CHAPTER 4

The Globalization Debate

An Assessment

What is "global" about globalization? —skeptics

Power no longer resides in the locales in which it is immediately experienced. —globalists

As we discussed in the last chapter, the globalization debate poses fundamental questions regarding human justice, democracy, and the direction of future change. The above claims illustrate the basic positions in the debate. For skeptics, the concept reifies and mystifies a process that continues to be determined by struggles between classes or between nation-states; for globalists, existing concepts fail to capture the deep structural changes that are under way. In this chapter, we offer a more detailed examination of the issues raised in the globalization literature by exploring the nature of economic, political, and cultural change. Our intent is twofold: to present a more systematic means by which to judge the usefulness of globalization as a concept and to provide a context for our subsequent discussion of globalization, power, and inequality in the United States.

Globalization and Economic Change

In the last chapter, we noted that the debate over globalization and economics raises the issue of whether a global economy that subordinates national economies is emerging. To answer this question, we look at changes in global trade, the global division of labor, subcontracting and outsourcing, **foreign direct investment** (FDI), and the growth of transnational corporations (TNCs).

Foreign Trade

Weighing in on the comparison between globalization processes during the 1870–1913 (belle époque) period and today, a recent International Labour

Organization (ILO) study shows that, in contrast to the present period, trade liberalization and openness *did not* play a major role in promoting global integration between 1870 and 1913 (Ghose 2003, Chapter 2). Tariff rates, for instance, were reduced in some countries (mainly Europe) from 1860 to 1880 but remained high in others (the United States), and after "1880, tariff rates were growing in virtually all the countries concerned" (Ghose 2003, 16; see also Held et al. 1999, 158, Table 3.2; Perraton et al. 2000). Ghose concludes that, particularly during the 1880–1913 period, trade (and FDI, or investment in factories and land by foreign investors) grew *despite* declining openness, *not* because of increasing openness. The dramatically lowered cost and ease of transport were driving forces behind these changes.

These conclusions are generally consistent with the globalist position. Increasing openness is a characteristic that differentiates the present period from the belle époque. Also, advances in transportation have been integral to the long-term globalization process. Let's look closer at these changes. Using 1990 as a benchmark, Girvan (1999) shows that shipping costs have fallen by more than two-thirds since 1920, airline transportation costs have fallen by more than 60 percent since 1960, and the cost of an international telephone call has fallen by 90 percent since 1970.[1] Combined with the use of communication satellites, fiber optics, and the Internet, these changes are creating the possibility for rapid and inexpensive movement of goods, services, and information and a global economy that is increasingly capable of operating in real time (Castells 2000).

The efforts of the Bretton Woods Trio to liberalize global relations have further contributed to a more open and integrated global system. For instance, average worldwide tariffs as a percentage of total trade value dropped from 40 percent in 1947 to 5 percent in 1990 (Gabel and Bruner 2003, General Agreement on Trade and Tariffs 14) and GATT-based negotiations have significantly lowered overall barriers to trade in services since 1950 (Gwynne, Klak, and Shaw 2003, 113). The data in Figure 4.1, showing the relationship between trade and production, suggest that since the 1950s global trade grew faster than global economic production; the pattern, which accelerated after 1990, indicates a more open and globalized world economy.

Still, this tells us little. As you may recall, globalists argue that as the developing or Third World has become industrialized, there has been a shift in the global division of labor.[2] If this is the case, we should find evidence for an increase in trade of manufactures *from* these countries. Let's begin with the general world trends in trade since 1960. Data in Table 4.1 show that the developing world's share of merchandise and service trade has grown since 1990—with the greatest change in merchandise trade—while the developed countries saw their share of world merchandise and service exports decline.[3] If we look at merchandise trade, we see in Table 4.2 and Figure 4.2 that the most significant change since 1980 has been in the trade of manufactures. According to Table 4.2, trade in manufactures increased sharply, while trade in services rose initially and remained roughly at 19 percent of total world

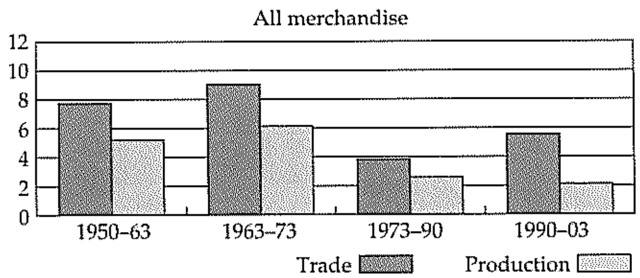

Figure 4.1 World merchandise trade and economic output: 1950–2001. Average annual percentage change. *Source*: WTO (2005, Chart II.1).

