

Globalization and Civilization

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Abstract

In this paper, globalization is defined as the geographical expansion of human interaction, and civilization is defined as the totality of physical and metaphysical facilities, including institutional facilities, for human interaction. These definitions lead to the elucidation of today's globalization and its impact on human society in a historical perspective. The definitions also highlight the obvious: namely, if a society has physical facilities different from others, it also has different metaphysical facilities to match, and vice versa. Today's globalization attempts to establish and homogenize the institutional framework for free-market capitalism worldwide. By doing so, it marginalizes many societies and civilizations that have not yet espoused capitalistic freedom, as some modern and affluent societies have done. For these societies and civilizations, communal cooperation for survival is more important than individual emancipation. Thus, globalization in the current form is unsustainable, unless it develops some mechanism to help promote these marginalized societies to have time and resources to adapt their civilization to globalization and its economic dynamism.

An Epochal Perspective for Globalization

Some contentions and controversies over globalization

The growing volume and range of literature on globalization suggests that it is an epochal change. The literature shows many controversies about its substance and its impact on human society. Nevertheless, a few facts about globalization are well established. For example, globalization earnestly began with the falling of political and economic barriers and the rising of economic interdependence after the collapse of the Cold War regime, and it features the remarkable increase of international trade and investment. As this history

suggests, its thrust for change comes from capitalistic interest and its drive towards global espousal of free-market capitalism. The resulting increase of economic interaction is inevitably having significant social impact worldwide. Also, despite the short history of globalization as an expression, it has been acknowledged as old as the history of human society itself, as the social phenomenon of expanding trade and cultural exchange. However, controversies reign when it comes to the question of globalization's impact on the society.

One of the most controversial issues pertaining to today's globalization is whether globalization leads to a brighter economic future for the world community of nations as a whole, or it further compounds the economic deprivation among the world's poor. Nobody disputes the claims that free-market capitalism is effective for wealth creation, or that economic growth is good for the poor. The key controversial issue is whether globalization helps alleviate economic disparity and deprivation. As solid evidence of its contribution, the proponent of globalization quotes various UN and World Bank/IMF statistics, and displays a number of socio-economic indicators that have materially improved since the end of the World War II. The opponent focuses on the decades after the Cold War, and argues that the changes in these indicators over the last two decades do not compare favorably when compared with the changes in the previous two decades.[Weisbrot, 2001]

Such academic controversies notwithstanding, a popular perception has grown. This perception regards globalization essentially as the instrument, or institutional change, to favor the capitalist and, as such, globalisation has detrimental impact on the poor or proletariat. As a result, people have begun to express their concern and antagonism toward globalization in various occasions. *Table 1* lists some major anti-globalization demonstrations. The list suggests that the demonstrators target institutions and events that are popularly perceived as important agents of globalization. The World Social Forum (WSF) is an embodiment of anti-globalization movement. Indeed, WSF has been established as a countermeasure to the World Economic Forum (WEF). It is a forum of governmental and non-governmental members interested in the alternative globalization movement, holding its meeting regularly to coincide with the WEF.

Growing social ruptures

These demonstrations, including the growing scale of WSF, clearly indicate some serious social ruptures. The rupture between the developed world and the developing world is obvious, as is evidenced in their eristic arguments at various world forums for trade liberal-

Table 1 List of Major Demonstrations against Globalization

G-8 Summit Meeting; Cologne, Germany, June 1999

This meeting led to the organization of “International Day of Action Against Global Capitalism” in 140 cities around the world.

3rd WTO Ministerial Conference; Seattle, USA, November 1999

Demonstration against the conference was notable by large participation of both ad-hoc and established organizations, such as AFL-CIO. It led to the organized and forceful interventions against such demonstrations by state authorities around the world, as observed at the Republican National Convention in July, the Democratic National Convention in August, and G-20 Ministerial Meeting at Montreal, Quebec, in November, of the following year.

World Economic Forum; Melbourne, Australia, September 2000; and Davos, Switzerland, January 2001

Thousands of Australian workers demonstrated against the Melbourne meeting, as they regarded WEF as the champion of corporate capitalism. Even at Davos, WEF's homeground, persistent demonstration demoralized the delegates.

World Bank/IMF Meeting; Prague, Czech Republic; September 2000

This was the first Pan-European demonstration against globalization.

G-8 Summit Meeting; Genoa, Italy; July 2001

This demonstration was notable by the Italian authority's excessive use of force and dubious tactics to suppress the demonstrators and their suspected organizers.

Anti-Government Movement; Buenos Aires, Argentina; December 2001

This was a popular uprising against the government, which introduced many economic rules and regulations which IMF stipulated in exchange of extending its loan to the government. The movement eventually forced the government to adopt decentralization of financial and social systems in the country.

World Social Forum; Porto Alegre, Brazil; January 2001 and February 2002

This forum itself is an organized movement against WEF. The first forum was held by joint initiatives of the city authority and ATTAC, to explore alternative ideas and practice against globalization and capitalism championed by WEF. Thus, the second forum attracted 12,000 official delegates from over 120 countries.

5th WTO Ministerial Conference; Cancún, Mexico; September 2003

This conference collapsed because of the irreconcilable difference on the agenda between the developed nations and the developing nations. Many civil society organizations which promote interests of the developing nations demonstrated and pressured the participating government representatives not to yield to the strong tactics of their counterparts from the developed nations.

European WEF Meeting; Dublin, Ireland; October 2003

The meeting was cancelled in view of the presence of well-organized demonstrations against it.

G-8 Summit Meeting; Scotland, UK; July 2005

Demonstrations were held in Edinburgh, Glasgow and Gleneagles, among others, to promote global campaign against poverty, led by such civil movements as “Make Poverty History” and “Live 8.” Their representatives were allowed to participate in its deliberation for the first time in its history.

Sources: Wikipedia, 2005/9/30

ization and environmental control. Even within the developed world, the rupture seems to be growing between the capitalist class and the proletariat class. Not to be overlooked is the growing sign of rupture between the political elite, who have control or controlling influence over the government, and the populace who have not.

This is happening in both the developed world and the developing world. In many democratic nations of the developed world, declining voting percentage is often observed, suggesting the populace's resignation to the political elite's hold of control. In the developing world, the rift between the *haves* and the *have-nots* could be far more serious. The political elite often controls, not only governments but also national assets and resources, to enrich themselves. Naturally, socially conscious leaders and non-governmental organizations are much concerned with this growing disparity between the *haves* and the *have-nots*, and they try to draw world attention to the issue, at WSF meetings and other anti-globalization demonstrations. However, what they often meet is the forceful suppression of their movements by the governments who side with the political elite.

These ruptures have ominous implications. People who suffer, or feel marginalized, from on-going socio-economic changes, and who cannot find any effective political means to ameliorate their fate, will try to find other recourse. One such recourse which appears to be spreading is terrorism. Terrorism may be defined as the "calculated use, or threat, of unlawful violence, to coerce or intimidate the targeted entity, in the pursuit of specific goals." Nowadays terrorism is increasingly targeting governments and societies, in pursuit of political, religious, or ideological goals. The attack on, and collapse of, the World Trade Center in New York, on 11 September 2001, may be the most spectacular incident of its kind. This incident is also significant because it led the US government to initiate the "war on terrorism." This war began in earnest in less than a month after the September 11 incident, when the US forces invaded Afghanistan.

Terrorism is widely condemned, because it is "unlawful," and it often claims innocent casualties. However, laws are often made and enforced to institutionalize the privilege that the political elite enjoy. For those who are socially debased or marginalized by such laws or the political elite, lawfulness may no longer appeal as social obligation or justice: on the contrary, they may perceive that justice needs to be pursued by any means, lawful or unlawful. This kind of logic seems to be growing in the world community, because the world has been much exposed to state-sponsored violence in recent years. Even before the September 11 incident, such violence was experienced in Indonesia, Northern Ireland and Palestine. After the event, it has spread to other areas, such as Afghanistan, Iraq,

Sudan, and Russia, often under the banner of *war on terrorism*. Not surprisingly, terrorism continues, as evidenced by various incidents of bombing attacks in many corners of the world.

