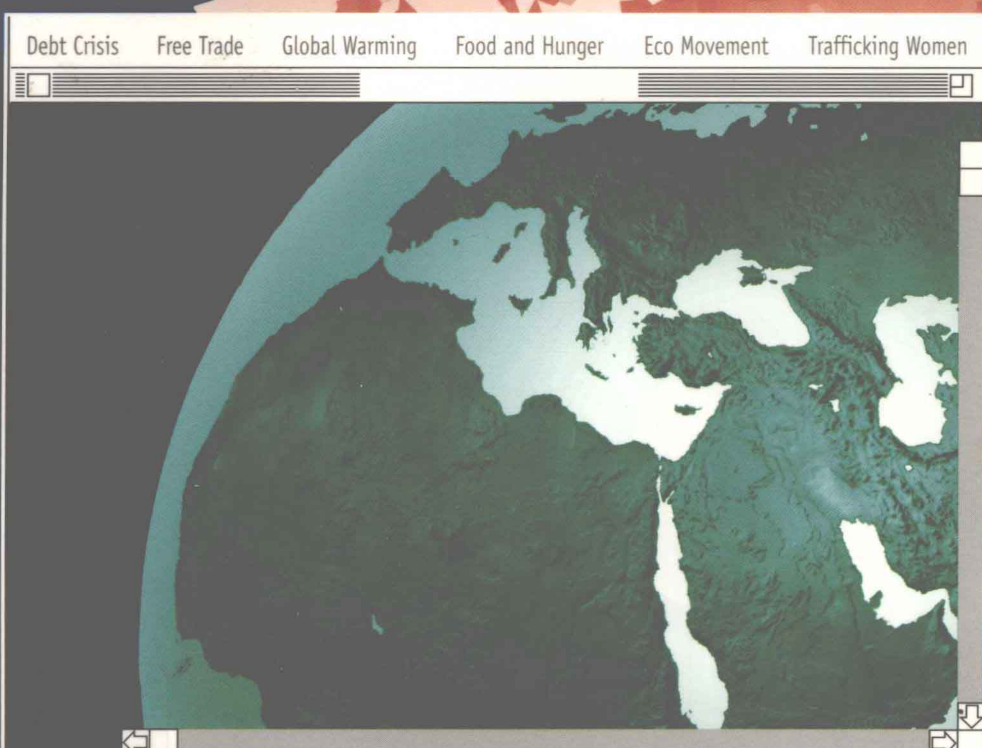
SECOND EDITION

understanding GLOBALIZATION

The Social Consequences of Political, Economic, and Environmental Change



Robert K. Schaeffer

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To my students, one and all

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Contents

1

Theories of Globalization

For social scientists, a "theory" is a set of assumptions or expectations about the world. Social analysts use theory to describe how the world works, explain why it changes, and outline what they expect to occur in the future. This chapter examines "theories" of "globalization," the assumptions and expectations used by social scientists to understand the diverse set of contemporary economic, environmental, and political developments that affect people around the world.

Of course, social analysts have different theories or expectations about globalization. Some theorize that globalization is a positive development for most people around the world, while others argue that it has adverse consequences for many. Some analysts argue that globalization is a "new" development, while others maintain that it is not new but "old," or at least familiar. Some analysts argue that globalization is inevitable or unstoppable, while others insist that it is not.

Policymakers and social scientists not only advance different theories but also use the term *globalization* to mean different things. Most analysts use *globalization* to describe the growth and spread of investment, trade, and production, the introduction of new technology, and the spread of democracy around the world. But others argue that *globalization* should also refer to other contemporary developments such as the spread of environmental pollution, the commercialization of culture and languages, the cross-border migration of people, the spread of drugs and narcotics, and the emergence of social and political protest movements opposed to globalization.

To understand the theories of change and appreciate what is meant by "globalization," it is important first to ask, "*What* is being globalized?" An appreciation of what theorists mean by globalization will make it easier to sort through their different assumptions and expectations.

WHAT IS BEING GLOBALIZED?

Although analysts argue that different things are being globalized, there is a consensus that globalization, at a minimum, refers to the following five developments.

