Globalization: Rhetoric and reality

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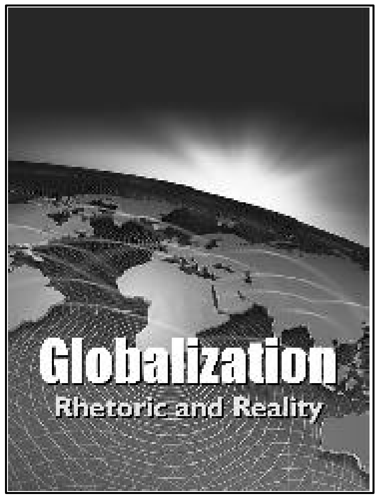

Globalization is something of a buzzword today. Trade and investment barriers between countries are rapidly breaking down. Companies are spreading their operations across the globe. Consumers are able to access an ever-growing basket of goods and services. Countries, companies and individuals are increasingly beginning to take into account what is happening across the world, rather than in only the country in which they are based. In short, globalization is affecting a vast section of the society, whether people realize it or not. But globalization does have its opponents. This article examines the impact of globalization. It aims at removing certain misconceptions. It identifies some important issues which have to be carefully dealt with while managing globalization.

Globalization is not a new phenomenon. From the mid-1800s to the late 1920s, the world saw a frenetic pace of globalization. If we look at the volumes of trade and capital flows across borders, relative to GNP and the flow of labor across borders, relative to populations, the period of globalization preceding World War I was quite similar to what we are seeing today. Countries like Great Britain, were huge investors in emerging markets. There were few currency controls and people migrated freely. Other than in wartime, countries did not require passports for travel before 1914. Immigrants moved into America without visas. The inventions of the steamship, railroad, telegraph and eventually telephone, all helped to shrink the world significantly.

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But there are some important differences between the previous era of globalization and the current one. The degree and intensity of today's globalization is much higher. What is also new is the sheer number of people and countries who can take advantage of the globalized economy and information networks. During the pre-1914 era of globalization, many developing countries were left out. The pre-1914 era was also minuscule in absolute terms compared to what is happening today. Daily foreign exchange trading in 1900 could be measured in millions of dollars. In 1992, it was $820 bn a day, and by April 1998 it had risen to $1.5 tn a day. The previous era of globalization was built around falling transportation costs, due to the invention of the railroad, the steamship and the automobile. Today's globalization is being driven by falling telecommunications costs—thanks to microchips, satellites, fiber optics and the Internet. The earlier era was dominated by British power, the British pound and the British Navy. Today's era is dominated by American power, American culture and the American dollar.

The impact of globalization

In the last two decades, globalization has been enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before. Globalization has accelerated capital flows across the world. In 1975, at the height of the Cold War, only 8% of countries worldwide had liberal, free-market capital regimes. Foreign direct investment at the time totaled only $23 bn. By 1997, the number of countries with liberal economic regimes constituted 28% and foreign investment totaled $644 bn.

Globalization has rapidly changed the lifestyles of many people without their even being unaware. To take an example, most people had not even heard of the Internet in 1990. Also, few people had an e-mail address then. But today the Internet, cell phones and e-mail have become essential tools that many people just cannot live without, in both developed and developing countries.

As a result of globalization, the impact of regional economic crises (like Mexico in the mid-1990s, Southeast Asia in the late 1990s and Russia at the end of the 1990s) is being felt throughout the world. If currencies fall in Asia, the contagion quickly spreads to Latin America. Stock markets in India are strongly influenced by the stock price movements on New York Stock Exchange and the Nasdaq. Governments are learning from each other and some are trying to replicate best practices.

Globalization has had a different kind of impact in the political arena. According to the famous journalist, Thomas Friedman, today the great powers do not want to get drawn into regional conflicts, such as Bosnia, Rwanda, Liberia, Algeria or Friedman, Kosovo. They prefer to isolate these civil conflicts and drive around them as though they are bad neighborhoods. And when they do get involved, as in Kosovo or Bosnia, they try to withdraw quickly. Becoming involved only diminishes their power. That is why many regional military conflicts today, instead of automatically becoming globalized, as in the Cold War, tend to become ghettoized.

