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## **The Issue of Globalization—An Overview**

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# The Issue of Globalization—An Overview

## Summary

In the 1990s, globalization gained widespread usage as a term with many interpretations. Globalism is employed in this report to describe networks of interdependence functioning at multi-continental distances. Globalization is an increase in globalism and de-globalization a reduction. In providing an introductory view of these networks, with an emphasis on contemporary economic factors, a goal of this report is to illustrate how policy consequences, sometimes unintended, may be dispersed via globalized networks. As networks expand and become more intricate there is an opportunity for feedback along previously non-existent linkages.

The rapid economic globalization we are witnessing influences, is influenced by and oftentimes becomes inseparable from multi-continental networks that take many forms including political, cultural, technological, financial, national security, and environmental. Several factors play a role in today's rapid formation of networks. They include globalization-friendly technological advancements, governmental policies, and management techniques. If government does not institute policies that inhibit/prevent globalization, multi-continental networks will form within the limits of available technology and management. And there is a compounding effect as enhanced competition encourages further advancements. Hence, globalization feeds upon itself. Today's web-based technology is tailor-made for globalization. It builds on an impressive round of politico-economic globalization that began early in the 19<sup>th</sup> century and lasted until the beginning of World War I. To spark this globalization governments adopted policies encouraging international activity, and enterprising individuals took advantage of emerging transportation and communication technologies to build sophisticated global networks of trade, communications, and investment. To a large extent these networks were dismantled between 1914 and the end of World War II. Governmental policies were responsible for this de-globalization. In addition to the effects of war, nations pursued protectionist policies in an attempt to avoid cyclical downturns punctuated by the Great Depression. As this period indicates, governments can shield their citizens from globalization pressures in the short-run, but the economic costs can be significant. Globalization allows economies to specialize in producing items for which they have an advantage and in trading for items others produce. Resulting gains are lost when an economy shields itself from foreign competition. North Korea stands as an example of an economy sheltered for political reasons.

While globalization gains can be substantial for the general population, some may suffer potentially severe economic losses. Included are owners and workers in industries pressured by more efficient foreign firms and governments coping with new realities in a globalized environment. Some individuals also become distressed as their cultural environment changes. While many see globalization as an irreversible process, those adversely impacted by globalization put pressure on their governments to slow or stop it. Resulting policies may protect some of the victims of globalization, but they may also curb the potential for long-term economic growth.

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# The Issue of Globalization—An Overview

## Introduction

Globalization is a process inherent to life, from the creation of life's self-sustaining envelope aeons ago to the trans-migration of primitive humans that ultimately encompassed the entire planet. It is characterized by continual flux and adjustment. Beginning in the 1990s, human globalization entered an accelerative phase in which the process gained widespread usage as an international term with many interpretations. Perhaps because of its wide usage, there is no universally accepted definition of the term. This report will provide an overview of globalization—including a sampling of definitions. Although emphasis will be placed on economic globalization and its impacts, attention will be paid to linking the relevance of the term to policymaking as a whole. In particular, the special role government plays in allowing or prohibiting globalization's spread within a country will be discussed. The possibility of unintended consequences also is considered.

In the introduction, definitions are provided followed by a brief history. Subsequent sections discuss the factors driving today's globalization, its accomplishments, and its opposition.

## Definitions

The Executive Summary of the final report of the Defense Science Board Task Force on Globalization and Security sums up globalization as follows:

Globalization—the integration of the political, economic and cultural activities of geographically and/or nationally separated peoples—is not a discernible event or challenge, is not new, but is accelerating. More importantly, globalization is largely irresistible. Thus, globalization is not a policy option, but a fact to which policymakers must adapt.

Globalization has accelerated as a result of many positive factors, the most notable of which include: the collapse of communism and the end of the Cold War; the spread of capitalism and free trade; more rapid and global capital flows and more liberal financial markets; the liberalization of communications; international academic and scientific collaboration; and faster and more efficient forms of transportation. At the core of accelerated global integration—at once its principal cause *and* consequence—is the information revolution, which is knocking down once-formidable barriers of physical distance, blurring national boundaries and creating cross-border communities of all types.<sup>1</sup>

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<sup>1</sup>*Final Report of the Defense Science Board Task Force on Globalization and Security.*  
(continued...)

A scholarly definition of globalization in its current usage has been offered by Harvard professors Robert Keohane and Joseph Nye. They make a distinction between globalism, globalization, and de-globalization. Globalism “is a state of the world involving networks of interdependence at multi-continental distances. These networks can be linked through flows and influences of capital and goods, information and ideas, people and force, as well as environmentally and biologically relevant substances (such as acid rain or pathogens).” Globalization and de-globalization represent an increase and decrease in globalism, respectively.<sup>2</sup> Globalization results in deeper and/or geographically more complete globalism. A deeper globalism means more points of connection and the resulting fuller integration. Most common usages of globalization probably encompass Keohane and Nye’s globalism and globalization.

Although providing a less scholarly definition, Thomas Friedman, New York Times Foreign Correspondent, in his best selling book *The Lexus and the Olive Tree: Understanding Globalization* also defines globalization in broad terms. He states, “Globalization is not a phenomenon. It is not just some passing trend. Today it is the overarching international system shaping the domestic politics and foreign relations of virtually every country, and we need to understand it as such.”<sup>3</sup> To Friedman, globalization is driven by free market capitalism. It is the system that replaced the Cold War. Friedman’s globalization has six dimensions—politics, culture, technology, finance (and trade), national security, and ecology; and via globalization the boundaries between these dimensions are disappearing. Putting Friedman’s definition in the context of the Keohane-Nye definition, deeper globalism means that it becomes more difficult to deal with one of Friedman’s six dimensions in isolation. This is because through globalization the boundaries are blurred allowing feedback relationships which prevent isolation. That is, a web of connections forms to link activities at multiple levels. This could manifest itself in an increasing number of unintended consequences from policies designed to address a single problem.

If globalization is given a more narrow definition, then typically it can be viewed as a subset of the Keohane-Nye definition applied to a limited dimension such as economic globalization or globalization’s impact on labor and the environment.<sup>4</sup>

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<sup>1</sup>(...continued)

Office of the Under Secretary of Defense for Acquisition and Technology. December 1999.

<sup>2</sup>See Keohane, Robert O. and Joseph S. Nye Jr. “Introduction.” In Nye, Joseph S. and John D. Donahue, eds. *Governance in a Globalizing World*. Washington, D.C., The Brookings Institution, 2000. pp. 1-41.

<sup>3</sup>See Friedman, Thomas L. *The Lexus and the Olive Tree: Understanding Globalization*. New York, Farrar, Straus and Giroux, 1999. p. 7. (An updated version is available in paperback.)

<sup>4</sup>For example, a World Bank publication describes economic globalization as follows “...the most common or core sense of economic globalization...surely refers to the observation that in recent years a quickly rising share of economic activity in the world seems to be taking place between people who live in different countries...” The World Bank groups economic activity into international trade, foreign direct investment, and capital market flows. See the World Bank Briefing Paper entitled “Assessing Globalization” at [<http://www.worldbank.org/html/extdr/pb/globalization/paper1.htm>.]

Sometimes two dimensions such as the interaction of information technology and the global economy are included.

Oftentimes, globalization is used in a positive context with emphasis on the opportunities expanded networks offer for information sharing and access to resources, products, jobs, and technology. In other uses, as Keohane and Nye noted, it can connote the spread of human and environmental plagues, as it were, such as the AIDs pandemic and acid rain. If globalization is used in a highly negative politico-economic sense, the user's definition might fall into the "globalization-is-hegemony" school of thought. In these cases, globalization is viewed as a "societal plague."<sup>5</sup> A typical hegemonic view is the Americanization of the world. Terms such as McGlobalization illustrate this view.

## History

All definitions, whether broad, targeted, optimistic, or pointing to a societal plague, include phenomena that are increasing in importance within several regions of the world and/or encompassing a growing part of the globe. But the question arises, what historical events qualify as globalization? Opinions vary widely. Of course, much depends on the type of globalism that is being discussed. For example, environmental influences are inherently multi-continental. Human influences may change their character through deforestation or green-house gas emissions, but the scope has always been inter-continental.

