-Pacific markets and developed-country markets, and provides theoretical arguments and empirical evidence with regard to the benefits gained from internationally diversified portfolios. In Chapter 22, Robert Castle, D.P. Chowdhury and Chris Nyland discuss the effects of globalization on labour in developed and developing countries and the role of the International Labour Office in relation to the development and monitoring of core labour standards. In Chapter 23, Carolyn Tanner and Alan Swinbank review the contribution of the multilateral and regional approaches to agricultural trade liberalization and argue that the multilateral approach provides greater opportunities for agricultural trade liberalization.

The final part of the Handbook addresses global environmental and resource problems. In Chapter 24, Ann Hodgkinson discusses the externalities associated with transboundary pollution problems and stresses the need for international cooperation and the emerging challenge for global environmental management in order to reconcile the current trend towards free trade with global environmental objectives. In Chapter 25, Peter Berck and Michael Ward examine the impact of energy markets on global growth, pollution, and economic stability. They argue that, while the market for oil is effectively globalized with price shocks rapidly propagated to all regions, the markets of other energy sources, coal in particular, are much less globalized. They also argue that energy sources are abundant and inexpensive, but clean energy sources are not and, in the long run, air is likely to be a scarcer resource than energy. In Chapter 26, Larry Karp and Sandeep Sacheti analyse the implications of North-South trade for natural resource depletion and environmental degradation. In particular, they explore the qualitative relationship between production externalities and a variety of policies within a North-South trade model. Their dynamic analysis indicates the possible attractiveness of unilateral internalization policies.

Amnon Levy-Livermore
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