Table 4.1 Share of Merchandise and Service Exports

	WORLD EXPORTS IN MILLION US$ AND SHARES IN PERCENTAGE BY COUNTRY GROUP					
REGIONS	1960	1970	1980	1990	2000	2002
Merchandise						
World	130,135	316,428	2,031,219	3,500,278	6,426,893	6,414,058
Developing countries	24.7	19.2	29.4	24.1	32.0	31.7
Central/East European countries	10.6	10.1	8.0	5.0	4.2	4.9
Developed countries	64.7	70.7	62.6	70.8	63.8	63.5
Services						
World	—	—	385,352	824,724	1,511,935	1,610,608
Developing countries	—	—	17.9	18.1	23.1	22.6
Central/East European countries	—	—	—	—	3.6	4.2
Developed countries	—	—	79.1	79.7	73.2	73.2

Source: UNCTAD (2005).

Table 4.2 Structure of World Trade (Percentage Share)

YEAR	SERVICES	MERCHANDISE	MANUFACTURES	NONPETROLEUM PRIMARY PRODUCTS	PETROLEUM PRODUCTS
1980	11.0	89.0	49.7	23.8	15.5
1985	21.8	78.2	50.8	15.7	11.7
1991	21.4	78.6	58.7	12.9	7.0
1998	19.9	80.1	64.2	11.5	4.4
2003	18.6	81.4	63.0	12.7	5.7

Sources: Ghose (2003); data for 2003 are from World Bank (2005).

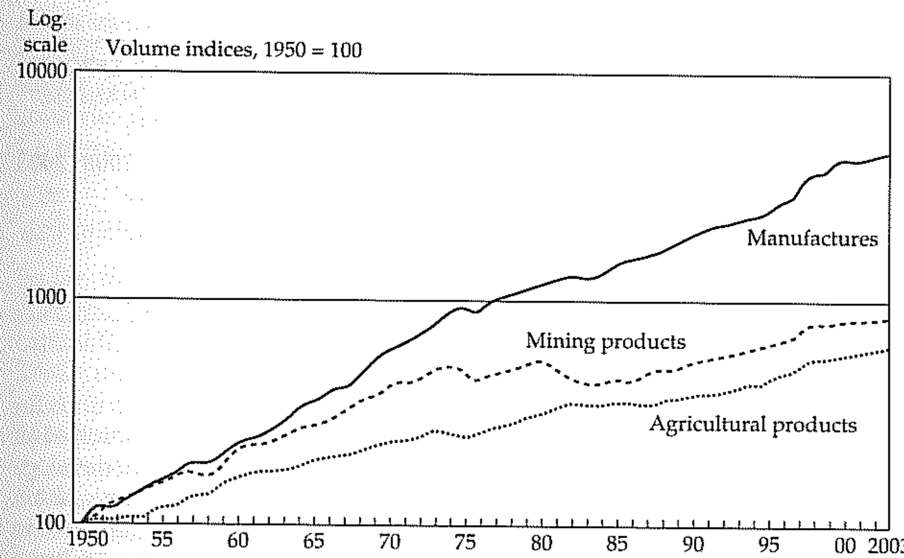

Figure 4.2 World merchandise trade by major product group: 1950–2003. *Source*: WTO (2005, Chart II.2).

trade. The trade of primary agricultural products declined over the entire period—until the last few years (see also Ghose 2003, 9). By 2003, trade in manufactures accounted for nearly two-thirds of total trade in goods and services, up from one-half in 1980. Data in Figure 4.2 further show the growing importance of manufactures in world merchandise trade. Since 1950, there has been an almost continuous upward trend in the trade of manufactures and a growing gap between trade in manufactures and trade in agricultural and mining products. We should note that the current composition of trade contrasts with that of the belle époque when trade in primary products (e.g., agricultural and mining products) dominated international trade (see Ghose 2003, 16–17).