Although it is not yet an accepted theory, this globalization of terrorism is widely perceived as a phenomenon that today's globalization has engendered. In short, globalization is widely perceived as having brought the changes that make many people throughout the world feel debased or marginalized, both politically and economically. The list of anti-globalization movements in *Table 1* exemplifies this growing perception. Thomas Friedman was probably the first person to warn the world community of this kind of danger, well before the September 11 incident. In his book, "the Lexus and the Olive Tree," he warned of the possibility of "backlash," if the number and hardship of people who cannot adapt to globalization grew, and no recourse for amelioration was provided. In turn he offered his prescription for sustainable globalization. His prescription was to strive for a "healthy balance between preserving a sense of identity, home and community, and doing what it takes to survive within the globalization system." [Friedman, 2000]

Historical precedence and perspective

Friedman's book attracted many readers, as well as a fair number of critics, around the world.[Krugman, 1999] His prescription certainly needs a critical review today, in view of the growing fragmentation of the world community, as elucidated in the above discussion. For such a review at least the following two questions need to be addressed. Specifically, "Is the preservation of culture or traditional way of life effective in making today's globalization sustainable?" and "Is globalization leading to any effective *system* for the world community?" Of course, no easy answer is available. One way to obtain some clues to the answers is to put this epochal change in a historical perspective. Globalization, as a remarkable geographical expansion of trade, if not for other economic interaction, is certainly not a new experience for the human society. It can find precedence in the thriving trade through the Silk Road under the Mongol Empire. Globalization as a systemic evolution of capitalism can find precedence in the Industrial Revolution.

The history of overland trade between the East and the West is a long one. Archeological remains suggest that the inter-regional cultural exchange could date back to the time before Christ. However, the development of the Silk Road as a substantive trade route came in the 7th century. In this century Central Asia became politically and culturally integrated with unifying thrust coming from expanding Islam.[Whitfield, 2000] In addi-

tion, the thriving Tang Dynasty in the East and Byzantine Empire in the West provided economic impetus for the inter-regional trade. The heyday of the Silk Road came with the emergence of Mongol Empire in the 13th century, as Marco Polo story suggests.[Letham, 1958] One interesting impact of the globalization at that time was the unifying effect on the nomadic people. Around that period a cluster of states emerged, making those trading centers along the Silk Road as their capitals.[Whitfield, 2000] In other words, the expanding trade made it possible for such cities to enjoy thriving economy and culture. Such economic and social prosperity seem to have fostered political unification among the nomadic people in adjacent areas. In short, this globalization brought new civilization to the area and people. In comparison, today's globalization has not shown any sign of such unifying dynamics in the world community.

The Industrial Revolution is typically featured, and acknowledged, by its revolutionary advance in industrial technology. However, it was as much revolutionary in the socio-economic front. It represented a phenomenal expansion of industrial manufacturing, and the nascence of modern capitalism which brought an acute social division between the capitalist and the proletariat. Capitalism espouses mechanisms and institutions that help amass wealth, but it pays no heed to its equitable distribution. It was the Industrial Revolution that exposed the human society to capitalism in its raw and powerful form for the first time. In other words, the Industrial Revolution brought as much revolutionary change to society as it did to industrialization. As a result, socialism had to be invented and exercised in order to mitigate the inherent shortcoming of capitalism. Since then, industrialized nations and their governments have introduced and institutionalized various measures to attenuate such capitalistic maladies and to maintain social order and coherence. However, today's globalization exposes governments and business communities to the increasing pressure of global competition, and such competition in turn pressures them to reduce social cost for the sake of enhancing cost competitiveness.

Naturally a few questions arise. Why and where today's globalization fails, while yesterday's globalization succeeded in bringing progress to the human society? Is the preservation of traditional culture not sufficient in making globalization sustainable? If not, what more needs to be promoted? What could or should the governments do to help the nations in adapting to, and benefiting from, globalization? In the following discussions, answers are sought.

Social Compact for Globalization

Dimension of social impact

There is a dictum which says; “Peace is good for prosperity.” This can be interpreted in many ways nowadays. Peace does not mean the absence of military conflicts. Terrorism disturbs peace, and so does social upheavals. In short, prosperity, or economic development as its engine, entails social stability, perhaps more than capital or other resources for development. A stable society may also be able to develop rich culture and tradition, while the reverse may not hold true. Religion is an aspect of culture, and it may provide stability to a society. However, some distinctions have to be made: it is not the individual’s religious belief that engenders social stability: instead, such stability comes from the social norm that is engendered from the shared belief, which may stem from a particular religion, in a society. Well established social norms may become traditions in that society. For that reason, tradition may appear to contribute to social stability.

However, the social stability that depends on such culture or tradition is fragile. It could easily be disturbed by the introduction of foreign cultural elements. For example, in 17th century Japan the Tokugawa Shogunate rigorously enforced the ban on Christianity. Japanese Christians acknowledged the ultimate authority in God, and not in the shogunate. The shogunate feared that the spread of such a belief would undermine its authority in the temporal world, and this fear prompted the ban. By nature, globalization does bring such foreign elements into a society. For example, Friedman describes thrusts for today’s globalization as the democratization of finance, technology, and information. He rightly points out that this democratization fosters empowerment of individuals and freedom in their economic decision making. Thus he regards globalization in a positive light. However, such emancipation of individuals may lead to emaciation of a community or society, because that may disturb the society’s order and stability.[Tanahashi, 2005]

Globalization being an epochal change, its impact spares nobody and will eventually affect all. In this societal evolution the Darwinian rule, “the survival of the fittest,” again applies, figuratively speaking. Nations and individuals have to adapt to the evolving global economic, political, and social environment to the best of their ability. This ability to adapt will differ considerably among nations, as well as among individuals. If a society consists of many individuals who have the ability, they will prompt and promote appropriate adaptation in their society. If, however, a society only finds a small number of individuals and

they are unable to influence the society's social norms, then the society will lack the impetus for adaptation. In such a case, it is very likely for those talented individuals to seek opportunities to put their talents to better use in other countries, depriving their society or nation further of valuable human resources for development.

This phenomenon always existed and it used to be called "brain drain." This used to be a major nemesis of many developing nations. Globalization has substantially changed the situation. Nowadays the globalizing economic system, with expanding foreign direct investment (FDI) and industrialization, offers more opportunities and better prospects for economic development to many developing nations. Their governments may, therefore, adapt their economic policy and practice to bring such opportunities into their countries. These opportunities in turn entice talented people to stay in their respective countries, or even those who have worked outside as expatriates to go back.

This reversal of *brain drain* phenomenon has been observed in the so-called "Newly Industrialized Countries (NICs)" in East Asia. Taiwan was the forerunner of such success, and now the country leads the world as a manufacturing foundry of PC components and OEM products. China and India used to be two big suppliers of talented people to industrialized nations, but nowadays their economies are fast developing and talented or skilled people have many opportunities to utilize their skills and talents in their own countries. In fact, globalization has considerably increased the international movement of talented people, as global competition for industrial innovation intensifies and their contribution is eagerly sought.

Emerging tragedy of the commons

The above may be a bright side of global competition, but it has a few dark sides as well. Competition is a valuable source of dynamism in the economy, and in the society. However, just as a game needs a set of rules to play, lest it degenerates to a physical fight, such competition needs a set of rules, lest it degenerates to conflict or confrontation. Unlike a game of sports, global competition is a very serious affair for both nations and business entities, with their survival at stake. Furthermore, this competition does not have any defined *modus operandi*, nor any delineation for the areas in which to compete. Accordingly, competition takes place on all fronts, ranging from natural resources to rules for economic interaction, often without any referee to intervene.

Competition for private good may be subject to market rules; however, public good, such as atmospheric air and open oceanic water, is vulnerable to competition without rules.

[Hickman & Bartlett, 2001; Benjamin, 2001] When competition arises in the use of some public good with finite supply or capacity, individual users will try to maximize benefit from its use. By doing so, the users collectively suffer from its degradation and diminishing benefit. This phenomenon is known as *tragedy of the commons*. [Hardin, 1968] Community-owned or -managed common land, pasture and woodland are typical of such goods, which could be overexploited by individuals unless their behavior is controlled by formal or informal social compact with regard to their use.

