

What is globalisation? For the first time in history almost the entire world population lives in a global capitalist system with the aim of free movement of goods and services. The drive for globalisation is economic growth and prosperity, especially for poorer nations whose economies have often been the most restrictive in the past.

They have been propelled by statements such as these from the World Bank on globalisation: "There is a positive link between freeing markets and trade and the eradication of poverty in the long term" and "There is no evidence to justify fears that free trade pushes down wages for unskilled workers in developing countries".

However the UN has a different view of globalisation which may grow in strength depending on the fate of the poor in so-called Tiger economies and elsewhere. "Increased global competition does not automatically bring faster growth and development" and "In almost all developing countries that have undertaken rapid trade liberalisation, unemployment has increased and wages have fallen for the unskilled."

There is a fundamental problem with globalisation which will cause international tension and trade disputes without arresting the process.

The problem is the irrational nature of the global market, coupled with the extreme vulnerability of the poorest and most marginalised in emerging economies to sudden changes in exchange, interest rates, or big investment decisions. Globalisation therefore can sometimes be destabilising.

Consider the following globalisation scenario: Country A has a rapidly growing economy. Many companies are booming. Foreign investment is pouring in. Property prices are soaring. Businesses are borrowing ever larger sums with little or no security except their expectation of future large profits.

Every month these companies have to borrow more to buy more stock to make more goods for ever larger orders, which are paid for in the future (they hope there will be no bad debts). They are also exposed through large assets held in property. There is little inertia in the economy. Currency reserves are tiny compared to hourly currency flows by global institutions.

Then comes one piece of unsettling news and currency selling begins. Traders may be confident that the currency is now undervalued, but will go on selling as long as they believe other traders think the currency is still overvalued. In other words, buying and selling becomes driven not by objective data, but by what they think others will do. So this kind of globalisation can be a recipe for over-shooting, seen over and over again in currency, commodity and stock markets - a feature of globalisation.

Everyone sells when the price is already rock-bottom

You can have a bizarre situation where everyone privately thinks that the currency is already too low, but continues to sell hard only because they are certain that everyone else thinks the currency still has further to fall. Rates fall through the floor in a mass wave of panic selling, as dealers dump currency in the near certain knowledge that they can buy it back at a profit in a few minutes, hours or days.

The big issue is not what the real value of the currency should be in the light of the economy, but how the rest of the market is likely to behave in the very short term. Free market dogma on globalisation is that these peaks and flows will always sort themselves out. "Don't try to buck the market". However this fails to take account of the monumental impact of these arbitrary swings on families and communities.

The big difference between Britain, the US and - say - Thailand, is that workers of a bankrupt company eat, drink and have homes in the West. In Thailand there are very few safety nets. If you have no job and are already poor you don't eat, your family gets little or no health care. A massive fall in currency may last only a few weeks before partially correcting, but plenty long enough for multiple bankruptcies.

Companies can't afford to buy foreign components they need for manufacture. Others are crippled by sudden increases in interest rates to support the currency. Others fold because a large creditor is suddenly unable to pay a bill. Banks fold as companies suddenly default on repayments and as property prices fall below the value of huge speculative loans.

Thailand is just one of many recent examples of a nation brought to its knees by a currency run. Many more will follow.

Article written in 1998 - and has turned out to be correct.

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