- *Investment*. The growth and spread of investment, capital, money, and financial services are counted by virtually all scholars as an important feature of globalization. The globalization of investment is assisted by a variety of economic institutions: government agencies such as the Federal Reserve in the United States and the Bundesbank in Germany; individual investment banks and financial services corporations such as Citigroup and Barclay's; collective financial institutions such as stock markets, commodity and bond markets, and the Eurocurrency market; and global financial institutions such as the World Bank and International Monetary Fund (IMF).[1]

  Not only have these institutions assisted the growth and spread of investment around the world, but they have also "liberalized" it. The reduction or elimination of laws, barriers, and restrictions on the movement of finance, capital, and monetary flows, which is seen as having "liberalized" investment, has made it easier to move money across national borders.
- *Trade*. A second important feature of contemporary globalization has been the expansion of trade. The growing volume of manufactured goods and raw materials that are traded around the world has been promoted by private, transnational corporations (TNCs); by government policy makers, primarily in Western Europe, Japan, and the United States; and by collective institutions such as the World Trade Organization (WTO) and the Group of Seven (G-7).[2] These institutions have also sought to "liberalize" trade, which has meant reducing the tariffs, taxes, regulations, and barriers that restrict, inhibit, or block the trade between countries around the world.
- *Production*. The migration, relocation, and reorganization of private businesses, and the farms and factories controlled by them, have been a third feature of globalization.[3] The globalization of production has been promoted primarily by private entrepreneurs and TNCs, though it has been assisted by financial institutions and government officials in the advanced Western countries, which have allowed firms to merge and migrate around the world.[4]
- *Technology*. The invention and diffusion of new technologies, particularly of high-tech electronic and biochemical tools, techniques, and services, are a fourth feature of contemporary globalization. These inventions were assisted by government funding and research; developed by scholars, inventors, and entrepreneurs in government, university, and industrial settings; adopted by businesses that produce goods and services; and embraced by consumers who purchased new technologies for their personal use. Tech-

nological innovation, in turn, is generally said to assist the expansion of investment, trade, and production and encourage the spread of democracy.
- *Democracy*. In recent years, dozens of nation-states around the world have "democratized." The collapse of dictatorships (in both capitalist and communist countries), and the subsequent adoption of constitutional and representative forms of government, has increased political participation by the citizenry and provided greater individual freedoms and political choice. The "liberalization" of politics is the fifth important feature of globalization. Some analysts have argued that democratization was assisted by the globalization of investment, trade, production, and technology.

Most of the analysts who contribute to the literature agree that these five developments, taken together, are the central features of contemporary globalization. But these are not the only developments that have affected people around the world in recent years. Some scholars have argued that a discussion of globalization should also include at least some of the following developments:

- *Culture*. The commercialization and spread of "Western," particularly American culture by electronic media, fashion, and fast food—symbolized by MTV, Levi's, and McDonald's—is identified by some analysts as an important aspect of globalization.
- *Language*. The adoption of English as the *lingua franca* by people around the world, and the associated decline of national languages, regional dialects, and indigenous languages, is seen by some as another cultural expression of globalization.
- *Migration*. Some treat the cross-border migration of people seeking jobs, particularly from poor to rich countries, and the flight of political refugees as an important aspect of globalization. Many observers argue that migration is prompted, in large part, by the first five kinds of globalization.
- *Environment*. The global spread of pollution and waste, perhaps best illustrated by global warming, the destruction of natural habitats, animal species, resources, and indigenous peoples, and the high rates of energy and resource consumption, are frequently identified as corollaries of globalization.
- *Trafficking of women*. The spread of U.S. military bases overseas, the spread of manufacturing enclaves that produce goods for exports, the growth of the tourist industry, which is now said to be the largest "service" industry in the world, and the growth of the sex industry are seen by feminist theorists as important features of globalization. Feminists argue that the expansion of these industries, which rely heavily on female labor, has contributed to the voluntary and involuntary migration of women into these industries, a development they describe as "trafficking in women."
- *Declining state sovereignty*. The number of independent nation-states has

increased as a result of decolonization and, more recently, democratization. But while most analysts associate the proliferation of states with globalization, some argue that this development is also related to a decline of "sovereignty" for most independent states. States have less sovereignty or real political authority because globalization has shifted power to its institutional sponsors: "stateless" TNCs, the World Bank and IMF, and stock, bond, commodity, and money markets.