One spectacular tragedy in recent years happened in Mongolia. In 1992 the nation decided to liberalize its economy after so many years under Soviet-style planned economy. This decision came not from strategic deliberation, but from economic desperation. The nation came to such a desperate state, as its economy had lost the substantial financial and technical aids that used to be provided by the Soviet Union, after its disintegration. Market economy and competition for economic gains encouraged individual herders to increase the animal stocks, while their pasture land remained the same in size. The end result was overgrazing, and this led to poorer nutritional state of the animals. When severe winter hit the country in 2002-03, many animals could not survive because of malnutrition or starvation. [Reuter Foundation, 2003]

Competition for economic gains is not bounded by national borders, and it can extend to international arenas and global common good. Fishery resource in the international water is a case in point. Past debates and current ban on commercial whaling is largely the result of excessive whaling for oil, particularly by British and American fleets with advanced whaling technology during the 18-19th century. International efforts to regulate whaling started in 1931, which led to the establishment of the United Nations International Convention for Regulation of Whaling (ICRW) in 1946. This ICRW established the International Whaling Commission (IWC), for the purpose of giving management advice to the member nations on the basis of the work of the Scientific Committee. Through the work of this commission the member nations entered into the moratorium on commercial whaling in 1982, which still remains effective, despite some scientific evidences to suggest that such total ban is no longer justified. [Economist, 2003]

This case is worth noting, not for controversy, but for the multinational efforts to regulate whaling industry on the global scale. In the 20th century whaling was no longer for commercial use of oil from the animal, but for its meat. There were only few countries in the world that practiced commercial whaling for meat; namely, Faroe Islands, Iceland, Norway, and Japan, in the order of the history of such whaling. As these nations have lit-

the sway in the Commission's decision making, individually or collectively, the Commission was able to maintain the moratorium.

Globalization = Americanization?

If any influential members make objection or make themselves exceptions to any international regulation, it would be difficult for the regulation to become established, or to remain effective. In fact, many such efforts in recent years have experienced difficulties, because of hegemonic interference of the United States. One such effort is the global control of atmospheric pollution, and the protracted negotiation between the Parties to the United Nations Framework for Climate Control Convention (UNFCCC). Nonetheless, this UNFCCC eventually managed to put into effect the Kyoto Protocol, which aims at stabilizing greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the global climate system. However, the United States Congress has refused to ratify this Protocol, thus putting the whole agreement ineffectual, and in political jeopardy.

The history leading up to the establishment of World Trade Organization (WTO) and this organization's *modus operandi* is another example. WTO was preceded by the General Agreement on Tariffs and Trade (GATT), which was first put into effect in 1947 under the UN auspices. This agreement was followed by the agreement in 1948 to establish the International Trade Organization. However, the US Senate blocked its ratification, and this organization was never established. Without a proper institutional structure, GATT essentially worked more like an international treaty, with occasional up-dates through the rounds of negotiations for free trade. WTO was established in 1995, in order to promote lowering of trade barriers worldwide. For this purpose, the organization endeavours to further expand GATT on the one hand, and on the other it provides a platform for the trade negotiations and dispute resolution concerning international trade.

WTO was established primarily to replace the GATT mechanism of trade negotiation and liberalization, because the United States wanted to accelerate changes in trade rules so as to take advantage of its position in the global trade. This US intention is best reflected in the organization's decision-making process. Unlike most UN-related institutions which adopt voting mechanism for their decision making, this organization makes many important decisions on consensus. This may appear more democratic on the surface, as nobody can impose consensus. However, realpolitik works differently. As the United States is the most important single market in the global economy, all other nations cannot hope to have

their proposals accepted without the US consensus. In short, WTO can make decisions only with the US approval or, at least, acquiescence. Anybody in such a privileged position would sooner or later learn to abuse the power to its advantage. As the instigator of this unusual decision-making rule, the United States has used the organization and its decision-making mechanism to further its trade interests.[Stiglitz, 2002] Such US practice, and its overbearing influence on the International Monetary Fund (IMF), another key institution for the globalizing economy, gives credence to the popular calling of current globalization as *Americanization*.

Human Interaction and Civilization

Social compact for human interaction

Social compact distinguishes the human being from other animals, as a “social animal.” Humans do interact, but not every interaction is constructive or socially meaningful. Instead, it can be destructive, like wars and fights. In the latter category of interaction, contestants have no regard for social manners or compact. Unfortunately, the human society today is once again experiencing this kind of interaction in the form of terrorism, and its antithesis, i.e. “war on terrorism.” Both prove to be equally sinister, as the latter’s disregard of international conventions by the US government with regard to arrest and imprisonment of suspected terrorists has become known. It is, therefore, appropriate to focus on the constructive and socially meaningful interaction, in which economic interaction belongs.

It is obvious that social compact is inherent in any socially meaningful interaction. Consider, for example, the earliest form of communal human interaction, which is perhaps the collaboration between adult male members in the hunting-gathering community. This collaboration must have been accompanied by some social compact, that is to share whatever catch that resulted from such hunting among the community members in an equitable manner. Anthropologists report that in case of abundant catch, one tribal society shared it with other tribal societies, not for altruistic reasons, but for reciprocal favour.[Sahlins, 1972] This suggests unwritten social compact binding these tribal societies. Naturally, the more sophisticated human interaction becomes, the more sophisticated social compact needs to be developed in order to maintain social order and stability.

In fact, sophisticated human interaction often needs more than mere social compact. In a modern society economic interaction is highly developed. At the same time, such

interaction can only be realized with the use of appropriate physical facilities. Business operations are hard to imagine without roads and railways, ports and harbors, banks and stock markets, etc., which are nowadays taken for granted. As this example illustrates, history of human society indicates that sophistication of human interaction goes hand-in-hand with development of some such physical facilities, as well as the development of meta-physical facilities to control or regulate interactions that make use of such physical facilities. It is, thus quite logical to call these physical and metaphysical facilities collectively as *civilization*.

Development of these facilities is by itself a complex affair, and it cannot progress efficiently or effectively without some systemic administration. For this reason, all the known ancient civilizations developed under some powerful dynastic rules and governance. Likewise, a modern society has organized itself to carry out this task systematically, by establishing a special and powerful institution called *government*.

Continuum of social compact

Social compact may be defined by what people accept and conform to as their norms in conducting their affairs in society. In this sense, social compact is an integral part of civilization and also an essential part of governance. It can range from an informal and unwritten custom that the society as a whole has traditionally followed, to more formal procedures that have been stipulated in the laws and regulations and administered by the governmental agencies. A natural tendency is that the larger the society becomes, or the more sophisticated its interaction becomes, the more formal and institutional social compact becomes. For example, in a religious society, religious teaching may provide much of its social compact. In comparison, a multi-racial or multi-religious society will have to rely more on the legal system that its government provides.

As the above discussion suggests, social compact conceptually represents a continuum from culture to civilization. Perhaps it is now in order to elucidate this conceptual continuum, so that the controversy on the role of culture in today's globalization may be resolved and the government's critical role revealed. For this purpose, social compact is defined as "*a systemic whole of responses and solutions that a group of people has developed in order to best adapt their interactions to the existing natural and societal environment.*"

One critical term in this expression is; "a group of people." If this term is interpreted as referring to a voluntarily formed group of people, who are bound by some common interest, or who wish to make their interaction among themselves more effective, with little

concern for those outside the group, then the expression looks more like a reference to culture. In contrast, the term may be interpreted as a reference to a group of people whose association is involuntary, such as the people who belong to a social entity that is bound by some geographic characteristics or specific polity. In that case, the expression looks more like a reference to civilization. An interesting case, which is by no means rare, is that this group of people constitutes an overwhelming majority in a society. In such a case, this majority will, intentionally or unintentionally, exert peer pressure on the minority to accept their cultural practice as the society's norms. This is a normal process for endogenous development of civilization. However, a certain minority group may follow a religion or religious practice that is distinctively different or incompatible with the majority's behavioral norms. In that case, the society will suffer from inherent stresses, or even occasional social strife, as observed in the recent riots in France.

“Systemic whole” is another significant term in the above expression. If this term is interpreted as referring to the individual's perception, the expression may apply to culture. In contrast, if it is interpreted as referring to the society's integrating framework, then the expression applies to civilization. Culture is the collective name of activities and products which enrich human mind and thought. As such, its effect or appreciation is largely subject to the individual's perception. Of course, such an activity or product may become widely accepted within the society, or eventually integrated into the society's fabric. If that happens, it becomes an element of civilization.