Globalization is rapidly eroding national cultures. So countries have to take steps to prevent their cultures from being erased by the homogenizing impact of global capitalism. Given the force and speed of globalization, those cultures that are not robust enough to do so will be wiped out.

One of the most negative effects of globalization is the growing income gaps between the haves and have-nots. Friedman describes the phenomenon of "winner take all." The winners in any field today can become really rich because they can sell their services in the global marketplace. But those who are just a little less talented, or not skilled at all, can sell only in their local market and therefore tend to earn much less. The gap between first place and second place is growing larger and the gap between first place and last place is becoming staggering. In many fields, there is rarely one winner. But those near the top get a disproportionate share. The more that different markets get globalized and become winner-take-all markets, the more inequality will there be within countries and between countries.

But for all the upheavals globalization has brought to society, it has also raised living standards, faster and for more people than at any time in history. It has also elevated more poor people into the middle class faster than at any time in human history. So while the gap between the rich and the poor is getting wider, absolute income levels have been rising steadily in many parts of the world. While relative poverty may be growing, absolute poverty has fallen more in the past 50 years than in the previous 500 years. Developing countries have progressed as fast in the past 30 years as the industrialized world did in the previous century. In relatively short periods of time, countries that have been the most open to globalization, like Taiwan, Singapore, Israel, Chile and Sweden, have achieved standards of living comparable to those in America and Japan, while the ranks of the middle class in countries like Thailand, Brazil, India and Korea have swelled, partly at least due to globalization.

Globalization has enhanced freedom and contributed to the alleviation of poverty in ways that previous systemic changes and technological leaps could not. In general, it has promoted better, more accountable government and given individuals, activist groups and companies much greater power to shape the new world. The poor are beginning to understand this and exploit it. Globalization may cause pain. But it also enables people to talk about their pain and get organized to do something about it. The Internet for example has brought together various interest groups. The protesters at the WTO ministerial conference in Seattle in 1999 achieved coordination through e-mails.

Technology and globalization

Technological change and globalization go hand in hand. Thanks to technology, telephone calls can be made cheaply from anywhere. Innovations in miniaturization have steadily reduced the size and weight of computers, phones and pagers. Now they can be taken to more and more far-flung places and afforded by ordinary people. Technology has also made it possible for people around the world to get connected and exchange information, news, knowledge, money, family photos and music in a cost-effective way, that was unimaginable before.

The Internet, is enabling people to communicate with anyone globally practically for free. The Internet is also forcing people to think globally—with respect to both competitors and customers. The Internet, has created a global postal system and a common global shopping center, in which people can all buy and sell. It has also created a common global information pool.

For many marketers today, the real challenge is to offer customized products for several small market segments, economically and efficiently. This is referred to as *mass customization*. The Internet is facilitating *mass customization* by processing this information quickly and efficiently. It is enabling companies to collect information and use it to make what the customer wants in quick time. The Internet is facilitating excellent customer relationship management and what some people refer to as one-to-one marketing. Idtown.com, a Hong Kong-based company sells a wide range of watch designs, assembled from standard parts, at no extra cost. Dell's website allows customers to choose their own configuration. Automobile companies like General Motors is looking seriously at the possibility of offering customized cars, using the Internet.

By reducing transaction costs and making less relevant many of the traditional advantages associated with vertical integration. The Net is ensuring that size is no longer a critical success factor in globalization. The Net has made it possible for small companies to expand their overseas operations through a virtual network. Geographical proximity to customers is no longer important as the Net makes distances irrelevant.

The Net is also facilitating the faster diffusion of new technologies and innovations from the developed to the developing countries. In the past, it had taken decades and sometimes, even centuries for the benefits of innovations such as railways, telephones and electricity, to trickle down to developing countries. Thanks to the Net, emerging markets can catch up much faster with developed countries.

One of the pillars of modern society is education. Here, the Net is making a tremendous impact. One can visualize professors based in different countries exchanging notes regularly and writing research papers and books jointly. In the not-so-distant future, the Web will also enable students in Third World countries to receive instruction from world-class professors based in countries such as the US. Such instruction would be prohibitively expensive in a conventional classroom format. Great lectures on all important subjects may be available on the Internet. Teachers will be able to design their core presentation around these lectures and then add value by developing more in-depth material and offering personalized instruction that takes into account local needs. Another area where educational institutions are likely to take full advantage of the Internet is outsourcing. World-class institutions are likely to sub-contract routine administrative work that is at present directly handled by them. This will not only save costs but also allow them to focus on their two core value adding activities, research and teaching. The Net will also for the first time, allow educational institutions to make bold strides in the direction of experiential learning. While all institutions want to offer their students such learning, this process would be terribly expensive using conventional methods. The Net on the other hand, can provide a virtual world of simulations that to a large extent can replicate real life experiences.