- *Drug trafficking*. The expansion and spread of drugs and narcotics, which are sponsored by international drug cartels and mafias based in different countries, are seen by some as a component of globalization, even though they involve the production and trade of illegal goods by criminal organizations.
- *Protest*. The expansion and spread of feminist movements and values, environmental organizations, labor unions, and grassroots protest movements against the institutions that sponsor globalization—particularly the IMF, World Bank, and WTO—are seen by some analysts as a global response to globalization.
- *Ethnic and religious conflict*. Some observers see the outbreak of war in countries that have been partitioned and the eruption of violence between rival ethnic and religious groups around the world as an aspect of globalization. But there is considerable disagreement here. Some scholars argue that ethnic conflict and war are not associated with globalization but are instead an expression of developments that *preceded* it. In this view, ethnic conflict is a *pre*globalization phenomenon. Others argue that it is a reaction against globalization, a kind of *post*globalization development.

Of course, it would be difficult to review all of these developments in this book. But I will discuss many of them, though not in the order they are presented here. Instead of grouping them by subject (investment, trade), this book will examine contemporary developments using a historical, narrative approach.

WHAT IS NOT GLOBALIZED?

For most theorists, globalization refers to important, central developments in the world today. But some analysts disagree, arguing that globalization is so much "globaloney" because it hypes these developments and ignores the fact that globalization does not meaningfully affect most people.[5]

Most of the people around the world have little money to save or invest in global financial markets. Most of the food that they grow, most of the goods that they make, and most of the services they provide are purchased and consumed within the country where they originate. Few of the goods produced are actually traded on "global" markets. In the United States, for example, only 18 percent of the goods and services produced ever enter global trading markets.[6] Most people do not work for TNCs, which migrate and merge, but work instead for themselves—raising families, growing food, and making goods that sustain their households—or work for small businesses, nonprofit organizations, and local or national governments. Most people around the world do not own telephones, computers, fax machines, or even televisions or refrigerators, so the technologies said to be globalizing the planet have had minimal impact on their lives. Most migration occurs *within* countries, so it is primarily a local not global phenomenon. And while many states have democratized, many people around the world still live under dictators or warlords.

Moreover, globalization is a partial, not all-encompassing development. While people in some parts of the world are being integrated and globalized, people in other parts are being distanced and marginalized. I think globalization is a "selective," not "inclusive," development, which bypasses large populations and geographies, particularly people living in sub-Saharan Africa and the interiors of India, China, and the former Soviet Union.

Investment is a good way to indicate the partial character of globalization. Although it is true that cross-border investment is a force for globalization, most investment circulates in the rich countries, not the poor. The rich countries received 83 percent of all direct investment in 1989.[7] Of the remaining 17 percent, China received about half, leaving very little investment to "globalize" the rest of the planet. Consider the fact that in 1996 China (with one billion people) received $42 billion in investment but that India (with nearly one billion people) received only $3 billion.[8] Given this disparity, it is hard to argue that investment is doing very much to globalize India. Moreover, when a country like India does receive a small influx of investment, most of it is concentrated in enclave manufacturing industries, which employ relatively small numbers of people.

The investment that has been available globally has not been distributed widely. It has instead been doled out selectively. As such, it is more appropriate to describe the globalization associated with investment as "selective" rather than "universal."[9] The same holds true for trade, production, technology, and democracy. None of these are universal developments. They are all partial and selective in important ways.

WHO WANTS GLOBALIZATION?

Globalization did not just happen. It occurred because some people wanted it to happen and made sure that it did. But there is a debate about *who* wanted globalization to occur. Proponents of globalization have argued that "everyone" wants globalization—or would if they understood it. Critics of globalization have disagreed, arguing that it is economic and political "elites" who want globalization. These elites, critics state, assume that because globalization is good for themselves, it must therefore also be good for everyone else. This effort by elites to generalize or universalize their self-interest is mistaken, critics argue, because globalization is not good for most people.

The idea that globalization is good for "everybody" has powerful institutional support. It is advocated by most mainstream economists and the award committee for the Nobel Prize in economics, by public policy research institutes, government officials, and policymakers in North America, Western Europe, and Japan. It is supported by op-ed columnists in daily newspapers, business magazines, and television media and by transnational corporations and trade industry associations. It is promoted by central banks and United Nations (UN) institutions: the World Bank, IMF, and WTO.