Evolution of Christianity in the Roman Empire exemplifies such development. The Christianity in the empire had a humble beginning, and it began with a band of apostles and followers of Christian teaching in Levant, a far corner of the Empire, in the 2nd century. It gradually spread among the Roman citizens, and was eventually legitimized by Emperor Constantine in the 4th century, and then elevated to the Empire's official religion by Justinian I in the 6th century. This long period of transition was attributed to the reluctance of Roman citizens to espouse the new religion. Their reluctance was attributed to their typical life style, which included various social behaviors that were regarded as sinful in the Christian teachings.[Gonzales, 1984]

Technological invention to innovation is another interesting case of the continuum that stretches between culture and civilization. Technological invention may be a scientific achievement, but by itself it does not contribute to the society's well-being. In this sense, it remains a cultural achievement, unless and until it turns to a technological innovation. This means that technical invention becomes innovation only when it becomes integrated

into the existing technological system for production of economic goods. In other words, it is not technological invention, but innovation that becomes a part of civilization and contributes to the society.

Invention of a flying machine to development of passenger aircraft and airline services exemplifies such an evolutionary process. Invention of a flying machine fascinated many people, and airships were already in use for military as well as commercial purposes towards the end of the 19th century. Wright Brothers were credited as the inventor of truly aerodynamic craft, because of their aeroplane's convincingly superior performance against any similar inventions and claims of powered flight.[Jakab, 1990] Aeroplanes had definite advantage over airships in maneuverability, and Wright Brothers saw the machine's potential in its military use. However, once its mechanical reliability and operability, in terms of carrying weight and flight distance, began to improve during the 1920's, its commercial use as passenger carrier began. The development of Boeing DC-3 and the calamity of Hindenburg airship in the 1930's made the switch definite. However, the growth of airline passenger services was possible with other commercial innovations in seat booking, ticketing, and payment.[Trimble, 1992]

Evolving Economic Interaction and Institution

Promise, contract, and dispute resolution

As economic interaction is central in today's globalization, social compact for this interaction must now be discussed. The majority of economic interaction can be broadly divided by two factors into four categories. One factor is the materiality of interaction, and this divides interaction by the material for exchange, between financial assets and material goods. The other factor is the modality of interaction, and this divides interaction by the contexture of interaction between actual exchange and contractual agreement. The primitive or basic form of economic interaction is the actual exchange of material goods, which may not require any social compact. In contrast, all other categories of economic interaction entail some kinds of social compact to effect.

For now let us assume that interaction involves material goods, and study how contractual interaction has developed. In a society or civilization which has no writing, contractual agreement merely takes the form of verbal exchange of promise between the parties or individuals concerned. It would be no different from a piece of conversation, unless the parties take their respective obligations seriously. Making it public, or known to other

members of the society, is a typical way to prevent a party from unilateral reneging or repudiation of promise or contract. This is a primitive form of social compact, and it restrains the parties concerned from breaching, for fear of societal sanction. Accordingly, it works well if both parties belong to the same society. It even constrains the parties if the society also has an established juristic authority. However, if their society lacks such social fabric, or if the parties belong to different tribal societies, such contracts are more likely to be breached.

A written contract is naturally preferable, as it provides a record that can help resolve any doubt or dispute which may arise in the course of contract fulfillment. It can be used between two distinct parties or societies, as long as the written content can be commonly understood and mutually agreed by the parties concerned. However, if either party has any intent to breach it, the involvement of an enforcing authority and power will be required to prevent the party from doing so. Another form of breach prevention is the mutual appreciation for continuing association or cooperation.[Axelrod, 1985] In this situation, both parties share the wish to continue good relationship, and this wish motivates one not to lose the confidence of the other. As long as the relationship benefits both parties, this cooperative situation may continue. The history of the Silk Road attests to the effectiveness of such social compact, because there certainly was no enforcing or juristic authority that oversaw the trade between the East and the West.

Nowadays business contracts and engagements are increasingly international, while the primary institutional set-up for justice largely remains national. Reflecting this reality, a typical international contract stipulates the juristic system to which any contractual dispute should be submitted for judicial decision. This practice still relies on social compact that the disputing parties will adhere to such stipulation and judicial decision. However, anybody or entity who does not come under its jurisdiction may legally escape from its enforcement. This does not happen very often, primarily for two reasons. One is bilateral extradition agreements that national governments often hold against such eventuality. The other is the prospective benefit of continuing cooperation. It is easy to see that globalization makes the latter increasingly more effective than the former. If a nation or a company has substantial economic stake in a foreign country, it will find difficult to jeopardize such a stake by not adhering to agreements.

Realpolitik and skewed social compact

The above discussion implicitly assumes the equality between the contracting parties, in

terms of negotiating leverage. Unfortunately, such equality rarely holds in reality. Nevertheless, the parties can usually come to mutually agreeable terms of contract, as long as they are in the position to find alternative partnerships. However, such contestability will be seriously skewed if one side cannot find reasonable alternatives, while the other side can. Monopolistic practice is a well-known case for such skewed contestability. Among the industrialized nations it is rare, nowadays, to find such practice. Instead, such skewed contestability arise more often from overt or covert government interventions. To prevent such irregular interference in international trade WTO has been established, some serious institutional shortcomings notwithstanding.

In the world of *realpolitik*, it is inevitable for any nation with special leverage to abuse this privilege. This tendency is particularly evident in the bilateral relationship between Japan and the United States. The two nations' economies rank first and second in the GDP measure, but it is the United States that has and uses the leverage. US companies often bring Japanese companies to the US court with claims of infringement on their obscure patent rights. They expect the US court of justice to be sympathetic to their claims, and they often win cases and receive substantial amount of financial compensations for their claimed losses. The US government is very much a part of such complicity, by not bringing the US patent law to the international standards that the Japanese patent law follows. The US law accord patent right to the person or entity who can claim with some evidence as the first inventor, while the *de facto* international standard accord patent right to the first applicant.

Such US intransigence is possible partly because of its economic leverage. Another reason is a very parochial one. The US government and business community see no benefit in their compliance to the international standard, while seeing various advantages in keeping the *status quo*. First of all, it saves the trouble of rewriting the patent law, and changing the law practice. Furthermore, any patent application may be disputed to the advantage of the US nationals and companies, even if the patent at issue is well established outside the country. In addition, such legal disputes provide opportunities for gainful engagements to the American lawyers, as they enjoy practical monopoly in the expertise and experience in the US patent law and court practice. This may appear a rather frivolous reason, but politically it is a strong motive, because many lawmakers in the US government have lawyer's background and interests in law practice.

Nonetheless, no legal system is above national sovereignty. If any national government decides to exercise this prerogative, none of the above social compact or leverage

would work. Some developing nations may exercise such prerogative over extraction contracts of natural resources given to foreign companies or nationals. The most spectacular of such exercise is the Arab oil embargo of 1973-74 against the United States, Western European nations and Japan, as a retaliation of these nations' stances with regard to the Arab-Israel war. Its spectacular success may be attributed to two factors. One was the Arab nations' success in making it a collective action of the Organization of Petroleum Exporting Countries (OPEC). The other was their leverage as the major supplier of petroleum for those industrialized countries and their economies. Saudi Arabia was, and still is, the major producer even among oil-rich Gulf states, and it used this position as leverage in the subsequent years for its eventual nationalization in 1980 of ARAMCO, which was originally an American concern.

As the above incidence suggests, bilateral relationships have their limitations, in that they can be breached by any government that wants to exercise its national sovereignty and attendant prerogatives. However, globalization today makes it unrealistic for a nation, even if well endowed with natural resources, to isolate itself from the world economic system and hope to sustain economic prosperity. Therefore, multilateral economic cooperation has become popular. A case in point is ASEAN's shift of emphasis from political alliance to economic alliance, as evidenced in its Singapore Declaration of 1992 to promote free trade agreement within the association, and its subsequent expansion of membership to include all ten nations in Southeast Asia. Their hope for regional economic cooperation in East Asia was however dashed when the US government took the initiative and promoted APEC (Asia-Pacific Economic Cooperation) to secure its economic leverage against East Asian countries.

The US government also took initiative in the establishment of the World Trade Organization (WTO), despite its past obstruction in its predecessor, the International Trade Organization, as earlier mentioned. This is certainly not the nation's change of heart, but merely a change of tack. For the US government, WTO provides a useful vehicle to bring many nations, developed or developing, into a trade regime. As WTO adheres to the GATT *unconditional most favored nation principle*, any member nation cannot treat the United States differently from others. This will make it difficult for any member nation to impose oil embargo or similar retaliatory trade policy, without risking its membership. Furthermore, the organization's decision-making by consensus ensures that no regulatory decision will come into force without the US consensus or acquiescence. In short, WTO could be used, and is used, as another instrument for the United States to further its trade

and economic policies and interests.” [Stiglitz, 2002] This situation puts more than a rhetorical meaning to call the on-going globalization as *Americanization*.