From an economic point-of-view, some historians point to the voyages of Christopher Columbus in 1492 and Vasco da Gama in 1498 (which opened the spice trade to competition) as globalization's "big bang," but good arguments can be made that economic globalization began even earlier (e.g., the earlier spice trade or the Greek and Roman Empires). Empirical evidence has not produced a consensus on globalization's impact for any of these early events, but historians universally agree and the data support that in modern times there was significant economic globalization beginning in the 19<sup>th</sup> century and lasting until 1914, the beginning of World War I.<sup>6</sup>

By 1900, the basic tools of creating modern multi-continental networks were already in place. These included the railroad, steamship, telegraph, and refrigeration. During the pre-World War I period goods, investment capital, and people were able to move between countries, for the most part, unimpeded by governmental interference. That is, government-imposed trade barriers on goods were relatively low (although they gradually increased during the period), investment funds were allowed to move from one country to another, and passports for travel within Europe were not required. In 1919 John Maynard Keynes, the noted British economist, described pre-1914 globalization in a manner relevant to the globalization we are experiencing today. He wrote:

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<sup>5</sup>Doran, Charles F. "Globalization and Statecraft." *SAISPHERE*. 2000. p. 6.

<sup>6</sup>See O'Rourke, Kevin H. and Jeffrey G. Williamson. "When Did Globalization Begin?" National Bureau of Economic Research Working Paper 7632. April 2000.

“What an extraordinary episode in the economic progress of man that age was which came to an end in August, 1914.... The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend.... Most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice.”<sup>7</sup>

Keynes’ description eloquently captures two of the three aspects of pre-1914 globalism—free flow of goods and investment capital.<sup>8</sup> Trade barriers, while present and growing, were relatively small. Furthermore, international flows of investment capital were smoothed by the gold standard.<sup>9</sup> Beyond Keynes’ quote, people could, for the most part, also move relatively freely during this globalization period. For example, during much of this period the United States allowed access to all but prostitutes, convicts, the mentally ill, and, after 1882, Chinese.<sup>10</sup>

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<sup>7</sup> Reported in *Future Perfect: The Challenge and Hidden Promise of Globalization* by John Micklethwait and Adrian Wooldridge, Crown Publishers, New York, 2000 p. 7 from *The Economic Consequences of Peace* by John Maynard Keynes

<sup>8</sup> It is beyond the scope of this overview to compare in detail the 19<sup>th</sup> century and 20<sup>th</sup> century periods of globalization, but Michael D. Bordo, Barry Eichengreen, and Douglas A. Irwin in “Is Globalization Today Really Different Than Globalization a Hundred Years Ago?” (National Bureau of Economic Research Working Paper 7195, June 1999) concluded, “that our world is different: commercial and financial integration before World War I was more limited. Globalization today raises new issues of governance not just because it is conjoined with a political system which gives a louder voice to special interests, but because the economic phenomenon itself is different: integration is deeper and broader than a hundred years ago.” (pp. 3-4) For financial integration they found for 19<sup>th</sup> century globalization that, “Long-term capital flows...were large in volume but—just as in the case of trade—limited to narrow sectors of the economy, while short-term flows remained very much lower relative to the size of the world economy.” (p. 4) Nonetheless, few deny that globalization was impressive during the 19<sup>th</sup> century.

<sup>9</sup> During the gold standard period (1870-1914) the values of national currencies were pegged to gold. The result was stable currency values. For example, the number of British pounds a dollar could purchase remained stable, varying only by the cost of shipping gold. Unfortunately, this system does not allow for the pressure put on currencies as national economies grow at different rates.

<sup>10</sup> The Chinese Exclusion Act of 1882 suspended immigration of Chinese laborers to the United States for ten years. This was followed by the 1892 Act to Prohibit the Coming of Chinese (continued...)

From 1914 to 1944 the world could best be described as in a period of rapid economic de-globalization. The period began and ended with world war, interspersed with a world-wide wave of anti-trade protectionism (with the U.S. Smoot-Hawley Tariff Bill of 1930 which raised tariffs by an average 53% as a prominent example). The protectionism was aimed at sheltering nations from wide cyclical economic swings. While The Great Depression represented the most severe example, Britain experienced an earlier depression between 1920 and 1922. Many economists, including Keynes, believed that national governments could better control the impacts of unemployment with a more constrained interaction with the outside world. Keynes' famous prescription to dig out of the Great Depression was to increase government spending. This is the prescription the Roosevelt Administration followed, but without restricting the openness of the economy the full impact would have been diluted as private investment funds would have fled to avoid competition with public funds and immigrants would have flooded in to avoid even worse conditions elsewhere. Hence, the United States and other governments in similar situations began to take steps that restricted interaction between their nations and others. For example, in response to tighter policies U.S. immigration fell from 10.4 immigrants per 1,000 residents in the 1901 to 1910 period to 0.4 per 1,000 between 1931 and 1940.<sup>11</sup> The United State was not the only country turning inward.

“Between 1929 and 1938, for example, the ratio of foreign trade to domestic production declined by 10 percent in Britain, by nearly 20 percent in Canada, and by 25 to 40 percent in Japan, Germany, and Italy. In the six years between 1927 and 1933, international lending dropped by over 90 percent.”<sup>12</sup>

Unfortunately, closing a nation to the rest of the world to avoid cyclical downturns comes at a price. The competitive zeal that accompanies globalization is blunted. In the short-run the cyclical downturn may be avoided, but over the longer term the innovation which globalization fosters and the resulting growth potential is also avoided. Until recent years, when it began to open its economy, India's poverty stood as an example of the costs of autarkic policies, present on a long-term basis rather than being restricted to periods of crisis.

As World War II drew to a close, 730 delegates representing more than 40 countries met at Bretton Woods, New Hampshire, to map out a strategy for international economic interaction following the war. A major purpose of the Bretton Woods meeting was to recapture some of the pre-World War I globalization. Keynes, as Britain's head of delegation, played a pivotal role in this meeting. In fact, it was held at Bretton Woods, an isolated resort area, partly in deference to Keynes' declining health. It was felt the mild climate would suit his medical needs. As a result of this conference, the World Bank and the International Monetary Fund (IMF) subsequently emerged. The World Bank's first mission was to help rebuild war torn economies. Later the focus shifted to less developed countries. The IMF embodied

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<sup>10</sup>(...continued)

Persons into the United States.

<sup>11</sup>U.S. Census Bureau, *Statistical Abstract of the United States*. Washington: U.S. Department of Commerce.

<sup>12</sup>Micklethwait and Wooldridge, p. 12.



the financial architecture upon which worldwide economic reintegration began. IMF purposes include promoting international monetary cooperation, exchange stability, and orderly exchange arrangements. The intention was to follow the IMF and World Bank with an International Trade Organization (ITO) with broad powers to regulate trade. The first step in the process of creating the ITO was the General Agreement on Tariffs and Trade (GATT) which resulted in 45,000 tariff concessions affecting about \$10 billion in trade. The GATT also included some provisional rules that were to be part of the ITO. GATT's purposes included providing a forum for members to discuss trade issues and fostering a rules-based trading system. In the end, the ITO was not adopted and the GATT stood as a provisional agreement for almost 50 years until the World Trade Organization (WTO) was formed in 1995. The IMF and GATT, in particular, set the stage for the tremendous burst of economic globalization we have witnessed since 1990. Similar to 19<sup>th</sup> century globalization, the agreements creating the IMF and GATT were based on open trade; but unlike the 19<sup>th</sup> century, international portfolio investment flows were restricted, and while not a part of these agreements, immigration was also restricted. Restrictions on investment flows only began to fall in the 1970s, and much of the pressure behind this fall came from private firms and individuals finding ways around foreign investment restrictions. Nonetheless, movement of people remains comparatively regulated. For example, in the United States, although many feel we are currently experiencing an accelerated rate of immigration, the annual rate was 3.6 immigrants per 1,000 residents between 1991 to 1998, compared to the 10.4 per 1,000 cited earlier for the 1901 to 1910 period.

