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Globalization: Historical Perspective and Prospects

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ABSTRACT

Economies around the world have become increasingly integrated, thereby enhancing productivity growth and expanding consumer choices. In many nations, globalization has been accompanied by an increase in living standard hardly imagined just a generation ago. But perceived consequences for income distribution, environmental quality, and national sovereignty have also made globalization the focus of widespread controversy.

This paper reviews alternative measures of globalization and identifies forces that promote and forces that limit globalization. In significant ways, the world economy is now more integrated than even at the height of the previous wave of globalization a century ago.. But history shows that globalization and its benefits are highly vulnerable to political factors. While the Great Depression unleashed protectionist policies, the backlash to globalization started earlier, during prosperous times, in response to redistributive consequences. Although similar redistributive pressures are evident today, national governments are now better equipped to ensure a politically acceptable sharing of globalization's benefits.

Globalization today confronts a second threat with no close historical parallel. This concerns the setting of social standards and is perceived as an issue of national sovereignty. Although nations remain free to set any standard desired by domestic residents, globalization raises the *cost* of maintaining high standards.

The prognosis for globalization is therefore mixed. While a major 1930-style reversal remains unlikely, resistance to the encroachment of international integration on domestic social norms will continue. One implication is that the power and authority of multilateral institutions, and especially the WTO, will remain limited. Another possible implication is that further trade liberalization will be carried out mainly at the regional level, among groups of countries willing to accept shared social norms as a condition of open regional markets.