Financial transaction and its instrument

Nowadays the bulk of economic interaction is financial or monetary transaction, and money is the indispensable instrument for this kind of interaction. Naturally, history of money is closely intertwined with the evolution of economic interaction. Money is first of all the material instrument that can function as a medium of exchange. Such need for exchange of goods is almost inherent in any society whose membership extends beyond familial ties. Once some particular material became a medium of exchange to be used at the convenience of its holder, money acquires another function; namely a store of value. It is worth noting, however, that the material acquires such functions only when steady social compact is established with regard to exchange of goods.

The earliest form of economic interaction is exchange of material goods, or barter; such as exchange of fur skins for metal or stone instruments. Without use of money or some medium of exchange, barter has an intrinsic problem; namely the coincidental encounter of two parties with exactly the opposite surpluses and wants of goods. Use of intermediary good or commodity (e.g. precious metals or material such as ivory or certain seashells) frees the exchange from this inherent hurdle. However, such use of intermediary or monetary good could only be possible if and only if the interacting societies or individuals had compatible valuation of the good, and also the social compact that it could be used again in another exchange on later dates. In short, these two functions of money, as a medium of exchange and a store of value, assume the presence of steady social compact with regard to economic transaction.

For that reason, a smaller and culture-bound society could adopt anything that its members consider precious or desirable to keep as its monetary object, although outsiders might not accept the object as a medium of exchange. For example, in remote and agricultural communities, live animals, such as pigs, sheep or cattle, have been used as intermediary goods. Even today such animals are used for ceremonial exchange, although that would be unthinkable in urban communities. It is, thus, obvious that such culture-bound valuable objects cannot serve as a medium of exchange with societies which have different culture or civilization.

Metal has a few advantages over such culture-bound goods. For one, it has good transportability because of its compact and imperishable natures. Iron and copper were

useful, particularly for weapon making, and gold had high ornamental value, in the ancient world. Therefore, metal coins gained wider circulation from ancient times. The best known example is the Roman coinage. Its circulation grew with its territorial expansion. It featured the stamping of emperor's profile, signifying his authority over the Empire. Because his authority was backed by the military power under his command, the coinage carried substantial credibility as a medium of exchange, and it was adopted as such well beyond the Empire's borders.

Commodity money, even gold bullion, has one intrinsic limitation; namely, the amount of its supply limits the volume of economic interaction or transaction. Globalization or otherwise, as quantitative growth of economic interaction exceeds this limit, human society has to invent alternative form of money. Thus, representative money was invented. This money is issued by a money-making authority, with the promise of redemption to some commodity money, which is typically gold. The US dollar notes were this kind of money until the United States Government withdrew its guarantee for gold redemption in 1971. After that the US currency has become another fiat money. Fiat money is so-called because its monetary value is based on the money-making authority's fiat.

Such fiat must be backed by the legal system that enforces its use for economic transaction; hence, it is also called *legal tender*. Whatever the name may be, these instruments for economic interaction are creations of the society and its use depends entirely on the social compact or institutional arrangements for the money-making authority. Circulation of these kinds of money is, therefore, limited by the credibility of the money-making authority. The US government had long maintained a substantial amount of gold bullion in Fort Knox, so as to make its representative money credible.

The US dollar's conversion to fiat money was prompted by the Johnson Administration's inflationary policy for *Great Society*, while escalating the war operation in Vietnam. The financial institutions, including the central banks of many nations, which could no longer rest on the US government's guarantee for redemption demanded gold instead of the representative money. In due course, the US gold reserve became too low to be credible, and the dollar's conversion to fiat money became inevitable. Whatever the US government policy might have been, the disappearance of representative money may have been inevitable due to continuing growth of the global economy.

Once the global economic system lost the US dollar as an anchor for store of value, it also lost the Bretton Woods System. This system was the first institutional development that was negotiated among leading industrial nations at that time, and that aimed at main-

taining a stable international monetary order. Today all the nations use fiat money for domestic economic transactions, without any anchor money for valuation. Thus the credibility and stability of their fiat money depend on their money-issuing authorities' competence and credibility in its economic management. Such characteristics change from place to place, and from time to time. Accordingly, their valuation in the global economy is essentially subjective, speculative and unstable.

This characteristic has been demonstrated most dramatically in Russia and Indonesia during the East Asian financial crisis in 1997-98. These incidents have also demonstrated the absence of any effective institutional framework for stabilization of international financial market. In this market, it is credit money, which arises as a byproduct of banking operation, that dominates. The volume of credit money in circulation is difficult to control, without controlling the banking institutions. This is another unique role of the central bank, besides its money-issuing role. Naturally its control is limited to the financial institutions within the national jurisdiction, and for their banking operations.

In the international arena, the Bank for International Settlements (BIS) is supposed to play the role of central bank for national central banks. However, it is rather ineffectual as the agency for controlling credit money in the global financial market. The reason is threefold. Firstly, banks are no longer the only financial institutions that generate credit money, and secondly offshore financial centers, which intentionally stay out of control of these central banks, are growing in numbers and operations. Thirdly, BIS does not have money-issuing authority.

Accordingly, the stability of the global financial market essentially depends not so much on the monetary prudence of the central banks of nations with substantial economic size, as their governments' economic management. This is the area where domestic as well as international politics are involved. Although this is the reason for current market instability, this also suggests a way to enhance stability. That is to reduce the number of players in the market, or to reduce their influence. The exclusive use of SDRs (special drawing rights), even just as a unit of account, in international monetary transaction will have the latter effect. For the former, the establishment of common regional currency, such as Euro for the EU, will help. However, the recent experience of the European Central Bank and Euro indicates that few national governments are willing to reduce their sovereignty over national budgets and economic management.

The wider use of SDRs will likely face the determined opposition from the US government, as it will significantly diminish the US dollar's clout as the primary currency of inter-

national economic transaction. The International Monetary Fund (IMF), which sets the policy over SDRs, has no intention of promoting such practice, because the policies and practices of this international organization are, in no small measure, dictated by the US Treasury.[Stiglitz, 2002] Even this circumstance cannot eliminate a possibility for change, if a certain group of nations decide collectively to exercise their sovereignty and leverage to reduce the suzerain influence of the United States in the global financial market and to make globalization more equitable among nations. One such scenario for change will be the establishment of regional currency for East Asian nations, if not together with South Asian nations. The scheme, however, entails greater cooperation between these nations, particularly between China and Japan. Unfortunately its realization in the near future is highly unlikely. In the meantime, globalization in the form of Americanization continues.

Production and trade of economic goods

Let us now look at the core of economic interaction, i.e. production and trading of economic goods. It is not difficult to see how the use of money fostered the expansion of these economic interactions, vice versa. Money, as a medium of exchange, practically eliminated geographical distance as a hurdle for exchange of goods. However, the risk of encountering unscrupulous merchants and craftsman was always present from the ancient times, and the risk was higher if the exchanging parties had differences in their manners, or social compact, for trading. Thus, production and trading both thrived within an empire, because of its imperial authority engendered uniformity in such social compact within the empire. Thriving business, in turn, enriched the empire, culturally as well as economically. It also helped expansion of its imperial authority to adjacent areas, as wealth and advanced civilization inevitably attract people. In other words, “peace and prosperity” has been a valid dictum from the ancient times.

As the Roman Empire began to fragment in the late 3rd century, Pax Romana also began to decline. By the late 5th century, Pax Romana was no more and Western Europe was largely divided into numerous territories governed by military potentates and Christian bishops. Without a proper authority to prevent, or protect from, unscrupulous interaction, merchants and craftsmen adapted to this circumstance by respectively forming their local professional associations based on self-governance, which are now known as guilds. People who share common professional skills or practice were used to form their respective associations for social recognition, and social recognition was accorded to them for their ability for self-regulation of their professional work, from the ancient times.

Therefore, such development of guilds was merely an evolutionary adaptation to the changing of time.

The principal tenet of a guild is to protect mutual interest of its members, and also to set some norms and standards in professional conducts and morality. This is a kind of social compact among its members on the one hand and, on the other, to the rest of the society, so that the guild would receive respect, and orders for their professional work, from the society. Merchant guilds enjoyed monopoly in trade of certain commercial goods, and they exercised their monopolistic privilege to enforce contracts among members, or between members and outsiders. Craft guilds were formed to control both quality and quantity of their respective products, in order to ensure profitability of their trades.