Removing misconceptions

Globalization arouses strong sentiments for various reasons. It has its champions as well as critics. Trade and capital flows, while facilitating the more efficient use of resources, are also increasing volatility in international financial markets. During the Asian currency crisis, which began in the middle of 1997 and continued well into 1998, countries like Thailand and Indonesia were badly affected when their currencies came under heavy speculative attack. Another contentious issue is that the benefits of globalization may not be spread equally among countries or for that matter, among different sections of people within a country. The protests in Seattle during the WTO ministerial meeting in November 1999 were the result of such disgruntlement among workers and environmental groups. The WTO, the World Bank and the IMF evoke hostility in many parts of the world.

Before we examine these concerns, we need to understand that some activities and issues still remain intensely local. Writers such as John Naisbitt refer to what they call the global paradox. Essentially, what they mean is that even as a global economy emerges, many local issues will continue to dominate. Naisbitt argues, that even though people want to come together to trade more freely, they would like to retain their cultural and political independence. Hence, talk of global integration of different economies beyond a point may be irrelevant.

Former Dutch Primer Minister Ruud Lubbers has views similar to those of Naisbitt[1] . "In opposition to globalization, people turn to local and ethnical identities to distinguish themselves from others. They accentuate their uniqueness, look for identification with local groups, cultural, ethnic notions."

One reason for the easy distortion and demonization of globalization is that people who are the biggest losers from globalization know exactly who they are. They are easy to mobilize. People who are beneficiaries of globalization, of more open trade and of foreign investment are relatively silent and often don't have a clue who they are. They often don't make the connections between globalization and their rising standards of living and therefore they are difficult to mobilize in support of gloablization.

A technologically driven phenomenon

Symbols of globalization such as the WTO evoke hostile reactions from politicians in countries like India. But what people don't understand is that globalization is largely a technology-driven phenomenon, not a trade-driven one. Trade which is tangible, has come to symbolize for many people all the anxieties associated with rapid change and globalization—even though the main causes of those anxieties are new technologies and deregulation.

Between globalization and technological progress, technology seems to be the more powerful driver of inequality. One study, by William Cline [2], estimated that technological change was perhaps five times more powerful in widening inequality in America between 1973 and 1993 than trade (including trade due to FDI), and that trade accounted for only around six percentage points of all the unequalizing forces at work during that period.

Impact on the poor

Globalization does harm some of the poor. Free trade and foreign direct investment may take jobs from workers in the advanced industrial economies and give them to cheaper workers in poor countries. For example, due to the North American Free-Trade Agreement (NAFTA), American manufacturers can close old factories in the United States and open new ones in Mexico.

When trade displaces workers in the industrialized countries, it has a depressing effect on the wages of other workers as pay in developing-country factories will be much lower than in developed countries. But

[1] *www.globalize.org.*
[2] *The Economist.*

only the displaced rich country workers are worse off. The newly employed poor-country workers, who might otherwise have been leading a life of subsistence, are clearly better off. In short, globalization makes some workers worse off while making others, especially the poorest ones, in developing countries, better off.

Even though rich-country workers may lose jobs, they will not be permanently out of work. Most will move to other jobs. But many of these who find alternative work may be paid less than they were before. In general, new jobs will be created by the economic opportunities that trade opens up. Overall, trade neither reduces the number of jobs in the economy nor increases them. So, there is no reason to expect employment or unemployment to be any higher or lower in an open economy than in a closed economy or for that matter, in a rich economy.

Even if some workers are adversely affected by globalization, there is no doubt that even poor consumers are better off as globalization is offering them more attractive choices. Altogether, given freer trade, both rich-country and poor country living standards rise. Efficiencies improve and resources are better utilized. That allows governments to spend more on welfare, education and other public services.