Also, during the period from 1944 to the 1970s, many national governments intervened heavily in the economic activity of their respective nations. Oftentimes, basic industries such as coal and steel were nationalized. These actions were based on the thought that government could correct for market failure. As the result of poor performance by nationalized industries, the 1980s saw a reevaluation of this thinking. As a result, the Reagan and Thatcher Administrations led the way in promoting market liberalization. Actions during their administrations accelerated the economic globalization that began with Bretton Woods and resulted in our current level of globalism.

While this places the current spirit of globalism in context, it is also worth noting that globalization still has a long way to go. For example, if economic globalization were complete, then national borders would not influence trade, investment, wage patterns, and immigration anymore than the borders between two states within the United States. But as the significant wage difference between Mexico and the U.S. reveals, international borders do matter. One way to measure border effects on trade is to ask figuratively "how wide is the border?" The width of a border can be found by converting the cost of taking goods across the border (i.e., tariffs and non-tariff barriers) into the equivalent miles of transportation those costs would allow. One report found that the U.S.-Canadian border, one of the least restrictive, to be 1,780 miles wide.<sup>13</sup> Another report found that if globalization were complete, U.S. trade

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<sup>13</sup>Reported in Janet Ceglowski's "Has Globalization Created a Borderless World?" *Business Review*. Federal Reserve Bank of Philadelphia, March/April 1998.

relative to gross domestic product would have to be six fold larger.<sup>14</sup> And for investment flows, if borders did not matter, then cross-border investment flows would rival within country flows, but they do not even approach this level. Nonetheless, proponents and opponents of globalization are likely to agree that the rate of globalization we witnessed as the 20<sup>th</sup> century drew to a close was striking. Why we currently are seeing such rapid globalization is the question next addressed.

## Why Globalization and Why Now?

The two most often cited driving forces of globalization are technological advancements that are conducive to increased international activity and a reduction of government induced barriers to international activity. A third factor pointed to by some is the advancement and growing uniformity of management techniques. Each of these will be discussed in turn, but first an overarching economic stimulant will be presented—the incentive to globalize. It has always been present, but has taken time to become reality.

### Incentives to Globalize

If one accepts that resource holders attempt to use their resources in the wisest manner they can discover, then economic factors have always pushed for economic globalization. Arguably the single most powerful concept in economics is “comparative advantage.” Simply, it states that resource holders use their resources wisely by concentrating efforts on what they can produce best, and trading for other desired items. As specialization spreads, the result is increased output (i.e., through using resources in a less wasteful manner). In short, there are benefits from specialization and trade, and networks facilitate this specialization and the resulting trade. Networks that come into play include trade (i.e., marketing channels), communication, and management. They allow the producers of one product to find the producers of another product so that they can trade with each other.

Networks, however, have costs, and as networks become more sophisticated or more dispersed one would expect the costs to rise. These costs eat into the gains from specialization. Hence, trading networks develop so long as they do not consume all the specialization gains. Over the years technological advancements have reduced the costs of trading networks. Innovations have included sail boats, trains, steamships, airplanes, and refrigeration. As the costs of trading networks have fallen, the networks have become more sophisticated, deeper, and more geographically dispersed. Somewhere in the process the networks became multi-continental and began to fit into the Keohane-Nye definition.<sup>15</sup>

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<sup>14</sup>Frankel, Jeffery. *Globalization of the Economy*. In *Governance in a Globalizing World*. Joseph S. Nye and John D. Donahue, eds. pp. 45-71.

<sup>15</sup>This paragraph views costs in two different settings. The first involves expanding the use of networks within the existing technology base. Here costs increase with use. The second involves technological advancements in networking capability. Here costs of all levels of (continued...)

Comparable arguments can be made for the expansion of political, financial, and military networks. Why these networks have now accelerated is the question next addressed.

## Why Today's Acceleration

As stated above, depending on the analyst, two or three factors are given in answer to why now. First, advancements in network friendly technologies have reduced the cost of deepening and expanding these networks. These advancements, for the most part, are computer centered, and they span numerous areas. For example, banking has benefitted greatly from computerization going back several decades. Production and inventory management and control have similarly benefitted.

Of course, telecommunication technologies are the most notable example of advancement. Naturally, the computer technologies that have driven advancements in banking, production, and inventorying also rely on telecommunications. After the information is processed it has to be moved to the appropriate places. So the technological advancements complement each other. Moore's Law (named after Gordon Moore, cofounder of Intel) states that the information processing capacity of microprocessors doubles every eighteen months and at the same time the cost falls at a similar speed. Moore's law, as a general rule of thumb, reflects what we have witnessed.

The culmination of advancing communication abilities thus far is the Internet which has been made possible by digital technology. Costs are so low in this area that distance has become irrelevant. Internet access fees are charged by the unit time (e.g., hour or month) regardless of how many distant sites are visited. With the use of digital technology transmitting a song, picture, voice or written word is done the same way using essentially the same equipment. This is the first time the lines dividing communication modes have been so completely removed. The end result is that the cost to send verbal, pictorial, or written documents next door or across the world is the same—near zero. The cost of live voice calls has also fallen, although not as rapidly, unless you are willing to make a call via the Internet which is still somewhat cumbersome.

While substantially lagging telecommunication cost declines, the costs of moving people and goods via certain modes have also fallen.<sup>16</sup> Some of the advancements

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<sup>15</sup>(...continued)

networking shift downward allowing more networking for each dollar spent.

<sup>16</sup>William A. Ward, Madhusudan Bhattacharai, and Pei Huang in "The New Economics of Distance: Long Term Trends in Indexes of Spatial Friction." (Working Paper WP020299, Feb. 2, 1999 [<http://cherokee.agecon.clemson.edu/wp110499.pdf>]) grouped transfer cost patterns between 1960 and 1996 into three groups—rapid, moderate, and small/zero declines. Rapid declines include computing and telecommunications (90+% declines each). Moderate declines (the 40 to 60% range) include passenger travel by air, domestic railway freight, port charges, domestic waterborne freight, and containerized general cargo (anecdotal information only). Small/zero declines include non-air modes for moving people, ocean bulk freight, and (continued...)

driving these declines are computer related, while others such as containerized shipping, are more traditional. Nonetheless, the end result has been the substantial technologically-driven opportunity to deepen and extend networks, and these networks encompass at least five of Friedman's six dimensions—politics, culture, technology, finance, and national security, and they have influenced, sometimes in controversial ways, the sixth—ecology.

Perhaps the most important factor in answering the question why now, is government. Government actions switch on- and switch off- the agencies of globalization. Thus, the formation of the General Agreement on Tariff and Trade (GATT) and the International Monetary Fund (IMF) signaled a desire by national governments to open their economies to greater global activity. The reductions in trade barriers that resulted from GATT negotiations accomplished results similar to the technological advancements discussed above. That is to say, they reduced the friction of economic networking on a global scale. The source of the first friction was technical and the source of the friction GATT addressed was administrative/political. The international financial system, symbolized by the IMF, reduced another friction of dealing internationally—accomplishing payment for traded goods. The subsequent removal of curbs to foreign investment added another friction-reducing dimension. Much of the governmental involvement that facilitated these activities was accomplished through supranational institutions such as the GATT and IMF. Nonetheless, national governments, particularly the United States, played a critical role.

While the GATT and its successor the World Trade Organization (WTO) work on a multilateral level, regional trade agreements link countries in a different way. Features of GATT/WTO include taking decisions by consensus and expecting trade barrier reductions by one country to be met by reciprocal reductions by its trading partners. As a result, reducing trade barriers has been an incremental process. In the eight rounds of multilateral trade negotiations, tariffs on manufactured goods have fallen from an average of 40% in 1947 to under 4% today. However, as more and more countries become WTO members (currently 140) the difficulty in taking decisions by consensus grows. Regional trade agreements, by limiting membership to countries with similar trading goals, have accomplished greater liberalization among their members.<sup>17</sup> The European Union and the North American Free Trade Agreement stand as two of the prime examples of regional trade agreements. They do not precisely fit the Keohane-Nye definition of globalism or globalization because they are not multi-continental; they would probably qualify for Friedman's less location-bound definition. Subsequent action by the EU, however, does qualify under the Keohane-Nye definition. EU members have reached out to non-member countries in Europe, Africa, and the Americas to form trade alliances.