It is obvious that such exercises were only possible with tight social compact among the guild members. Such tight social compact was only possible because of their monopolistic privileges, which were normally granted and protected by the territorial authorities concerned. For the territorial authorities, guilds were important sources of income, as they paid tariffs in exchange of their privileges, and also they were important sources of dynamism in local economy. Thus, their symbiotic relationships prospered during the Middle Ages. This period was also characterized by emergence of urban centers in Europe, because of the symbiotic relationship between guilds and urban communities. It is people who engender economic interaction, and urban communities guarantee certain volume of economic interaction for guilds of many kinds. As they gather in urban communities, these communities grew as centers of economic transactions, attracting more people and expanding guilds. Not surprisingly leaders and representatives of guilds also engaged themselves in the civil administration of these communities.

Between craft guilds and merchant guilds, generally speaking, the latter were the richer ones. For craft guilds, their wealth was limited by their production, and the volume of production largely dependent on local demands for their work. In contrast, the wealth of merchant guilds would grow with their space and scope of business, which could be expanded with their own efforts. This enabled those cities, and their resident merchant guilds, with easy access to maritime trade to accumulate wealth, as well as various administrative privileges. The growth and prosperity of Hanseatic cities in the Middle Ages attest to such development. If those wealthy merchants took command of city administrations and their resources were put together to promote foreign trade, cities could outperform many others in power and prosperity. This formula for prosperity was best exemplified by such maritime republics as Genoa and Venice.

Ironically, their economic success was also the cause of their own downfall. Apart from a few such illustrious exceptions, it was the local potentates who held military power and commanded political and judicial authority in the society. They naturally competed among themselves for such power and authority, and the competition led to the formation of hierarchical relationship, or feudal system, of allegiance and protection between them. Territorial expansion meant more trades for guilds. Therefore, guilds were generally not averse to such expansion, and they became integral parts of such feudal systems, with allegiance and protection. However, as feudal lords were further consolidated into a few kingdoms, kings had to keep their military power and civil authority. This meant large expenses to pay for the necessary manpower, and kings needed to expand their revenue sources. In this process, conflict of interests between the royal governments and guilds became apparent. There was no real contest for power between the two, and guilds were inevitably on the losing side.

Conflict in economic interest is obvious. For a king, levying higher taxes to local guilds for their monopolistic privileges would be one way to increase his household's revenue. For guilds, such tax increase meant reduction in their income and, thus, it had to be resisted. King would then find alternative sources of revenue by licensing similar business privileges to individuals in exchange of their tribute or tax payment. King could also engage in foreign trade through royally licensed merchants or companies. Such practice significantly eroded the economic privileges and *raison d'être* of guilds. Also there existed conflict of interest of another kind; i.e. civil administration. Royal governments, as any government would, regarded no need for sharing civil authority with any other entity. In short, as the royal power increased and formed dynastic state, guilds became obsolete and obstacles to the nascent state government. The only exception to this pattern of demise was the Hanseatic League, which survived until late 17th century.

Industrial production and nation states

The gradual decline of guild as a mainstay of production and trade came from another direction; i.e. technological advance.[Braudel, 1984b] The advance in production technology, and the increase in the volume of production, eventually culminated as the Industrial Revolution in the late 18th century. Technology, or machine as its embodiment, could replace skills for production. Increasing volume of production needs a larger market. The powerful potentate, with capital and with the authority over a wide territory could provide such infrastructure for production. Guilds, which were divided by profession,

were ill equipped to cope with such modal shift in production, particularly of commodity goods, and gradually lost their control in production as well as their political influence in their societies. Instead, the local potentates, who exercised collection of taxes from all sorts of economic transactions, had the capital to invest into production machinery and also the authority to control local markets within their respective territories. As such they were much better equipped than guilds in supporting industrial production.

These local potentates naturally vied and fought with each other for territorial control. Such conflicts made some to disappear and others to emerge as powerful kingdoms. It was the Peace of Westphalia in 1648 that ended such feudal order of international relations and established the modern international system of independent nation-states, of which some were ruled by hereditary royal households. Such difference in polity aside, their governments enjoyed the absolute legal authority within their territories, and the mutual guarantee for their sovereignty. Their legal authority included production of money as legal tender, as well as active intervention in the conduct of national economy.

However, the prevailing economic philosophy at that time was mercantilism, which in essence saw international trade as a “zero-sum game.” Thus nations competed with each other to maximize export and minimize import, so that they would be able to accumulate wealth in gold and silver bullions. These metals were highly valued as store of value, because these precious metals were widely used to pay for mercenary soldiers on which their military power depended. The nations also competed in production of commodity goods, with various government interventions for industrial development. France was very successful in this endeavor under Jean-Baptiste Colbert, who served as finance minister for 22 years.[Braudel, 1984b] He was credited with the government endeavor to increase the nation's industrial output, through the lowering of internal barriers for trade, reducing internal tariffs and building an extensive network of roads and canals for transportation of goods.

Institutional Development for Globalization

Feudal system and its progressive governance

Just as nation-states became a dominant form of organized human society after long history of societal evolution, institutional development for governance has come through an equally tortuous evolutionary process. One distinctive feature of such development after Pax Romana was the expansion of tenet for governance beyond political control, to include eco-

conomic management. The reason for this expansion was also economic. Competition and positioning among local military potentates had to be fought with strength, and this strength depended on their economic wherewithal to mobilize mercenary forces. Their economic wherewithal in turn depended on the excise and customs levied to the farming communities and guilds within their respective sovereign territories. This meant that their governance must ensure economic viability of these people, for their own survival.

This situation suggests that, unlike its popular image of social stagnation, the feudal age was the period when significant institutional development in governance took place. Its development thrust came from two sources. One is the above mentioned concern for economic prosperity for the populace, and the other is the administration of territorial consolidation. This consolidation entailed two kinds of integration at the same time. One is territorial integration, with development of appropriate economic infrastructure. The other is societal integration. A feudal age was also the period when division of labour and professional work advanced.[Braudel, 1984c] Territorial consolidation, therefore, had to ensure social coherence among people with diverse walks of life, as well as the development of appropriate physical and metaphysical facilities for their interaction.

Naturally the viability of this society depended on its governance. The most important aspect of such governance would be that of economic interaction, in order to make the society economically productive. In modern terminology, this means the development of economic infrastructure to facilitate economic interaction; road and communication networks, as well as market facilities for efficient exchange of goods and productive resources. The sophistication in economic interaction entails the concomitant sophistication in the social compact or institutional system. Such concomitant development can only be ensured by the presence of strong and stable political power in the society concerned. This political power may be shared among the core (or elite) group of people in the society, such as prominent merchants in Hanseatic cities. However, that was more an exception than a norm, and the norm was the presence of a sovereign authority, such as Plantagenet kings in England.

The rise and fall of Hanseatic League is also useful to illustrate what constitutes good governance. The potentate power of a feudal ruler could only be exercised or maintained by his economic wherewithal. This naturally gave the feudal rulers strong temptation for controlling, instead of fostering, the economic interaction among his subjects. Unless the feudal ruler happened to have understood the working of economy at that time, such control was more the interference, than the promotion, of enterprising economic interaction by

his subjects. Hanseatic League and its member cities wanted to minimize such interference from feudal authorities, in order to facilitate its commercial activities. [Dollingen, 1970] The League's success and prosperity in the early middle ages, thus, indirectly indicate the immaturity of the feudal authority for governance.

As long as the society's governance was subject to the vagary of feudal rulers, it made any economic interaction risky, and any interaction that needed time to effect, such as trade, even riskier. The League's success thus depended on the commercial compacts between the League and the feudal rulers who had vested interests in trade or in traded goods. This practice was advantageous for both the rulers as well as the ruled. For the rulers, such institutionalized system of governance meant the stability in their authority. For the ruled, it provided the stability in their economic interaction and the predictability in its outcome, which was, as is now, essential for rational decision making for economic interaction.

The decline of Hanseatic League and cities could not be explained easily, as it was gradual and different factors could be attributed at different times and places. However, one common thread in its decline was the inherent limitation of guilds in adapting to the change of time, particularly capitalistic development of economy.[Braudel, 1984c] In the context of governance, it is more useful to focus on the fact that guilds and Hanseatic cities co-existed with the feudal system of governance, i.e. allegiance of monetary contribution in exchange for protection and privileges. This co-existence was, therefore, subject to the willingness of the feudal ruler to share the governance of commercial and production activities with them. If the ruler's perception changed and he saw better economic logic and potential without them, guilds or Hanseatic cities had no recourse to prevent his action.