The globalization of capital

The globalization of capital has been blamed for many of today's problems. But there are various misconceptions about the flow of foreign capital. FDI has not invaded developing countries and threatened their sovereignty as third world politicians often argue. Most outward Foreign Direct Investment (FDI) from rich countries goes not to poor countries at all, but to other rich countries. In the late 1990s, roughly 80% of the stock of America's outward FDI was in Canada, Japan and Western Europe and nearly all of the rest was in middle-income developing countries such as Brazil, Mexico, Indonesia and Thailand. The poorest developing countries accounted for 1% of America's outward FDI.

Outward FDI need not reduce the demand for labor in the sending country and increase it in the receiving one. It is often stated that when rich-country firms invest in poor countries, rich-country exports (and jobs) are replaced by poor-country domestic production. But evidence from the United States and other countries suggests that outward FDI generates exports. FDI and exports seem to complement each other. The affiliates of multinationals trade with each other. In 1995, America's exports to its foreign-owned affiliates actually exceeded its imports from them.

Trade as a zero sum game

Critics of globalization argue that too much is being made out of the opportunities created by expanding international trade for developing countries. They stress that liberalizing trade will be self-defeating if too many developing countries try to do it simultaneously. But the fact is developing countries though large in terms of geography and population are puny in economic terms. Taken together, the exports of all the world's poor and middle-income countries (including China, India, Brazil and Mexico, Saudi Arabia, South Korea, Taiwan and Malaysia) represent only about 5% of global output. A concerted export drive by those parts of the developing world not already engaged in the effort would put no great strain on the global trading system. Moreover, intra-industry specialization in trade, gives developing countries new opportunities to trade with each other. Often, as developing countries grow, they move away from labor-intensive manufactures to more sophisticated kinds of production. This makes room in the markets they previously served for goods from countries that are not yet so advanced. For example, in the 1970s, Japan withdrew from labor-intensive manufacturing, making way for exports from the East Asian tigers. In the 1980s and 1990s, the tigers did the same, as China began moving into those markets. Moreover, as developing countries grow by exporting, their own demand for imports rises.

The MNCs

MNCs have borne the brunt of the criticism showered by critics of globalization. But much of this criticism is misplaced. Multinationals often pay a wage premium probably to recruit relatively skilled workers but also because they have a global image to protect. The wages paid by foreign affiliates to poor-country workers are about double the local manufacturing wage. Wages paid by affiliates to workers in middle-income countries are about 1.8 times the local manufacturing wage (Both calculations exclude wages paid to the firms' expatriate employees).

Contrary to what critics of globalization emphasize, MNCs are not more powerful than governments. It has become a fashion to state that the big corporations generate more annual sales than the GDP of entire countries. Comparing sales of companies with national income is itself incorrect. National income is a measure of value added. It cannot be compared with a company's sales. Similarly, the large market caps of some MNCs are largely value on paper. If major chunks of equity are downloaded on the stock markets, the share prices are likely to fall significantly. But even if such errors are corrected, there would still be no sense in comparing companies with governments in terms of their power over people. With all their economic clout and their ability to influence politicians in many countries and corrupt them, the control big companies exert over citizens is nowhere remotely as great as those of governments. This is so however, big the company may be and however small or poor the country may be. Even if the value added of Microsoft is the same as the national income of Uruguay, Bill Gates does not exercise more control over the people of Uruguay than their government. Companies also cannot raise taxes, conscript citizens or arrest them. It is no surprise that CEOs of even the most powerful MNCs continue to pay obeisance to politicians in third world countries.

Many politicians point out that globalization has sharply diminished the power of governments. They argue that the need to keep companies internationally competitive leaves governments with no choice but to dismantle health and safety regulation, or to ease up on environmental rules. Globalization has also been blamed for the regulatory race to the bottom. There has lately been a good deal of economic deregulation, aimed at spurring competition in finance especially. Deregulation of this sort, typically leads to more deregulation. So, governments have a point when they say that they have started something they cannot stop or any longer control. But questions such as whether banks should be allowed to sell insurance, or how exactly financial institutions should be supervised, are more technical than ideological. There is little sign of globalization having led to a race to the bottom. The clear trend in rich and poor countries alike is for ever tighter regulations of this sort. If globalization has started a race in these areas, it is to the top, not the bottom.