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<sup>16</sup>(...continued)

domestic inter-city motor carriers.

<sup>17</sup>This result is also fostered by Section 24 of the GATT which permits regional trade agreements but requires they reduce or eliminate trade barriers on substantially all traded items between members while not violating GATT-negotiated trade liberalization agreements for non-members.

Creating strong and uniform management networks across the globe is the third factor often cited when considering why we are seeing rapid globalization now. Technological advancements and governments allowing their economies to be more open, paved the way for development of geographically dispersed enterprises, but these operations could not come into their own without management practices that enabled decision makers to maintain control. In addition to the within-firm improvement in management practices, consulting firms have spread these practices around the globe. Now, more and more firms are organized and operated using the same management and accounting practices. Again, the spread of management practices is supported by technological advancements.

The above three factors provide an over-arching framework for the accelerated globalization during the 1990s that continues today. Recall that the Defense Science Board Task Force report (cited in the definitions section) provided a list of factors driving globalization that differ from the factors presented here. The factors the Board cited were: “the collapse of communism and the end of the Cold War; the spread of capitalism and free trade; more rapid and global capital flows and more liberal financial markets; the liberalization of communications; international academic and scientific collaboration; and faster and more efficient forms of transportation.”<sup>18</sup> While more detailed, each of these can be placed under one or more of the three overarching factors presented here. For example, the collapse of communism and the end of the Cold War fits under the government/governance factor.

The next section offers a sampling of the accomplishments of recent globalization. It will first concentrate on the bright side of globalization, and then the darker side of globalization will be addressed.

## **What Globalization Accomplishes**

Globalization shares the spotlight with the “information age,” an equally popular phrase. Many predict that the 21<sup>st</sup> century will be driven by information. Information and our increasingly networked world go hand-in-hand and many consider them to be in large measure overlapping. Today one can sit alone in front of a computer and access information from worldwide sources and on a host of different topics. The major challenges in that regard are sorting out useful information from noise, sorting out accurate information from inaccurate information, protecting individuals from overly intrusive information gathering, and effectively processing the useful, accurate information available. The breadth of information is a major benefit of our globalizing environment, but perhaps just as important is its accessibility. Much of it is available to anyone with Internet access.

### **Choice**

One of the most fundamental accomplishments of globalization is an expanding range of economic choice. As a result of the expanded trade ties globalization

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<sup>18</sup>*Final Report of the Defense Science Board Task Force on Globalization and Security.* Office of the Under Secretary of Defense for Acquisition and Technology. December, 1999.

affords, consumers have an increased availability of new and different products. The Keynes quote at the beginning of this report is true now more than ever. And what is true for consumers is also true for producers. With globalized trading networks, producers have a larger pool of potential customers, and as users of inputs, they have a wider selection of suppliers. Additionally, globalized trading networks allow for the rapid dispersion of technology. Firms are not only able to acquire inputs from a diversity of sources, they are also able to acquire state-of-the-art production methods. Additionally, multinational firms spread their technology throughout the network they manage.

## Investment Capital Flows

With open, globalized financial markets, entrepreneurs also have greater access to financing. Today foreign exchange transactions eclipse international trade flows by a factor of 50, and world financial markets are becoming increasingly interdependent.<sup>19</sup> News in one part of the world (good or bad) may impact asset values around the world as investors move funds to take advantage of or flee the latest news. These investment capital flows offer enhanced growth opportunities to countries that are skilled enough to attract them.<sup>20</sup>

Private investment flows fall into one of two forms—portfolio (e.g., stocks and bonds) or foreign direct investment (FDI) (includes controlling interest stock purchases). Record of these items is kept in the capital account of the balance of payments.<sup>21</sup> International capital flows, in part, help fund the technology flows described above. For example, multinational companies, through foreign direct investment, spread technology worldwide and portfolio investments allow local firms to acquire technology from around the world.

Of course, as witnessed by the Asian financial crisis, the enhanced investment capital flows that globalization facilitates, also introduce the possibility of volatility. Alan Greenspan attributes this volatility to investor fear. He states:

“With the new more sophisticated financial markets punishing errant government policy behavior far more expeditiously than in the past, vicious cycles are

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<sup>19</sup>(namere dacted) points out that even with the current level of integration that “asset market integration still falls well short of creating one world market in assets.” See “Global Capital Market Integration: Implications for U.S. Economic Performance.” Congressional Research Service Report RL30514. Summary. January 12, 2001.

<sup>20</sup>For a recent analysis of international capital flows see “Global Markets: Evaluating Some Risks the U.S. May Face.” by (namere dacted). Congressional Research Service Report RL30891, February 11, 2001.

<sup>21</sup>The Balance of Payments, a record of international transactions, is divided into two parts—the current and capital accounts. Flows into and out of a country of goods, services, gifts, and repatriated earnings are recorded in the current account. The capital account captures flows of wealth in the sense that holders retain ownership rights. Examples include purchases of stocks and bonds and the opening of bank accounts. A deficit in either of the accounts must be offset by a surplus in the other account. This is the nature of the balance of payments.

evidently emerging more often. Once they are triggered, damage control is difficult. Once the web of confidence, which supports the financial system, is breached, it is difficult to restore quickly. The loss of confidence can trigger rapid and disruptive changes in the patterns of finance, which, in turn, feeds back on exchange rates and asset prices. Moreover, investor concerns that weaknesses revealed in one economy may be present in others that are similarly situated means that the loss of confidence can quickly spread to other countries.”<sup>22</sup>

The last part of Greenspan’s quote raises another concern of financial globalization—herd mentality. The demise of confidence in one market quickly spreads to other markets, and government leaders feel there is little they can do to stop it. Transparent and fundamentally sound financial systems, in place well before the crisis begins, may be the strongest defense against this type of attack.

## Quality and Prices

More intertwined trade and financial markets have two additional impacts favorable to consumers. First, not only is there a more expansive choice of products, there is also a likelihood that product quality will increase. The increased number of producers international trade introduces heightens competition in the marketplace. Firms are under pressure to innovate or risk falling by the wayside. The concept of *creative destruction* has been employed by one prominent economist to describe the situation.<sup>23</sup> Consumers can expect that old products will be swept away and replaced with “new and improved” versions through a process of continual improvement. This environment is good for consumers and innovating firms, but not so good for the firms that produced the displaced product. Second, the increased level of competition puts downward pressure on prices. Firms survive by creating new products and finding better (less expensive) ways to produce them. That is, firms as resource holders are encouraged by globalization pressures to redouble their efforts to use their resources wisely. Again the consumer is the beneficiary. The result is that globalization networks spread technology and encourage creation of new technology.

## Government/Governance

The accomplishments of globalization discussed thus far are commercial, but the list extends much further. For example, the spread of commerce also spreads new ideas, not just technology. Globalization allows residents around the world to see how the “other half lives.” Stories are now common of someone visiting a remote part of the world only to find a satellite dish serving a small village. This introduces individuals to new possibilities and they may pressure their governments to open the doors to these possibilities.

Domestic firms feeling the weight of globalization also pressure their governments. As these firms face increased competition they demand governmental

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<sup>22</sup>From a speech at the Annual Convention of the Independent Bankers Association of America in Honolulu March 3, 1998. Reported in *The Quotations of Chairman Greenspan* by Larry Kahaner. Adams Media Corp. Holbrook, MA. 2000, p. 105.

<sup>23</sup>Schumpeter, Joseph. *Capitalism, Socialism, and Democracy*. New York: Harper, 1942.

relief. This relief ranges from protection from foreign competitors to reducing the regulatory and tax burden government places upon them. The former slows or stops commercial globalization (and may even foster de-globalization) while the latter encourages governments to remove administrative burdens, thereby stimulating globalization. However, slowing or stopping globalization has the unintended consequence of slowing the overall growth of the economy. Countries that close their borders to globalizing forces are cut off from the benefits of international specialization. North Korea stands as an example. On the other hand, embracing globalization reduces government's ability to collect taxes. With enhanced mobility, firms can avoid what can be the significant costs of taxation.<sup>24</sup>

There is not only pressure for governments to be domestic-firm friendly, but foreign firms (multinationals) through the threat of taking their foreign direct investment elsewhere or withdrawing previous investments pressure governments in a fashion similar to "domestic" firms.