Yet, we still do not know the effects on the developing or developed countries. In other words, do the data reflect a process of deindustrialization in industrialized countries, as labor is transferred from the manufacturing to the service sector, while developing countries become industrialized, as the globalists contend? If the developing world is industrializing, we should find evidence of an increasing share of world manufacturing exports originating in these countries.

Data in Table 4.3 show that between 1980 and the late 1990s the developing world's share of world manufactured exports more than doubled from 12.0 to 26 percent, while the developed/industrialized world's share declined from 83 to 71 percent. According to the data, the share of manufactured exports in total merchandise exports increased for all countries, reflecting the general rise in the importance of manufactures in world trade, but the increase

Table 4.3 Manufactured exports: 1980–1982, 1996–1998, and 2004

	% SHARE IN WORLD MANUFACTURED EXPORTS		MANUFACTURED EXPORTS AS % OF MERCHANDISE EXPORTS		
	1980–1982	1996–1998	1980–1982	1996–1998	2003
Industrialized countries	83.3	71.2	71.6	79.9	79.0
Developing countries (Third World)	12.0	25.9	22.4	65.8	73.0
European transition countries	4.7	2.9	45.9	53.2	58.0

Sources: Ghose (2003);[4] data for 2003 from UNDP (2005).

was dramatic *only* in the case of developing countries (see also Perraton et al. 2000, 290–291). *Overall*, the percentage of manufactured exports from developing to industrialized countries continues to increase (see World Bank 2005), as reflected in the growing importance of manufactures in merchandise trade in developing countries (Table 4.3). This conclusion is supported by evidence from the United Nation's Conference on Trade and Development (UNCTAD) showing that the developing world's share of world manufacturing value increased from 14.4 to 23.7 percent during the 1990–2001 period, while the developed world's share declined from 76.7 to 73.6 percent (UNCTAD 2005).

We should note, however, that this is not a universal process, as the skeptics contend. For instance, in Taiwan, South Korea, Hong Kong, China, Singapore, and Mexico trade in manufactures accounts for 80 to over 90 percent of total trade, while for Indonesia, Argentina, Chile, and Brazil the figure ranges from 16 to 52 percent (World Bank 2000, 268–269; 2005). Moreover, for Taiwan, South Korea, Hong Kong, China, Singapore, and Mexico exports grew at an average annual rate of 13.2 percent between 1980 and 2002 (World Bank 2005). Specifically for China, this reflects a dramatic shift away from low-technology exports to high-technology exports since 1985. In Latin America, however, if we exclude Mexico and Brazil, primary exports constituted more than 80 percent of the region's total exports in 1998 (Gwynne, Klak, and Shaw 2003, 117).

Finally, Africa remains marginal to the shifting global division of labor, with only noticeable changes in northern and southern Africa and, to a lesser degree, western Africa. Manufactures as a percentage of total merchandise trade (data are for 2003) is significant only in Morocco (69 percent) and South Africa (58 percent)—the next largest exporter was Egypt, with manufactures constituting 30 percent of total exports—(World Bank 2005; also 2000, 268–269). Still, with the exception of South Africa, the total value of export manufactures in these countries remains small (World Bank 2005).[5]

Data on employment further support the globalist perspective of a changing global division of labor (see Ghose 2003, 17–19). In countries such as Taiwan, South Korea, China, and Mexico, employment in the manufacturing

sector increased from 35.8 percent of total employment in 1980 to 53.0 percent in 1997. In industrialized countries, the percentage employed in manufacturing declined from 37.0 to 31.0 percent, while among other developing countries the percentage employed in manufacturing increased from 1.3 and 1.6 percent (Ghose 2003, 18). (Country categories are explained in note 4.)

Foreign Direct Investment, Global Capital, and Outsourcing

So far, the data suggest a transformation of the developing world within a changing global context, as the globalists would expect. The liberalization of capital flows due to the spread of the neoliberal ideology and the influence of TNCs, the International Monetary Fund (IMF), and World Bank policies have all contributed to these trends. FDI, for instance, increased rapidly after 1990: between 1992 and 1998, FDI tripled in East Asia and the Pacific region and quadrupled in Latin America and the Caribbean (World Bank 1991, 57; also Gwynne, Klak, and Shaw 2003, 120). FDI also increased in sub-Saharan Africa and the Middle East, though starting from a much lower base (World Bank 1991, 57; also Gwynne, Klak, and Shaw 2003, 120). By the beginning of the twenty-first century, China had become the most attractive destination of FDI in the world and India ranked third.