The IMF, world bank and WTO

Favorite targets of attack of anti-globalizers are the multilateral financial institutions, the International Monetary Fund and the World Bank. Developing countries argue that these Washington based institutions are agents of the US. Ironically enough, the poorer countries might be more appreciative of the Fund and the Bank if they paid more attention to the criticisms directed at the two institutions from the political right in the developed world. They complain that the two institutions are engaged in throwing good money after bad. The rightists argue that the IMF and World Bank reward the bad policies that got the patients into trouble in the first place, thereby creating moral hazard problems.

Politicians in countries like India would do well to appreciate that if the Fund and the Bank were simply shut down, the flow of resources to the developing countries would diminish. And that would only make things more difficult for the poor countries. The conservatives argue, in effect that this would be good for them in the longer term. But it is hard to see the developing countries being happy with such a situation. So, the rhetoric coming from politicians in third world countries must be taken with a pinch of salt.

The IMF and the Bank have certainly made mistakes and have been overconfident at times. They have also displayed technical incompetence and been unwisely over enthusiastic about some discredited economic theories. They have also neglected the importance of allowing governments to "own" responsibility for their policies. But the Fund and the Bank are aware of this criticism and are trying to do something about it. What is not needed is the dismantling of the IMF and the Bank, but a change in the way they work. Many developing countries now have access to global capital markets. The Bank needs to focus on disseminating knowledge rather than money. It would also be better if the Fund, specialized in providing liquidity during emergencies, rather than providing development finance, subject to various conditionalities.

Skeptics extend many of the criticisms they make of the IMF and the World Bank to the WTO as well. The WTO's new dispute-resolution procedures have been much criticized. The strengthening of the dispute resolution mechanisms was one of the notable achievements of the Uruguay Round of GATT talks which concluded in 1994. Under the new rules, governments cannot block the findings of a WTO dispute panel. Once they have exhausted their right of appeal, countries held to have broken WTO rules must change their policies so as to comply. Otherwise, they have to pay compensation to the injured party, or in the worst scenario, face trade sanctions. This apparent ability to overrule governments is one of the main objections to the new system. But this objection is misguided. When a dispute arises, the quarrel may be over what a rule means, or how it should be applied in particular, possibly unforeseen, circumstances. All member governments have agreed to the dispute-settlement rules. And they are not under any compulsion to obey any rule that they opposed in the first place.

The idea that the WTO enforces obedience by punishing violators is itself a distortion. Its principal role, once a dispute is under way, is still to act as referee while two or more governments fight it out. So, like MNCs, the WTO is not a threat to sovereign governments.

Managing globalization

Since it is difficult to reverse the tend of globalization, countries must know how to manage globalization. Those that have painstakingly built up transparent and credible financial and legal infrastructures are much better positioned to fend off speculative attacks on their currencies. They can also better withstand sudden outflows of capital. True, even well managed countries can run into trouble at times. A good example is Sweden in 1992, during the crisis in the European Exchange Rate Mechanism. But the country bounced back quickly. On the other hand, the Asian currency crisis assumed serious proportions largely due to weak financial systems in countries like Thailand and Indonesia.

According to Friedman, nations must have the ability to "glocalize." Healthy glocalization is the ability of a culture, when it encounters other strong cultures, to absorb influences that naturally fit into and can enrich that culture, to resist those things that are truly alien and to compartmentalize those things that, while different, can nevertheless be enjoyed and celebrated as different. Glocalization enables a country to assimilate aspects of globalization and culture in a way that adds to its growth and diversity, without overwhelming it. Unhealthy glocalization involves absorbing something that is not part of the culture and which does not connect with anything latent in the culture.

Glocalization alone, is not sufficient to protect indigenous cultures from globalization. Friedman advocates zoning laws, protected area laws and educational programs to protect unique regions and cultural heritage from the homogenizing impact of globalization. As he explains, this does not mean saying no to every McDonald's, but it can mean saying no to McDonald's in certain neighborhoods, for example temple towns in India.

Friedman is outspoken about the need to protect national cultures, "Culture, at its best can be one of the most powerful forms of voluntary restraint in human behavior. It gives life structure and meaning. It sanctions a whole set of habits, behavioral restraints, expectations and traditions that pattern life and hold societies together at their core. When unrestrained globalization uproots cultures and environments, it destroys the necessary underlying fabric of communal life."