Nascent capitalism

The economic logic that the feudal ruler had to understand was very simple; i.e. economic prosperity comes with increase of production and commerce, and what would take to help promote such economic interaction. It is not difficult to identify three essential factors for the promotion; namely, transportation network, manpower, and technological innovation. It is not difficult, either, to appreciate that with regard to the capacity development of these factors, guilds or Hanseatic cities had inherent limitations, while feudal rulers had incentives, and were better equipped, for the tasks.

It is worth noting here that the mainstay of traded goods were not luxury goods for the privileged but commodity goods for the populace. Take wheat grain as an example.

Its trading entailed not just transportation from the production center to the consumption center. Even more important was the collection from its producers, and the delivery to consumers. Therefore, expansion of its trade would need development of local transportation network around these centers was as critical as that of trading route between the centers. It would be feudal rulers, and not guilds or Hanseatic cities, who could take initiatives or responsibilities in such development.

Increase in production capacity and volume would be welcome by the feudal rulers, but it might run against the interest of guilds. Their source of power essentially rested in their monopolistic control over production. Therefore, their typical control in this regard was to limit the volume of production so as to maintain price or healthy profit margin from their trade. For that purpose, they tightly controlled their membership, as well as resources for production, including production technologies. These practices clearly ran against the interest of feudal rulers who wanted to enhance production by increased manpower or technological innovation. Mechanization and structured organization for production were typical of such innovation. Both types of innovation needed capital, and once again feudal rulers were better equipped to muster the necessary capital than guilds.

Transformation of England from a major exporter of wool to that of textile in the few centuries after the Black Death of the mid-14th century well illustrates such innovation process. In those days the most important industry was textile industry. England did not have the skilled manpower for textile production. Skilled workers immigrated to England in the following century when the continent was in political turmoil, partly with the instigation of Plantagenet kinds, while the country as a whole enjoyed relative calm and considerable political and social stability after the War of Roses towards the end of the 15th century. The capital for organized production and export of textile was available, *inter alia*, from wealthy English nobility class and London merchants. This development of textile industry in turn helped the nation to build an empire and also to lead the Industrial Revolution. This history has a cunning similarity with that of the succeeding “empire,” i.e. the United States.

Institutional empire building

One can draw a good deal of parallels between the above history and today’s globalization, with regard to the interstate or international economic interaction. In the absence of concord or institutional system governing such interaction, the state or economic entity that holds some leverage over the other in effecting it can and will dictate the *modus operandi*

of the interaction concerned. However, even the most powerful state or economic entity would find it taxing to establish specific concord or arrangement for each new interaction, and it would find it more practical to establish one that governs a wider range of interaction. The recent establishment of the World Trade Organization embodies the global consensus for the merit of establishing an institution that regulates international trade and adjudicate any disputes which may arise from this increasingly important area of economic interaction. Some nation-states want to go even further in the development of a pertinent institutional system for bilateral or multilateral trade, by establishing some free trade agreements.

As the above discussions suggest, a significant feature of current globalization is the predominance of economic interaction between nation-states, including concomitant development of the institutional system governing such interaction. It is worth noting, therefore, the difference between this institutional development for international economic interaction and the institutional system that is referred in the definition of civilization. The latter refers to a holistic system that governs human interaction in general, and it applies to a specific society. In comparison, the former institutional development is limited to economic interaction between different societies. Furthermore, this development primarily aims at facilitating market economy and capitalistic interaction. Therefore, it is no surprise that it is causing diverse conflicts with numerous societies and their civilizations.

The most serious failing of current globalization is this disarray between the global expansion of economic interaction and the development of adequate institutional system, or civilization, in the world community. The disarray has been inevitable for two reasons. One is that the emergence of borderless economy and the global espousal of capitalism after the collapse of the Cold War regime. The other is the seeming indifference, and inability, of the world community as a whole to develop an appropriate institutional system for governing the new economic interaction that this change has ushered in.

Thomas Friedman has come up with a very succinct description of the change; the birth and growth of the “Electronic Herd.” [Friedman, 2000] The Herd is made up of all kinds of financial traders and big multinational corporations. They control the global movement of the capital and other resources for production, or essential means of wealth creation. It is beginning to replace governments as the primary source of capital for both companies and countries to grow. Thus, he contends that free-market capitalism is now the only system with which any nation can achieve higher standards of living. He further contends that this free-market capitalism needs and demands nations and their govern-

ments to conform to a certain style of governance, which he calls the “Golden Straightjacket.” In other words, he contends that a nation must adopt some “golden rules” pertaining to economy and polity, such as making the private sector the primary engine of economic growth, shrinking the size of state bureaucracy, and deregulating capital markets and economy as a whole.

Growing social discontents

The above description clearly illustrates the ominous fact that the change is oblivious to the geographical, cultural and political characteristics that have sustained many nations as viable human societies. Mr. Friedman is aware of this failing, and the threat of serious backlash to the forceful and, to some people, painful change. Thus he balances his argument by highlighting the importance of cultural heritage, and the need for a “healthy balance between preserving a sense of identity, home and community, and doing what it takes to survive within the globalization system.” [Friedman, 2000]

His eloquence notwithstanding, his argument has two serious oversights.[Tanahashi, 2005] He assumes that there is a globalization system as such. However, the word, “system,” implies that it has a specific objective for which all the elements in the system play their specific roles, respectively, toward its realization. Current globalization may have thrusts from some elements, such as financial traders and multinational companies, towards the global espousal of “free-market capitalism.” However, they are elite members and a minority in the world of capitalism, and far from being a majority in any society. The majority is the people who work for capitalistic business enterprises, and who save their earnings for their families and for rainy days. There is a clear conflict of interest between this majority and the elite minority.[Goerge & Martin, 2002]

The other oversight is the over-simplification of a critical issue of adapting to, if not governing, globalization. Preservation of some cultural heritage is no counterbalance to the profound changes that globalization brings to a society and its people’s lives. Probably the most important feature of current globalization is also the essential feature of free-market capitalism, which is competition. This may sound rather benign, unless or until the reality is known. The reality of current globalization engenders all sorts of competition between the unequals. Within the world community, inequality exists between nations, as it does within a nation. Furthermore, current globalization promotes such competitions between the unequals, with the inevitable consequence of growing disparities within a nation, and between nations in the world as a whole. Such disparities cannot be

alleviated by preservation of some cultural heritage or national identities.

What is needed is the instrument, or more likely the institutional system, that can counteract the raw power of capitalism. Nowadays capitalism has been widely acknowledged as the most efficient system for wealth generation, but not so for wealth distribution. [Friedman, 2000; George & Martin, 2002] Indeed, capitalism espouses mechanisms and institutions that help amass wealth, but it pays no heed to its equitable distribution. If unchecked its impact could be socially destructive. Such destructive power came to the fore in the Industrial Revolution, for the first time in human history. In order to attenuate this impact, socialism had to be invented. The main tenet of socialism is the dichotomy of a society between the capitalist and the proletariat, and the institutionalization of collective control by the latter over the means of production, which otherwise remains in the monopoly of the former. However, the recent history of socialism has proven that protective labor practice tends to attenuate productivity and aggravate poverty, altogether failing to enhance the economic wherewithal of the proletariat as a whole.

Although discredited as a viable alternative to capitalism, socialism has made significant contributions to the development of a modern nation-state and its government. It has put equality as an essential guiding principle of governance. For example, the polity of modern democracy began to develop and spread along with socialism. Another important legacy of socialism is the development of public services. The tenet of this development is to ensure that all the members of a society will have access to essential means and resources for their basic human needs.

Not surprisingly, current globalization has the detrimental impact on both respects. As the above reference to the *Golden Straitjacket* suggests, globalization, and particularly the pressure of global competition, tends to narrow the choice of government policies and practices. For example, many governments are lowering taxes levied on business enterprises for the sake of enhancing their competitiveness in the world market. This inevitably tightens their public revenues and limits the scope or scale of their public services. In short, globalization tends to roll back the institutional gains that many nations have strived for in order to alleviate the social disparities that capitalism has engendered since the Industrial Revolution.