If we combine data on trade and FDI (see Table 4.4), we can draw several conclusions about the nature of the global economic change. First, in keeping with the skeptics' analysis, industrialized countries continue to account for a large proportion of both FDI inflow and total world merchandise trade—62 percent in the 1996–1998 period, though a decline from 68 percent in the 1980–1982 period. Also in keeping with the position of the skeptics, industrialization has been limited to a small number of developing countries or regional economic zones.[6] Other developing countries continue to be marginalized by the process, specifically those in Africa and the Andean region of South America (see World Bank 2000, 268–269). Nonetheless, trends showing that developing countries have not only increased their share of FDI and of total

Table 4.4 Trade and FDI Flows: 1980 and 1998

	% SHARE IN GLOBAL FDI FLOWS		% SHARE IN GLOBAL MERCHANDISE TRADE	
	1980–1982	1996–1998	1980–1982	1996–1998
Industrialized countries	68.0	62.2	66.5	66.9
Manufactures exporters	19.5	25.8	13.7	23.3
Petroleum exporters	7.9	2.0	10.6	3.0
Other developing countries	4.6	5.8	4.0	2.8
European transition countries	0.0	4.2	5.2	4.2

Source: Ghose (2003).

global merchandise trade but also become important sources of FDI over time support the claims of the globalists. This FDI, according to Gwynne, Klak, and Shaw (2003, 151), is concentrated in manufacturing (secondly services), while investment in primary sectors declined significantly after the 1980s; by comparison, the bulk of FDI during the belle époque went into primary products (Ghose 2003, 16–17). These data suggest a more inclusive process of change and a shifting international division of labor away from the developing world's specialization in the production and export of primary products, which is consistent with the argument put forth by the globalists.

Finally, the data in Table 4.4 show that the developing world's share (the manufactures exporters) of merchandise trade grew more rapidly than its share of FDI. This suggests an important difference between the present process of globalization and globalization during the belle époque. If we narrowly focus on aggregate FDI as an indicator of globalization, we may overlook important changes. In comparison with the belle époque, the conditions we discussed in the previous chapter allow corporations to reduce their role as direct producers and specialize in the marketing of their products. Companies can now participate in what are being called "emerging markets" (formerly labeled the "developing world" or the "Third World") and achieve comparative advantage by subcontracting or outsourcing the production of goods and services.[7] Outsourcing to foreign subcontractors, however, *is not* captured by FDI data. Therefore, if Levi Strauss and Company transforms itself into a marketing company by closing its factories in the United States and Europe and subcontracts that same production through foreign producers in Indonesia, FDI data will not capture these changes and will underestimate the level of globalization.

The trend of increased outsourcing is not limited to manufacturing. Increasingly, whole buildings slated for construction in the United States are produced in places like Mexico and Singapore and shipped in sections to the United States. More common, however, is the outsourcing of services in the financial, insurance, legal, medical, and information technology (IT) sectors. Even the U.S. film industry is part of this trend. In 2003, for instance, of the 88 U.S. films made for television, only five were made in the United States (Dobbs 2004a, 81).[8]

According to Richard Trumka, secretary-treasurer of the AFL-CIO, over 500,000 service sector jobs are outsourced annually (Dobbs 2004b). Call centers are one major area of outsourcing; the bulk of these jobs go to India. For years we wondered "what all those fiber-optic cables laid around the earth at massive expense in the late 1990s would ever be good for, we finally have an answer: They're good for enabling call-center workers in Bangalore or Delhi to sound as if they're next door to everyone. Broadband's killer app, it turns out, is India"[9] (Fox 2003). Why? Indian knowledge workers who get those jobs are paid 80 to 90 percent *less* than similar workers in the United States.