For multinationals contemplating entering a new country, this pressure especially applies to economic and financial matters (e.g., property rights, laws governing bankruptcy, securities transactions, banking, trade, and other commercial activities), but policies that impact personal security and quality-of-life for their employees (e.g., human rights, crime, immigration, safety, environmental quality, and voting) are also of concern to multinational firms.<sup>25</sup> Multinationals have to factor in the governmental environment when choosing locations. Much of what multinationals want from government is consistent with the institutions of free market democracy. Hence, favorable response by governments will likely foster such institutions.<sup>26</sup>

This is not to say that a country cannot enjoy some of globalization's benefits unless it is democratic. Singapore, Hong Kong and others stand as significant counter examples. For nondemocratic countries to participate in globalization to a significant

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<sup>24</sup>Milton Friedman, Nobel laureate, stressed this point during a PBS *Think Tank* interview aired March 3, 2001.

<sup>25</sup>Frederick Schauer in "Legal Transplantation." from *Governance in a Globalizing World*. Joseph S. Nye and John D. Donahue, eds. pp. 253-268 hypothesizes and provides anecdotal evidence that nations are more willing to shape economic and commercial laws to external norms than constitutional issues and laws relating to human rights, immigration and voting. He argues the latter group poses more sovereignty concerns. One of the economic/financial areas listed as an example above is property rights. Schauer does not address this area. The sovereignty issues may, however, prompt governments to treat property rights more as a core area that helps define the essence of the country. Hence, in such cases policymakers may be reluctant to allow international norms to overshadow local desires regardless of the international economic consequences. Anne-Marie Slaughter in "The Real New World Order," *Foreign Affairs* September/October 1997 (Vol 76 No. 5, pp. 183-197) concludes, "The state is not disappearing, it is disaggregating into its separate, functionally distinct parts. These parts—courts, regulatory agencies, executives, and even legislatures—are networking with their counterparts abroad, creating a dense web of relations that constitutes a new, transgovernmental order." p. 184

<sup>26</sup>At the same time firms seek democratic settings they have the incentive to subvert the system by seeking less-than-democratic special treatment for themselves.



degree they must have some other advantages that compensate. In addition to the business-friendly atmosphere created by authoritarian governments such as Singapore other countries may prosper in an undemocratic environment. China and Saudi Arabia are examples. China has a huge, fast-growing market and Saudi Arabia has oil. Even so, democratic pressures are present. They come from residents experiencing via CNN and the Internet how residents in democratic countries live. Also, external investors and entrepreneurs are more likely to move cautiously through fear of losing their investments to the whims of an authoritarian government.

In short, globalization nudges governments as well as firms to be more openly competitive. For a nation's firms to be successful in a globalizing environment, relevant governments (e.g., national and local) must provide key services without being a stumbling block through excessive taxation, burdensome regulations, or impenetrable bureaucracy. That is, domestic businesses cannot hope to succeed against efficient foreign competition if inadequacies of their governments unduly hold them back. Governments are expected to provide an effective, efficient legal and regulatory system that offers a business-friendly environment. In response, many governments have undertaken so-called e-government projects. The anticipated result is a reformulated, transparent government where citizens can receive one-stop shopping. Citizens can access governmental information, pay fees, and provide input all at the same point of contact.

Just as they are doing with business, international management firms are playing a role in the formation of e-government.<sup>27</sup> They are offering their services worldwide to incorporate e-government techniques. A natural consequence is a tendency toward uniformity in the approach governments take toward adapting their operations to the information era. This drive to uniformity is being further enhanced by governments directly. They are carefully monitoring each other's activities. For example, a March 2000 U.K. interim report on modernizing government describes their efforts to evaluate other programs through bench marking. The report states, "the government will be able to learn continuously and take account of what works elsewhere when designing and implementing new ways to serve the public."<sup>28</sup>

While the above puts pressure on governments to change—in the view of some critics, to homogenize their cultures—globalization also puts pressure for national governments to push appropriate responsibilities down to sub-national levels (i.e., devolution). Having governmental responsibilities as close to the impacted parties as possible is, in some cases, viewed as desirable and part of the business-friendly atmosphere internationally competitive firms seek. In many cases, state and local governments are in a better position to deal one-on-one with multinationals and others touching the local community via globalization. However, national governments may

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<sup>27</sup>As an example see Deloitte Research. "At the Dawn of e-Government: The Citizen as Customer" [<http://www.us.deloitte.com/PUB/egovt/egovt.htm>.]

<sup>28</sup>Of bench marking the report states, "Put simply, benchmarking is a tool to enable comparison and to prompt innovation. It is a way of seeing how one approach measures up to another and identifying elements of a successful approach that could be used in another context. It is a very important tool in enabling organisations to improve themselves." (p. 3) See "Modernising Government: Interim Report" March 2000.

find it difficult to give up power. On the other hand, in industrialized countries, large companies often seek nationally/internationally mandated standards to improve efficiency rather than sometime conflicting local regulations that sometimes reflect distinctive local needs.

In addition, to facilitate international activity national governments have found it necessary to create supranational institutions such as the IMF, WTO, and World Bank. Globalization encourages these institutions to become stronger sometimes at the expense of national governments. For example, the GATT, as a provisional institution, was not generally viewed as a threat to national sovereignty, but without effective dispute resolution mechanisms it was also viewed as weak and oftentimes ineffective. Supplanting GATT with the World Trade Organization put in place a dispute settlement process that the accused country could not block (accused nations could block proceedings within the GATT). However, some view this as giving up national sovereignty and cultural identity.<sup>29</sup>

## Opponents of Economic Globalization

Opposition to economic globalization emanates from many sources. This section will provide a few of the more common. Ernst Ulrich von Weizsäcker, member of the German parliament and chair of the Enquête Commission on Economic Globalization, points out that globalization benefits most countries and most citizens in those countries, but he goes on to point out that if there were only benefits there would be no basis for the recent protests we have witnessed in Seattle, Washington, D.C., and Prague.<sup>30</sup> Jay Mazur, President of the Union of Needletrades, Industrial, and Textile Employees and Chair of the AFL-CIO International Affairs Committee, asserts: “The forces behind global economic change—which exalt deregulation, cater to corporations, undermine social structure, and ignore popular concerns—cannot be sustained. Globalization is leaving perilous instability and rising inequality in its wake. It is hurting too many people and helping too few.”<sup>31</sup> Ralph Nader states: “The essence of globalization is a subordination of human rights, consumer, environmental rights, [and] democracy rights to the imperatives of global trade and investment.”<sup>32</sup>

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<sup>29</sup>It should be pointed out that the WTO does not have the ability to enforce any mandates that may result from the dispute settlement process. The sole remedy when countries do not submit to dispute settlement findings is retaliation via trade barriers by the aggrieved party.

<sup>30</sup>Remarks given at a dialogue session between the Enquête Commission on Economic Globalization of the German Bundestag and U.S. NGOs February 27, 2001 at the Paul H. Nitze School of Advanced International Studies, Washington, DC.

<sup>31</sup>Mazur, Jay. “Labor’s New Internationalism.” *Foreign Affairs*. January/February 2000, pp. 79-93.