"Almost all economists and other proponents of free markets believe that globalization promises a world of increasing prosperity and international cooperation [for everyone,]" Princeton economist Robert Gilpin has written.[10] UN officials agree: "This era of globalization is opening many opportunities for millions of people around the world. . . .We have more wealth and technology—and more commitment to a global community—than ever before."[11] The view that everyone stands to gain from globalization was perhaps best expressed by Peter Sutherland, the director of the General Agreement on Tariffs and Trade, the organization that preceded the WTO. He has argued simply that globalization produced "only winners, no losers."[12]

As proof that "everyone" wants globalization, or would want it if they knew what it really was and were in a position to "choose" it, proponents note that people now clamor for foreign investment, rush to purchase imported goods, line up for jobs in export-processing zones, embrace new technologies, and vote for greater democracy. Harvard economist Jeffrey Sachs has argued, "My worry is not that there are too many sweatshops, but too few."[13] Where people are denied an opportunity to choose, they migrate or flee to places where these goods and opportunities are available, proponents argue. From this perspective, globalization is simply a response to a growing "demand" from workers and consumers around the world who "want" the economic and political goods that it provides.

Still, proponents have sometimes been puzzled by a lack of popular enthusiasm and public support for globalization. "Globalization is 'tolerated,' but it is not loved," economist Paul Krugman complained.[14] *BusinessWeek* began a special report on globalization by saying, "It's hard to figure out how a term [*globalization*] that once connoted so much good for the world has fallen into such disrepute."[15]

Proponents argue that indifference or hostility to globalization is due primarily to a lack of understanding about it. People simply do not fully appreciate the benefits of globalization: "It has created millions of jobs from Malaysia to Mexico and a cornucopia of affordable goods to Western consumers. It has brought phone service to 300 million households in developing countries and a transfer of nearly $2 trillion from rich countries to poor through equity, bond investments, and commercial loans. It has helped topple dictators by making information freely available in once-sheltered societies."[16]

Proponents argue too that many people do not appreciate globalization because it is a difficult process, one that may result in things getting worse, at least for a while, before conditions improve and its benefits become widely available. "The transition would be painful," *BusinessWeek* writers argue, "but inevitably, prosperity would result."[17] Proponents say they warned people that this would occur but that many people did not head their admonitions.

Critics of globalization disagree with the contention that "everybody" wants it, or should. The critics are a diverse lot. They include academic scholars outside economics, labor unions, and the public policy research institutes associated with them, religious groups that participated in Jubilee 2000 (they argue for Third World debt relief), consumer groups like Ralph Nader's Public Citizen, environmental organizations, feminist groups, representatives of some farmers and small business groups, populist politicians such as Ross Perot, and Green parties in the United States and Western Europe.[18] Outside the rich countries, many of the reformed communist parties that came to power in Eastern Europe and the former Soviet Union are critical of globalization (ironically, *un*reformed communist parties in China and Vietnam now support globalization), as do leaders of some small countries, such as Malaysian prime minister Mohamad Mahathir.

The critics argue that it is the economic and political elites in rich countries, assisted by global economic institutions they control—TNCs, IMF, World Bank, WTO—that "want" globalization and drive it forward.[19] These elites, who belong to what is often described as the "Washington Consensus," have promoted globalization because they stand to benefit from it. Their argument that globalization benefits "everyone" is, from the critics' perspective, "a convenient myth which, in part, helps justify and legitimize the neo-liberal global project, that is the creation of a global free market and the consolidation of Anglo-American capitalism within the world's major economic regions."[20]

Except for elites, no one else really wants the economic features of globalization, its critics argue, though they admit that many people *do* want new technologies and democracy. Because there is little popular "demand" for economic globalization, it must be imposed on people by the global institutions that elites control. As proof that everyone does not want globalization, critics point to the protests against IMF and World Bank structural adjustment programs and against WTO negotiating rounds in Seattle. They argue that economic crises in countries that had recently been globalized—Mexico, Russia, Thailand, Indonesia, South Korea—have demonstrated to people in those countries, and to people around the world, that globalization is something they do not want.

I would answer the question "Who wants globalization?" in a somewhat different way. It is a mistake to argue, as proponents do, that everyone wants globalization or stands to benefit from it, that it produces "only winners, no losers."