Outsourcing is not only about call centers however.[10] India is also the world's leading producer of software engineers (Sernau 2001, 53). These workers typically earn one-sixth to one-eighth the wage of their counterparts in the United States or United Kingdom (Gwynne, Klak, and Shaw 2003, 177). In Bangalore, some 110,000 people are employed writing software, designing chips, running computer systems, processing mortgages, preparing tax forms, and doing other essential work for U.S., European, Japanese, and even Chinese companies. Outsourcing of professional service jobs involves a virtual Who's Who of major U.S.-based companies; the list includes Apple, Dell, Hewlett-Packard, Intel, Cisco, Oracle, Phillips, IBM, and SAS. Accenture, AOL, and Ernst & Young also have a major presence in Bangalore, as does General Electric, which employs more than 15,000 people in Delhi and other Indian cities.

A score of other Western corporations outsource work to Indian companies to answer calls from credit card customers, do accounting work, manage computer networks, research and develop new pharmaceuticals, and examine medical information. For instance, Massachusetts General Hospital sends X-rays and magnetic resonance imaging scans to India for examination. Some U.S. firms go so far as to outsource *actual* healthcare by sending employees to India for operations (Yi 2006).

In the financial world, a staff of 350 in Chennai (formerly Madras) designs the PowerPoint presentations that McKinsey consultants around the world show their clients. Morgan Stanley has been hiring equity analysts in Mumbai (formerly Bombay) to help cover U.S. companies from ten and a half time zones away. There are more than 350,000 people working in IT services and outsourcing in India now, and the number is expected to soon pass one million. While recent reports suggest that a few U.S. companies are moving some of their service operations back to the United States, the overall trend is toward more outsourcing of service jobs. A glimpse of this outsourcing process is provided in Table 4.5.

So what do all these data tell us about globalization and economic change? First, data on trade and FDI are supportive of the globalist position that a global economy is emerging and that national economies are increasingly subordinated to it. These data, however, do not support the neoliberal claims of a fully developed borderless global economy. Second, evidence regarding outsourcing supports the globalists' argument that the world economy is fundamentally different today in comparison with the belle époque or even in comparison to 30 years ago. Finally, data on trade, manufacturing, and growth are consistent with the globalists' position that the traditional global division of labor is changing. The scope of industrialization and outsourcing is limited, however, as the skeptics would argue, with most of Africa and sections of Latin America remaining marginal to the process.

Transnational Corporations

As we alluded to earlier, the central actors in the globalization process are the TNCs that outsource jobs, provide direct investment, and engage in global

Table 4.5 Outsourcing of Service Jobs to India

AREA	OUTSOURCING AND IT WORKERS	FOCUS	WHO'S THERE
Delhi	73,000	Call centers, transaction processing, chip design, software	GE, American Express, STMicroelectronics, Wipro, Spectramind, Convergys, Daksh
Kolkata (Calcutta)	7,300	Consulting, software	PwC, IBM, ITC, Infotech, TCS
Pune	7,300	Call centers, chip design, embedded software	Msource, C-Dac, Persistent Systems, Zensar
Hyderabad	36,500	Software, back office, product design	HSBC, Microsoft, Satyam
Bangalore	109,500	Chip design, software, bioinformatics, call centers, IT consulting, tax processing	Intel, IBM, SAP, SAS, Dell, Cisco, TI, Motorola, HP, Oracle, Yahoo, AOL, E&Y, Accenture, Wipro, Infosys, Msource
Chennai (Madras)	51,100	Software, transaction processing, animation	World Bank, Standard Chartered, Cognizant, Polaris, EDS, Pentamedia Graphics
Mumbai (Bombay)	62,050	Financial research, back office, software	Morgan Stanley, Citigroup, TCS, MphasiS, i-flex Solutions

Source: Fox (2003).

trade. TNCs are fundamental to the changing nature of the global economy and the shifting global division of labor. By definition, a TNC is any large company headquartered in one country with design, production, marketing, and service divisions in many other countries. three issues are important: these are extremely large corporations, their countries of origin are often obscure, and they underlie the shift in the spatial organization and dynamics of the global system.