Political implications of social discontents

Social ramifications of globalization go much wider and deeper. The above discussion indicates one significant change that globalization has brought into governance. Concerns for

global competition have become a dominant political issue in most nations. In turn, such domestic issue as alleviation of social disparities within a nation has become subordinate to this primary issue, as the above example indicates. It is important to note that this political change of tack in governance is taking place even in a democratic polity where the citizen's representation and the majority rule are the norms. This phenomenon implies an important change in political culture. Specifically, political participation has become increasingly dichotomized between the core group and the peripheral group, and political decision-making process increasingly controlled by the former.

Prominent among this core group are capitalists. In any political regime, the wealthy always keep the upper hand over the poor. That is because political power and wealth always go hand-in-hand. After all, politics is said to be essentially the art of compromise, and the wealth always comes useful in forming and shaping compromise with economic incentives. Nowadays, many industries and business enterprises are exposed to the pressure of global competition. People holding high stakes in such industries and businesses will naturally try to use any political resource available to them, for institutional advantages which their governments can offer to alleviate the pressure or to enhance their competitiveness. In the world of *realpolitik*, their gain usually comes at the expense of those who do not have such wherewithal, i.e. the populace or the proletariat.

This is by no means a new phenomenon. One can find many examples in such *realpolitik* in the countries that have strived to realize economic development through export-oriented industrialization. Japan once spearheaded such development in Asia. Although decades of such effort propelled the nation to become the second largest economy in the world today, it also suffers from various negative legacies from those decades. One such legacy has been the government's tendency to allow industries to abuse common goods at the expense of the public at large. For example, the government has been consistently slow, if not reluctant, to impose strict rules and regulations for environmental protection to domestic industries. As a result Japan has gained some notoriety with some severe environmental damages that cost many people's lives, such as Minamata and Yokkaichi. Asbestos pollution is just another example, which happens to become a public issue lately.

If the industrialized world is not free from political vitiation, the developing world is likely to experience even more serious political vitiation. In a developing nation, corruption in politics and government bureaucracy has always been present. However, in the past, the skewed distribution of wealth through such practice has been largely confined within the country. Globalization and the pressure of global competition are changing this

political landscape. For example, foreign direct investment (FDI) has become increasingly important for a developing nation to acquire technology and financial resources, as well as to access the global market, for development of industrial production. Accordingly, the government has to accept foreign stake-holders among the capitalists. Foreign or domestic, they share the same interest in gaining institutional advantages which the national governments can offer to alleviate market competition or to enhance their competitiveness. The more dependent a nation is on FDI, the harder it is for the government to resist their political maneuvers. In the end, people in the peripheral group will lose. Furthermore, a good portion of their loss may be in the hands of foreign stake-holders who are very likely equally foreign to their “national interest.” In other words, the peripheral group is likely more marginalized politically and economically.

In essence, globalization has changed the global political landscape, the prominent of which is the shift from socialistic fairness to capitalistic freedom. Naturally, discontent and opposition have spread and aggravated in recent years.

Concluding Remarks

All the above arguments seem to converge on one obvious conclusion. That conclusion is in short: to make today’s globalization sustainable or viable, it entails development of new civilization. Globalization, as the geographical expansion of human interaction, is inevitable and the critical issue is to make it “sustainable.” This adjective may be subject to various interpretations. Friedman appears to have used this adjective, mindful of the possibility that globalization might lead to irreconcilable division of the world community, by creating a significant segment of this community that is excluded from the economic benefit that globalization helps generate. He feared that such a division would lead to serious social and economic backlashes that would spoil globalization. This paper shares his concern and prognosis, but it conclusively rejects his prescription.

Friedman emphasized the importance of culture and tradition as effective stabilizing factors for the people who undergo significant socio-economic changes brought by globalization. He implied that these factors should be promoted as a cure against possible backlash. However, the real adaptation to globalization is the productive participation in the economic interaction that globalization has engendered. Accordingly, the adaptation requires development of appropriate facilities, physical or metaphysical, for such interaction. In other words, it requires development of new civilization, which is very different from fostering of

traditional culture.

The aforementioned historical review of past globalization reveals that the sophistication of human interaction, including geographical expansion of economic interaction, went hand-in-hand with the development of physical and metaphysical facilities in the society concerned. There is no reason to assume that today's globalization has changed this time-tested axiom. The importance of this axiom lies in its corollary. The corollary is that, if the physical facilities are different, then the appropriate metaphysical facilities for them are also different, and *vice versa*. Apply this to a developing nation. It does have the financial sector, and it does have markets, for example. However both are very different from their name-sakes in a developed nation. Naturally, institutional forms and norms of the latter do not apply, and cannot function if applied, to the former.

Proponent of globalization seem to be totally oblivious to this reality, and they seem to expect globalization to realize the homogenous and institutionalized free-market capitalism throughout the world, as Friedman's term, *golden straitjacket*, suggests. However, nobody can deny the gross inequality in the availability of, and accessibility to, appropriate physical facilities that exist between the developed world and the developing world, and also between the urban centers and the peripheral areas. Thus no one should hold any illusion that globalization is sustainable in the current form. The sustainability of globalization can, therefore, be hoped only if globalization progresses together with development of attendant mechanisms for overcoming such differences in physical facilities.

Narrowing the gap in physical facilities may appear ideal, but not so in reality. There is no way or rationale to homogenize the urban center and the periphery. Likewise, the world will always find nations in advantage as well as those in disadvantage. Therefore, the only realistic solution is to compensate their differences in physical facilities with adjustments in the metaphysical facilities. Within a nation this principle has been acknowledged as social fairness, and it has been put into practice in the form of socialistic programs and projects. However, between nations, no such principle has been accepted or practiced. On the contrary, today's globalization and its espousal of capitalistic freedom seem to accede to the principle and practice of the law of the jungle. In other words, today's globalization espouses the principle and practice that those with any advantage may make full use of their capabilities, subject to fair market competition. This fairness applies only among the competitors, and it has no consideration or concession for non-contestants. Thus today's globalization cannot help but marginalize many people and communities and, in doing so, it increases the liability of "backlash," or detrimental repercussion to peace

and prosperity in the world.

The most contentious issue in today's globalization lurks in its popular perception as *Americanization*. The above discourse has illustrated a few cases that have led to this perception. Common to these cases is the hegemonic practice and influence of the US government in shaping the institutional framework and norms for globalization. This practice directly or indirectly marginalizes all other societies and their existing institutional characteristics. This engenders complex implications for sustainable globalization. It not only engenders resentment against the US economic dominance, but also against the US insensitivity towards the economic and social plights of other nations.

The US government, as well as the public, may be aware of such economic plights, but much less so of social plights. Furthermore, the US seems to underestimate the risk of its insensitivity to others' plights. This difficulty is once again attributable to differences in civilization. For example, American civilization features democratization and individual freedom, but those social norms are far from universal. In fact, these features contradict with the traditional norms and civilization that have developed over the years and throughout the world, and that are based on principles of mutual help for survival.

Throughout the history of mankind, people are more accustomed to hardship in subsistence than affluence. Thus most societies have developed some social compact and practice that put communal cooperation for survival above individual emancipation. Only in the modern age and in some affluent societies (mostly in the Western World), the former has become redundant and the latter has become exalted and extolled. In the developing world such affluent society is an exception, if it exists, than the norm. As such, traditional civilizations remain strong and they have little appreciation of democratization or individual freedom that may jeopardize their communal cultures. Even in the developed world, societies include within themselves the segments for which the traditional social compact and practice remain alive and important. The stronger this tradition in a society, the more alienated people in the society will feel with globalization.

The popular perception of globalization as Americanization suggests that many people perceive that the US is the center of power for globalization. Thus the longer the current mode of globalization continues, the higher becomes the risk of serious backlash, and the risk of such backlash being directed towards the US. In order to avoid such risks, and to make globalization sustainable, the world has to collectively develop a new civilization that helps promote social fairness more than capitalistic freedom. Michael Hardt and Antonio Negri foretell in their book, entitled "*Empire*," that globalization will eventually lead to the

formation of new political order that does not emanate from any centre of power, but from the collective wisdom of the “multitude.” [Hardt & Negri, 2000] It is immaterial whether this centre of power is identified as the US or, what Friedman calls, the Electronic Herd. It is far more important to activate the multitude. This discourse indicates that they should consist of societies and civilizations that still value social fairness, and that the multitude wisdom is urgently needed in order to adapt their respective civilizations to globalization and its inherent dynamism.

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Globalization and Civilization

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