For sustainable globalization, nations will have to take necessary steps to protect their cultures and environments, while getting the best out of everyone else's. One way to do this is to encourage diversity. People must be able to pick and chose more. This will happen if globalization promotes a confederation of distinct cultures and not one homogeneous culture.

Globalization involves a power shift from the state and its bureaucrats to the private sector and entrepreneurs. Those who derived their status from positions in the bureaucracy, or from their ties to it, or from their place in a highly regulated and protected economic system can lose out. One such group consists of business owners who were protected by the government through high import tariffs. Another one is pampered labor unions used to negotiating fewer work hours with more pay in protected markets. Yet another group is workers in state-owned factories accustomed to receiving salaries whether the factory made a profit or not. Also affected are the unemployed in welfare states who have enjoyed generous social security benefits and subsidized health care no matter what and all those who depended on the largesse of the state to protect them from the global market. Another group which has to be managed consists of people who have tried to embrace globalization, have been hurt in the process, and instead of trying to get back into the global economy are now trying artificially to shut it out or change the rules of the system.

There is likely to be a backlash from all these people. If such backlash is not properly anticipated and dealt with, there could be serious problems. It is not a strange coincidence that the backlash against globalization is often stronger among Western intellectuals than emerging-market workers. In poor countries, workers may not like many things about globalization, but they know that the alternatives are much worse. At the 1999 Seattle WTO summit, the US and other developed countries threatened to cut developing countries from global trade unless they improved their labour and environment standards.

The need to strike a balance

The question to address is what is the appropriate equilibrium point between integrationism and social safety nets in today's globalization system. Friedman feels three elements are necessary: The trapeze, the trampoline and the safety net.

The world needs a free-market-oriented economy, in which people are encouraged to swing free and take risk. Without risk takers, there would not be entrepreneurship or growth. At the heart of every healthy economy are the free-swinging trapeze artists. Free market capitalism still remains the best alternative, with all its limitations. Socialism is clearly a non-starter. Only entrepreneurs can innovate. So all efforts must be made to encourage entrepreneurship.

A growing economy also needs trampolines to catch workers who fall behind in this rapidly changing environment and retrain them. According to Friedman, "A trampoline is strong enough to catch you before you hit the ground, but not so cushy that you can lie on it forever and it can be very useful for constantly shrinking the pool of left-behinds. The most important trampoline is lifelong learning." So, governments must encourage people who have lost jobs to retrain themselves and get back to work.

The global economy also needs safety nets to take care of those who simply will never be fast enough or educated enough to operate in the globalized economy. But, a rethink is necessary on what constitutes a safety net in today's integrated economy. For instance, if the Internet is going to be essential for learning, reserving an airline ticket, dealing with the government, communicating, not to mention shopping at the best price, universal access to the Internet may well become a basic human right. Similarly, even in the poorest countries, English may have to be taught in primary schools. Just universal literacy (literacy means knowing how to write one's own name in states like Kerala) may not be adequate.

Concluding Notes

If globalization comes at the price of a country's identity, people will revolt. Therefore, the survival of globalization depends, in part, on how the right balance between global integration and regional identity is achieved. A country without a sense of identity will never feel secure enough to open up fully to the world and reach out into it. But if a country is focused only on its identity and decides to remain isolated, it will not go very far. Keeping the two in balance is the real challenge. Another challenge is to manage the disgruntlement levels of people who have not benefited much or who have been adversely affected by globalization. Unless these people are taken care of, the anti-globalization agenda articulated by a small vocal minority will begin to dominate.

The main things holding the anti-globalist coalition together are a suspicion of markets, a strongly collectivist instinct and a belief in protests as a form of moral uplift. Once upon a time this combination would have pointed to socialism as a coherent alternative to "the system". But socialism is clearly not an option today. The attitudes that support it are still out there, as demonstrated by the protesters and by the sympathy they arouse among the public. But, socialism has now been accepted as a failure and lacks sufficiently broad appeal. That is why, even the most hard core critics of globalization, continue to liberalise their domestic economies with a view to encouraging market forces.

International economic integration widens choices because it makes resources go further. Policies to relieve poverty, to protect workers displaced by technology and to support education and public health are all more affordable with globalization than without. The challenge leaders face is to allow globalization to proceed but to do so without resulting in major backlashes from some disadvantaged groups. n

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