Size

The growth and size of these organizations are exemplified in the following data. Today, there are over 65,000 firms with subsidiaries in other countries, up from about 7,000 in 1970 (Gabel and Bruner 2003, 31; ILO 2004, 33). Of the world's 100 largest economic entities, 54 are corporations (up from 51 in 2000) and 46 are countries (see Table 4.6). The world's largest corporation, ExxonMobil, ranked as the seventeenth largest economic entity in the world,

Table 4.6 Global Ranking of the Largest Economic Entities[a] (Companies in Bold)

RANK	COUNTRY/ CORPORATION[b]	GDP/SALES (BILLION US$)	RANK	COUNTRY/ CORPORATION	GDP/SALES (BILLION US$)
1	United States	10,984.5	38	Finland	161.9
2	Japan	4,300.9	39	South Africa	159.9
3	Germany	2,403.2	40	Ireland	153.7
4	United Kingdom	1,794.9	41	**General Electric**	**149.7**
5	France	1,757.6	42	Portugal	147.9
6	Italy	1,468.3	43	**Total Fina Elf**	**144.9**
7	China	1,417.0	44	Thailand	143.0
8	Canada	856.5	45	Iran, Islamic Rep.	137.1
9	Spain, Mexico	838.7	46	**ING Group**	**137.1**
10	Mexico	626.1	47	Argentina	129.6
11	Korea, Rep.	605.3	48	**Allianz**	**124.4**
12	India	600.6	49	**Mitsubishi Motors/ Industry**	**108.9**
13	Australia	522.4			
14	Netherlands	511.5	50	**AXA**	**121.6**
15	Brazil	492.3	51	**Citigroup**	**131.3**
16	Russian Federation	432.9	52	**Volkswagen**	**112.6**
17	**ExxonMobil**[c]	**339.9**	53	Israel	110.2
18	Switzerland	320.1	54	**American Int'l Group**	**107.0**
19	**Wal-Mart**	**315.7**			
20	Belgium	301.9	55	Malaysia	103.7
21	**Royal Dutch Shell**	**306.7**	56	**Nippon Telegraph**	**100.8**
22	Sweden	301.6	57	**Carrefour**	**98.6**
23	**BP**	**285.1**	58	Singapore	91.3
24	Austria	253.1	59	**IBM**	**91.1**
25	Turkey	240.4	60	**Siemens**	**90.6**
26	Norway	220.9	61	Czech Republic	89.7
27	Saudi Arabia	214.7	62	**Generali**	**89.0**
28	Denmark	211.9	63	**Hewlett-Packard**	**87.9**
29	Poland	209.6	64	**McKesson**	**85.9**
30	Indonesia	208.3	65	Venezuela	85.4
31	**General Motors**	**192.6**	66	**Bank of America**	**85.4**
32	**Chevron/Texaco**	**189.5**	67	**Hitachi**	**84.2**
33	**Ford**	**177.2**	68	**ENI**	**83.1**
34	**Daimler/Chrysler**	**177.0**	69	Hungary	82.7
35	**Toyota Motor**	**173.1**	70	Egypt	82.4
36	Greece	172.2	71	Pakistan	82.3
37	**ConocoPhillips**	**162.4**	72	**Valero**	**82.2**

Table 4.6 *(Continued)*

RANK	COUNTRY/ CORPORATION[b]	GDP/SALES (BILLION US$)	RANK	COUNTRY/ CORPORATION	GDP/SALES (BILLION US$)
73	Home Depot	81.5	88	HSBC	76.4
74	Fortis	81.5	89	Berkshire Hathaway	76.3
75	Matsushita Electric	81.3			
76	Crédit Agricole	81.1	90	Nestlé	76.1
77	Honda	80.7	91	Aviva	75.6
78	Philippines	80.6	92	Verizon	75.1
79	Nissan Motor	80.0	93	Chile	72.4
80	J. P. Morgan	79.9	94	AHOLD	70.6
81	New Zealand	79.6	95	IFIL	70.4
82	Samsung	79.2	96	Sinopec	70.3
83	Colombia	78.7	97	Altria Group	68.9
84	Deutsche Telekom	78.5	98	Credit Suisse	68.3
85	UBS	78.2	99	Sony	66.8
86	Cardinal Health	77.9	100	E.ON	66.7
87	Metro AG	76.5			

[a] Data are for 2003–2005.
[b] Does not include Taiwan, which by some estimates would rank between Russia and Switzerland.
[c] In 2005, ExxonMobil replaced Wal-Mart as the largest *and* most profitable company in the world.
Sources: *Fortune* (2006), *Forbes* (2005), UNDP (2005), World Bank (2006).