<sup>32</sup>PBS. “Globalization and Human Rights.” Transcript The International Center for Global Communications. 1998. [<http://www.pbs.org/globalization/>]

## Rapid Change

A factor in the backlash to current globalization with its high free market economy component, concerns the rapidity of change. Hence, on adjustment grounds alone, opposition may arise. The historian Arthur Schlesinger, Jr. writes:

“The Computer Revolution offers wondrous new possibilities for creative destruction. One goal of capitalist creativity is the globalized economy. One—unplanned—candidate for capitalist destruction is the nation-state, the traditional site of democracy. The computer turns the untrammelled market into a global juggernaut crashing across frontiers, enfeebling national powers of taxation and regulation, undercutting national management of interest rates and exchange rates, widening disparities of wealth both within and between nations, dragging down labor standards, degrading the environment, denying nations the shaping of their own economic destiny, accountable to no one, creating a world economy without world polity. Cyberspace is beyond national control. No authorities exist to provide international control. Where is democracy now?”<sup>33</sup>

## Culture

The pressure economic globalization puts on cultural norms is a major source of opposition to globalization. Many throughout the world view globalization, particularly in its economic form, as synonymous with Americanization. To them globalization represents replacing traditional cultures with a materialistic American-centered culture. For example, many Frenchmen feel McDonald’s is replacing French cuisine. José Bové, the French farmer who destroyed a French McDonald’s under construction, has become a prominent anti-globalization figure in France. That McDonald’s restaurants in France are locally owned and use predominately locally produced items does not matter in this context. These Frenchmen feel Americans are attempting to create an American hegemony by forcing American culture on them via movies, books, and superstores.<sup>34</sup>

The theme running through many similar arguments from many different parts of the world against economic globalization is that it is an assault on cultural diversity. Foes argue that it is important to maintain cultural diversity and cultural identity. They argue that fast-paced globalization destroys individual cultures and replaces them with a monolithic culture based on consumption (i.e., based on the American model). Those who welcome globalization suggest that it allows the rapid spread of the best a culture has to offer. They contend that modern communication technologies have the power to preserve cultural diversity, e.g., via the Internet dispersed ethnic groups are able to keep in touch with their roots and keep their

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<sup>33</sup>Schlesinger, Arthur. “Has Democracy a Future?” *Foreign Affairs*. September/October 1997, p. 8.

<sup>34</sup>While some French charge that our movies adversely impact their society, U.S. film makers are also impacted by the lure of foreign markets. Tyler Cowen in a draft to the first chapter of “The Promise of Global Culture” points out that action films are easiest to export. Hence, the incentive is to produce more action films than a purely domestic market would suggest. [See <http://www.gmu.edu/jbc/Tyler/index.html>]

cultures alive. They point to the United States as a culturally diverse place that via globalization is very rapidly becoming more diverse. However, globalization opponents argue that American culture is the lowest common denominator of the cultural influences migrants brought with them.

## **Employment, Wages, Poverty, and Working Conditions**

Several labor-related issues are identified as troubling consequences of globalization. They include: jobs lost due to trade, reduced incomes, increased wage disparity, increased poverty in developing countries, and locking many developing country workers into slave-like working conditions. The United States has maintained a strong labor market overall while playing a leading role in globalization. On the other hand, wage growth adjusted for inflation in the United States was negative from 1973 to 1992 and barely managed a positive growth rate from 1992 to 1996. Additionally, between 1973 and 1996 the ratio of top earners wages to bottom earners (i.e., the top quintile divided by the bottom) widened from 7 to 11.<sup>35</sup> Opponents blame the latter on globalization. They point to the rapid growth in trade between the United States and developing countries as the driving force. The charge is that this growing trade with low-wage countries has hurt U.S. unskilled workers resulting in these adverse wage trends. Economic theory does not dispute this assertion. In short, globalization may cause a “race to the bottom.”

However, empirical analysis suggests that the trade component of globalization is a small factor in observed adverse wage trends. A Congressional Research Service review of the literature identified additional factors influencing this growing wage disparity. They are: productivity changes, rates of investment in capital and labor (education), technology, immigration, demographic trends, and the effective bargaining power of unions. The consensus estimate of international trade’s impact on the United States’ increasing wage inequality ranges from only 10% to 20%. This relatively modest impact is partly explained by the labor requirements of the goods involved. Goods from low-wage countries compete with goods made by only 2% of the U.S. work force.<sup>36</sup> While trade’s impact on wage disparity is modest, opponents can point to the list of influencing factors compiled in the Congressional Research Service report and claim that the items themselves are products of globalization. Hence, in this sense globalization (not just trade) is responsible for the growing wage disparities.

Some globalization critics claim that the income gains developed countries have made are at the expense of a subset of developing countries—a zero-sum argument. Table 1 lists the populations living below \$1 per day in developing countries for 1990 and 1998. South Asia, Sub-Saharan Africa, Latin America, and Europe and Central Asia experienced increases in this most extreme poverty indicator. However, significant reductions in East Asia were enough to offset these increases. But was globalization in general, and trade in particular, the culprit in regions where poverty

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<sup>35</sup>Burtless, Gary, Robert Z. Lawrence, Robert E. Litan and Robert J. Shapiro. *Globaphobia*. Brookings Institution. 1998. p. 3.

<sup>36</sup>For an analysis of this aspect see Horbeck, J. F. “Trade with Developing Countries: Effects on U.S. Workers.” CRS Report 98-742 E. September 2, 1998.

increased? Studies by the World Bank, IMF and others cast doubt on blaming trade. These studies reported that the income of the poorest 20% increases at approximately a one-for-one ratio with the growth of overall per-capita income in a country.<sup>37</sup> The World Bank study also reported on a study that found a one-percent increase in the ratio of trade to gross domestic product results in an income increase from between one half to two percent. That is, as trade's proportion of income grows there is a resulting increase in income. The IMF stresses "the importance of creating conditions that are conducive to long-run per capita income growth. Economic stability, institution building, and structural reform are at least as important for long-term development as financial transfers, important as they are. What matters is the whole package of policies, financial and technical assistance and debt relief if necessary." The IMF goes on to list components of an anti-poverty package. They are:

- ! Macroeconomic stability to create the right conditions for investment and saving;
- ! Outward oriented policies to promote efficiency through increased trade and investment;
- ! Structural reform to encourage domestic competition;
- ! Strong institutions and an effective government to foster good governance;
- ! Education, training, and research and development to promote productivity;
- ! External debt management to ensure adequate resources for sustainable development.<sup>38</sup>

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<sup>37</sup>See the World Bank Briefing Paper entitled "Assessing Globalization: Does More International Trade Openness Increase World Poverty?" 2000.

<http://www.worldbank.org/html/extdr/pb/globalization/paper2.htm> and

The IMF Issues Brief entitled "Globalization: Threat or Opportunity?" April 12, 2000. <http://www.imf.org/external/np/exr/ib/2000/041200.htm>

<sup>38</sup>Ibid. p. 8.

**Table 1. Population living below US\$1 per day in developing countries 1990 and 1998**

	Number of people below US\$1 a day (millions)	
	1990	1998 (estimate)
East Asia	452.4	278.3
Excluding China	92.0	65.1
South Asia	495.1	522.0
Sub-Saharan Africa	242.3	290.9
Latin America	73.8	78.2
Middle East/N. Africa	5.7	5.5
Europe & Central Asia	7.1	24.0
Total	1276.4	1198.9
Source: World Bank Briefing Paper entitled "Assessing Globalization: Does More International Trade Openness Increase World Poverty?" 2000. [ <a href="http://www.worldbank.org/html/extdr/pb/globalization/paper2.htm">http://www.worldbank.org/html/extdr/pb/globalization/paper2.htm</a> ]		

Another employment issue involves working conditions in developing countries. The argument is that the competitive pressures of globalization encourage multinationals to seek out countries that are willing to tolerate abysmal working conditions for their citizens. In this sense, globalization is said to foster slavery, child labor and sub-human working conditions not only in poor countries, but also in rich countries. The remedy called for is “core labor standards” that address the human rights of workers in developing countries. An MIT economist counters this conclusion with an argument that follows along the line of “bad jobs at bad wages are better than no jobs at all.” He writes: “After all, global poverty is not something recently invented for the benefit of multinational corporations. ... Wherever the new export industries have grown, there has been measurable improvement in the lives of ordinary people.”<sup>39</sup>

Those that favor adoption of core labor standards argue that globalization facilitates spreading poor labor standards in one country to other countries. For example, labor leader Jay Mazur wrote: “(P)itting American workers against their counterparts abroad, who are forced to live at the very margins of human existence, gradually made itself apparent in lowered wages and standards at home. The dismal working conditions in Asia and Central America set the standards for the notorious sweatshop discovered in El Monte, California, in 1995.”<sup>40</sup>

Harvard Professor Dani Rodrik argues that importing items produced using labor standards vastly lower than those prevailing in the United States is little different

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<sup>39</sup>See Krugman, Paul. “In Praise of Cheap Labor.” *Slate Magazine*. March 20, 1997.