Nor is globalization always a choice that people voluntarily make. In my view, many of the developments associated with globalization were imposed by institutions seeking to solve immediate problems. The unilateral U.S. decisions to abandon the global monetary system established at Bretton Woods and devalue the dollar (chapter 3), or later raise interest rates (chapter 4), were imposed on others. No one else had any say or choice in the matter. These decisions were taken without consideration for their impact on others, much less their implications for everyone. They were self-interested and particularistic, not altruistic and universalistic. Globalization is often advanced by officials who imagine that their institutional needs and problems are widely shared and that the solutions they propose will benefit not only themselves but everyone else as well. But this is hubris. U.S. dollar devaluations, as we will see, did not benefit all. Nor did the decision to raise interest rates. The needs and goals of globalization's institutional proponents are not synonymous with the needs and goals of many people around the world. There are winners *and* losers, in both rich countries and poor ones. This book will describe who they are and explain why their fortunes diverge.

Moreover, the critics are mistaken when they argue that globalization is always imposed by global institutions and only for the benefit of elites. Elites are not the only people who want globalization or benefit from it. People around the world want change, demanding goods (imported foods, manufactured goods, new technologies, but also drugs) and political opportunities (democracy) that globalization provides. People choose to learn English, a difficult second language, and choose to make arduous journeys across borders to obtain political and economic opportunities. Elected governments in the Czech Republic, Canada, and Mexico have voluntarily introduced globalization, without being forced to do so by global institutions. More than one hundred countries around the world participated in the trade negotiations that resulted in the creation of the WTO, though they may have had their arms twisted by rich countries and may have expressed unhappiness with the outcome. Although the decision to support globalization may have been problematic—not only for poor countries but for rich ones as well—its forward momentum has been assisted by people outside elite institutions based in the rich countries.

THEORIES OF GLOBALIZATION

In general, analysts who study various kinds of globalization share three theoretical assumptions or expectations. First, they assume that globalization is "new," that it is a novel historical development. Second, they argue that globalization makes the world a more "homogeneous" or "singular" place. Third, they maintain that it is an "inevitable," "relentless," or "irreversible" process. Of course, some observers demur from these views, but proponents and critics generally subscribe to these theoretical propositions.

Globalization Is "New"

Most observers assume that globalization is a new development, dating back only to the mid-1980s or early 1990s. Perhaps surprisingly, the proponents and critics of globalization agree that globalization is a radical departure from what preceded it. Until recently (1989 or so), the world was divided into political blocs defined by the cold war. Countries within these blocs typically restricted the flow of investment, goods, ideas, and people, though their efforts to impose restrictions increasingly became unmanageable, obsolete, or foolish. The introduction of new technologies and the end of the cold war broke down the decades-long restrictions on economic behavior and political thought and made possible the adoption of a new set of economic and political relations, what we call globalization, around the world. Neoliberal and postmodernist scholars alike agree that this was a new, even unique development in human history.[21]

A few scholars disagreed, challenging the theoretical assumption that globalization is new. They offered two kinds of rebuttals. From the very beginning of discussions about globalization, world system analysts such as Immanuel Wallerstein have argued that globalization is "old," that the developments associated with it date back to the sixteenth century, and that globalization is just the most contemporary expression of familiar processes.[22]

In the last few years, another group of scholars, both world system and neoliberal, have argued that globalization is not entirely new, that it closely resembles a similar period of globalization at the beginning of the twentieth century. They note that investment and trade in the early twentieth century were more widely distributed, or "globalized," than they are today, that cross-border migration flows were heavier then, and that the new technologies introduced in that era (steamships, underseas telegraphs, breakthroughs in metallurgy, chemistry, and electricity) were as revolutionary then as many technologies are today.[23] This argument, which has received considerable attention of late, has qualified the theoretical assumption that current events are *entirely* new.

I take a somewhat different view on the dating used to define contemporary globalization and take issue with some of the arguments made about its novelty.

Contemporary globalization begins earlier, I think, than most scholars allow. Many of the developments analyzed in this book begin in the early 1970s, not the late 1980s or early 1990s. The discussion of some developments begins even earlier. Change is not neatly contained by bracketed dating systems. Some developments occur on different time lines. So I do not use a rigid, bracketed, dating system (1970–2000) but instead use dates and time lines appropriate to the study of particular kinds of contemporary change.

Moreover, contemporary globalization is similar to, and different from, the era