<sup>40</sup>Mazur, Jay

morally from producing the product in the United States with the same lower standards. He gives as an example using child labor in a Honduran sweatshop to produce footwear. By moving the facility and the children to the United States and producing the footwear with the same sweatshop process nothing has changed except that the production is now against U.S. law.<sup>41</sup>

## The Environment and Health and Safety

Many environmental interactions such as weather patterns are inherently global. That is, they fit the Keohane-Nye definition of globalism. However, environmental interactions likely do not fit their definition of globalization in that they are not becoming increasingly global; they were global before humans arrived on the scene. At the same time, the rapid globalization of human civilization we are witnessing (e.g., economic growth and international trade) may have significant environmental impacts. For example, the so-called ozone hole was a product of human civilization. Some opponents of rapid globalization contend that human actions such as the burning of fossil fuels may result in global warming, and they further contend that the consequences of these changes may be significant.<sup>42</sup> They conclude that this potential warrants taking steps to slow rapid economic globalization.

A line of reasoning similar to the one used on behalf of labor is sometimes also used for the natural environment. Many globalization opponents see rapid globalization as causing a “race to the bottom” as multinational firms are encouraged by cost considerations to locate in countries with lax environmental laws and/or lax enforcement of existing laws.<sup>43</sup> An Institute for International Economics study reports that there is theoretical support for this position as it applies to environmental aspects, but “evidence remains mixed and scarce.”<sup>44</sup>

Much of the debate over globalization’s impact on the environment and health and safety has focused on international organizations and multinational corporations (whose actions, detractors claim, are condoned/encouraged by the WTO and IMF).

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<sup>41</sup>See *Has Globalization Gone Too Far?* By Dani Rodrik. Institute for International Economics. Washington, DC 1997, p. 33.

<sup>42</sup> For information on the current status of the global climate change debate see the CRS “Global Climate Change Briefing Book” at [<http://www.congress.gov/brbk/html/ebgcc1.html>.]

<sup>43</sup> Globalization’s possible impact on the environment is complicated. For example, when looking at trade at least three impacts can be identified. They are: the composition effect (do traded items contribute more or less to environmental problems than the domestically produced items they replace), the scale effect (increasing economic activity may result in added environmental problems) and the technique effect (as trade increases income the income-induced incentive to reduce adverse environmental impacts may come into play). See “The Millennium Round: An Economic Appraisal” by Nigel Nagarajan. Economic Paper Number 139, November 1999. Page 43. Available on the European Union web site at [[http://europa.eu.int/comm/economy\\_finance/document/ecopap/ecp139en.pdf](http://europa.eu.int/comm/economy_finance/document/ecopap/ecp139en.pdf)]

<sup>44</sup>See “Regulatory Standards in the WTO Comparing Intellectual Property Rights with Competition Policy, Environmental Protection, and Core Labor Standards” by Keith E. Maskus. Working Paper 00-1, January 2000. Institute for International Economics.

For example, many claim that the World Trade Organization, by its very nature, puts trade ahead of the environment. They point to cases such as the U.S. attempt to protect sea turtles. Article 609 of P.L. 101-162 banned import of shrimp harvested in a manner harmful to endangered species of sea turtles. It also allowed waiving the ban if countries could establish that their fishing methods are not harmful to sea turtles. A complaint lodged within the WTO by India, Malaysia, Pakistan, and Thailand claimed the U.S. ban to be discriminatory. The WTO upheld the complaint. However, the WTO did find that the U.S.'s general environmental motive was valid.<sup>45</sup>

WTO actions in situations such as the sea turtle case have served to coalesce groups suspicions of current globalization trends. While not motivated only by environmental concerns, the demonstrations at WTO's Seattle meeting and the subsequent IMF and World Bank meetings in Washington, DC, and Prague highlight, in an extreme fashion, the concern some public groups have with possible adverse impacts of rapid globalization. The following two quotes from Friends of the Earth captures this line of criticism.

"In the five years since its creation, the World Trade Organization (WTO) has been used to undermine environmental regulations. The WTO has challenged and weakened laws like the Clean Air Act and Endangered Species Act. What's worse, it has done so behind closed doors and with no input from environmentalists or the public. Friends of the Earth is working to prevent the WTO from overruling hard-won environmental laws, and to make it more open and democratic."<sup>46</sup>

Imagine how you'd feel if your organization managed to convince your city council, state legislature, or Congress to enact a decent law, then a foreign government or corporation challenged the law as illegal under international trade rules. The next thing you know, a special trade court closed to the public could decide that the law should be eliminated or weakened. It can happen. It has happened. It's called the World Trade Organization."<sup>47</sup>

Concerns over rapid, uncontrolled globalization also extend to health and safety issues. Opponents fear that globalization left unchecked may cause substantial health and safety problems. As a result, they contend that concerns over health and safety matters should trump the rapid economic globalization we are currently experiencing. On the other hand, trade proponents counter that health and safety concerns are oftentimes employed as a pretext for protectionism. The U.S. position has been that health and safety issues need to be examined under the light of "sound science."<sup>48</sup> While WTO member nations agree that these should be the bases of evaluation, interpretation of results vary widely. The different perspectives are illustrated by the dispute over hormone-treated beef. The European Union, on food safety grounds,

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<sup>45</sup>For information on the World Trade Organization (including this environmental aspect) see "The World Trade Organization: The Debate in the United States" by Arlene Wilson. CRS Report RL30521. April 12, 2000.

<sup>46</sup>See Friends of the Earth Web Site [<http://www.foe.org/international/wto/>]

<sup>47</sup>See Friends of the Earth. "The World Trade Organization and the Environment: A Citizen Action Guide." [<http://www.foe.org/international/wto/>]

<sup>48</sup> Op cit. Arlene Wilson.



banned the domestic production or import of hormone-treated beef. The United States and Canada complained to the WTO that this ban violated trade rules agreed to by member countries. In essence, they complained that the ban was not the result of sound science (broadly defined). A WTO dispute settlement panel agreed. The EU was subsequently ordered to allow importation of hormone-treated beef. While the United States and the WTO looked at the results of risk assessments and concluded the EU ban was not warranted under WTO rules, the EU looked at the risk assessments and concluded the opposite. The EU's Consumer Policy Commissioner stated, "The scientific evidence is of enormous importance to European consumers as it demonstrates that the Commission (of the EU) was right to strenuously defend the ban on hormones. We now have a scientific basis to defend our position."<sup>49</sup> It should be pointed out that while the WTO ordered the EU to allow importation of hormone-treated beef, the EU refused. In such situations, if the parties cannot reach an agreement on compensation for not lifting the ban, the only recourse available is retaliatory trade barriers on imports in an amount determined via a WTO procedure from the country found in violation. Both the United States and Canada have imposed retaliatory tariffs.

## **The Role of Non-Governmental Organizations**

World Trade Organization leaders were surprised by the intensity and impact of the 1999 anti-WTO demonstrations in Seattle. Non-governmental organizations (NGOs) played an important role in ensuring the "success" of the demonstrations. Subsequent demonstrations against the IMF and World Bank have convinced leaders of these supranational organizations of the need to seek enhanced interaction with non-governmental organizations (NGOs) as a way to understand, counter and/or address criticism. As a result, NGOs have been able to influence the agendas of these international institutions to a greater extent than ever before. For example, one outcome of World Bank-NGO interaction has been a growing number of Bank sponsored projects that involve participation of NGOs or other civil society components—70 percent in 1999. This is up from 50 percent five years earlier.<sup>50</sup> Although created in the 1980s the NGO-World Bank Committee is now playing a much greater role in Bank activities than before. As an additional level of cooperation, the WTO and World Bank have web pages tailored to NGO participation.

## **Prospects for Backtracking**

Like all of the aspects of globalization already discussed, there is no consensus on the possibility of stopping or reversing globalization. One reason for this is the diversity of what globalization encompasses. For example, Nicholas Stern, Chief

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<sup>49</sup> Statement by EU Consumer Policy Commissioner Emma Bonino. Available on the EU web site at  
[[http://europa.eu.int/comm/dgs/health\\_consumer/library/press/press23\\_en.html](http://europa.eu.int/comm/dgs/health_consumer/library/press/press23_en.html)].

<sup>50</sup> See World Bank Issue Brief "The World Bank, NGOs and Civil Society."  
[<http://www.worldbank.org/html/extdr/pb/pbngos.htm>]

Economist of the World Bank, stated that, "Whilst many of these fears and anxieties are understandable, we must recognize that key aspects of globalization are essentially irreversible, particularly those associated with information, ideas, and communications. This irreversibility, together with the magnitude of the potential benefits, surely tell us that the central questions concern how to manage and gain from the process, and not how to reject it."<sup>51</sup>

A major reason many feel globalization is irreversible is the depth of its networks. With production and financial networks so intertwined the cost of stepping back could be immense. This is the case because disentangling the networks that have formed would necessitate restructuring many of the industrial linkages that have formed over the last few decades. The unintended consequences of breaking linkages are likely to be significant.

Nonetheless, many are concerned that a normally occurring economic downturn will result in calls for protectionism thereby putting pressure on the trade and investment aspects of globalization.<sup>52</sup> In a speech before the 1999 Dallas Ambassador's Forum Alan Greenspan stated:

"Yet the protectionist propensity to thwart the process of the competitive flow of capital, from failing technologies to the more productive, is unwise and surely self-defeating. History tells us that not only is it unwise to try to hold back innovations, it is also not possible over the longer run. Generation after generation has experienced episodes in which the technologically obsolescent endeavored to undermine progress, often appealing to the very real short-term costs of adjusting to a changing economic environment. From the Luddites to the Smoots and the Hawleys, competitive forces were under attack. In the end they did not prevail and long-term advances in standards of living resumed.

Nonetheless, the campaign to expand free trade is never won. It is a continuing battle. While tariffs in industrial countries have come down sharply over the past half century, other barriers have become more prevalent. Administrative protection in the form of antidumping suits and countervailing duties is a case in point. While these forms of protection have often been imposed under the label of promoting "fair trade," oftentimes they are just simple guises for inhibiting competition."<sup>53</sup>

Mr. Greenspan fears that such efforts at backtracking will spark an economic downturn. In part, this would be the case because increased protectionism would necessitate undoing some of the networks that would no longer make sense in light of the higher cost of doing business that the protection would impose.

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<sup>51</sup> From a speech given at the University of Indonesia by Nicholas Stern, Chief Economist of the World Bank, entitled "Globalization and Poverty." December 15, 2000.

<sup>52</sup> The recent slowing in U.S. economic growth is a mild example of a souring economy, but the problem does not have to originate in the United States. The Asian currency crisis is an example. Fortunately, the United States was able to avoid much of the adverse effects of that crisis. For an analysis see "Global Markets: Evaluating Some Risks the U.S. May Face." by (name redacted). CRS Report RL30891, February 11, 2001.

<sup>53</sup> Presented April 16, 1999 in Dallas, Texas.  
See [<http://www.federalreserve.gov/boarddocs/speeches/1999/19990416.htm>]

Domestic firms pressuring governments for protection from foreign competition tend to become particularly persistent as growth either stalls or falls. It is likely that non-tariff instruments such as anti-dumping measures and countervailing duties would be the protection vehicle of choice.<sup>54</sup> As the first period of globalization came to an end early in the 20<sup>th</sup> century, tariffs were used, but with governments having made commitments to reduce tariffs via the GATT they are likely to choose less transparent means of protection in the future.<sup>55</sup>

While government action is the most likely way globalization can be slowed, stopped or reversed, there are other extreme scenarios that can be envisioned. For example, one of the unintended consequences of globalization is the spread of disease. With so much international interaction spread of disease is inevitable. The mad cow (bovine spongiform encephalopathy or BSE) and foot and mouth sweeping Europe are examples. The economic impact of these two diseases has been tremendous. Of course, the loss of human life with new-variant Creutzfeldt-Jakob Disease, the human equivalent of BSE, intensifies that concern. Other human diseases that have been transmitted via our inter-linked travel networks include the West Nile virus, and there has been continual concern over transmission of truly frightening diseases such as Ebola.

Additionally, it may be merely a matter of time before a truly vicious computer virus is unleashed around the world. Such a virus could grind much of the interlinked network to a halt. Witness the impact of relatively benign viruses such as the “I Love You” bug. Of course, computer viruses raise the national security specter of using globalized networks as terrorist weapons.<sup>56</sup> And the threat extends beyond computer networks. Globalization also increases the threat of the use of nuclear, biological, and chemical agents by rogue nations or global terrorist organizations, whose anti-globalism activities are often facilitated by the worldwide Internet.

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<sup>54</sup>Dumping is defined as selling exported products at below “fair market value.” This translates into selling below the cost of production or below the price charged in the originating market. Anti-dumping measures are duties that may be placed on dumped items found to be threatening a U.S. industry or preventing a U.S. industry from developing. Countervailing duties may be levied to offset foreign government subsidies. For more information see “Antidumping and countervailing duties” by (name redacted) in the *Trade Briefing Book*. (CRS. Last Updated January 14, 2001) at [<http://www.congress.gov/brbk/html/ebtra67.html>]

<sup>55</sup> The Wall Street Journal reports that Rowe & Maw, a London-based law firm, in its “2000 Global Trade Protection” report concluded that in 2000 trade protection was at its second highest level since WTO formation in 1995. Rowe & Maw concluded that, “Global use of trade protection measures such as anti-dumping, anti-subsidy and safeguards remains on a clear upward trend.” See “Trade-Protection Measures Reach Record Levels Despite Liberal Rules” by Grainne Hehir in Wall Street Journal Interactive Edition. April 24, 2001.

<sup>56</sup>It is likely that a computer virus intended to inflict serious damage to the Internet would target servers and routers (i.e., the backbone of the system).

## Conclusion

The accelerating and increasingly complex and intertwined development of global networks facilitate specialization by individuals as well as nations in those things for which they are best suited while allowing them to trade for other items. As the networks become more intertwined and far flung they eventually break the multi-continental barrier and enter the realm of globalism. Several factors facilitate today's globalization. They include: rapid technological advancement, favorable governmental policies, and sophisticated management techniques. Government facilitation plays a key role in this process.

Without economic globalization today's world would be substantially different. It has offered unprecedented choice of consumer goods, producer inputs, financing sources, and technology. It has also helped to make the capital available to be able to take advantage of these choices, and the competitive pressures have increased the quality and reduced the price of the choices available. At the same time globalization altered available consumption choices, it has also pressured governments to change. Pressures have been created for governments to adopt internationally uniform procedures, to become more transparent, and more democratic. There is also the incentive for governments to improve their services. Finally, national governments are encouraged to push responsibilities down to sub-national levels and up to supranational levels.

Globalization is also controversial. One group sees the above accomplishments and declares them good while another group looks at the same list and declares them bad. Some members of the latter group see globalization as a threat to their cultures, while others see it as a threat to employment and wages with the potential to drive people into poverty and force them to work in inhuman working conditions. Still others see globalization as a threat to the environment and our health and safety. At the same time members of the former group see globalization as the best available solution to all of these problems.

While there is little chance of completely backtracking, globalization opponents seek to ameliorate its impacts. For example, non-governmental organizations have been vocal in opposing numerous facets of globalization. Businesses seeking protection from international competition also, to the extent they are successful, slow globalization. There is also the possibility of globalization being affected by globalization-related crises such as multi-continental transmission of disease.

There are two important lessons for policy makers. First, government policies play a key role in starting, allowing to continue, or stopping globalization. Second, globalization as well as efforts to combat its effects can produce unintended consequences. Hence, in the interconnected world that globalization fosters, it is becoming increasingly important to incorporate the big picture into efforts to "fix" its components.

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