had a workforce of 83,700, sales of $328.2 billion, and profits of $36.1 billion in 2005. ExxonMobil, which replaced Wal-Mart as the world's largest corporation in 2005, was larger than the economies of *all but* 16 countries. In comparison, the world's largest company in 2004, Wal-Mart, had a workforce of 1.7 million, sales of $312.4 billion, and $11.2 billion in profits in 2005. By some accounts, TNCs account for over 70 percent of world trade (Steger 2003, 29) and a minimum of 20 percent of total world production (Perraton et al. 1997). In terms of sales, the top 200 firms (in 2000) were equivalent to 27.5 percent of *all* world economic activity, yet they employed *only* 0.78 percent of the world's workforce (Anderson and Cavanagh 2000).[11]

Obscurity

Despite being extremely large—or because of it—the country origins of TNCs are often hard to determine. A good example of this type of obscurity comes

from one of the author's sisters-in-law. While living in Germany during the 1980s the sister-in-law had a disagreement with her German landlady over the country origin of Nestlé. The landlady insisted that Nestlé was a German company; the sister-in-law said that it was a U.S. company. Turns out they were both wrong: Nestlé is a Swiss company. (Ask your friends the country origin of Nestlé; chances are they will not know either.)

The Nestlé example illustrates an increasingly important issue in the global economy. Foreign companies often face risks that "local" companies do not and, thus, may encourage this kind of obscurity as a means to boost market shares or reduce security risks. If a company is perceived as "local," such campaigns as "buy American" or "compra Mexicana" will not negatively affect sales of what are actually TNCs (or become the target of nationalizing attempts or violent attacks). Would the now famous example of José Bové, the French farmer who destroyed a McDonald's construction site (see Morse 2002), have occurred if McDonald's had not clearly been a symbol of globalization?

A Global Transition?

What differentiates the present global phase from earlier ones, according to the globalists, is the shift in the spatial organization and dynamics of the global system. As Held and McGrew (2000, 25) summarize, in the present epoch "capital—both productive and financial—has been liberated from the national and territorial constraints, while markets have become globalized to the extent that the domestic economy constantly has to adapt to global competitive conditions." Transnational organizations are central to this "new" economy, and it is global capital, rather than nation-states, that exercise divisive influence over the organization, location, and distribution of economic power and resources in the present system (see Held and McGrew 2000, 23–27). For instance, TNCs are increasingly investing in, and exporting from, the newly industrializing countries (NICs) of East Asia and Latin America. Today, São Paulo is often referred to as "Germany's largest industrial city" (quoted in Held and McGrew 2000, 24). In fact, more than 60 percent of all manufactured imports to the industrialized world are coming from the developing world (UNDP 1998). Not surprisingly, the developing economies (e.g., Brazil, China, India) are currently driving the global economy. Aggregate gross domestic product (GDP) growth rates for the developing countries in 2005 were double those of the industrial economies (International Monetary Fund 2006, Petruno 2006).

Skeptics largely dismiss this argument, contending that the majority of the world's largest corporations remain headquartered in the United States, England, Germany, or Japan (see Burbach, Nunez, and Kagarlitsky 1997). In other words, the governments retain considerable control over TNCs by retaining control over access to national economic resources. To a degree, this is true; but as Susan Strange (1997) argues, control over national resources is not the same thing as control over a TNC. If a government places restrictions on foreign capital that are more severe than those of other governments—with similar resources—there is little chance of keeping up with the more welcoming governments for world shares of investment.

As the IMF, World Bank, and World Trade Organization (WTO) policies reduce trade and financial barriers through policies emphasizing privatization and deregulation, TNCs are made more mobile and can pull out of economies that do not offer conditions favorable to their interests. As a result, TNCs gain greater access to cheap labor and other resources in the developing world. Moreover, the leverage of TNCs—vis-à-vis national governments—is increased as governments in need of investment controlled by TNC will find it difficult to regulate economic activity and social conditions in ways that conflict with the interests of TNCs.

Finally, the organizational structure of TNCs has changed consistently with the globalist perspective. Many manufacturing transnationals have transformed themselves into **marketing companies**. Nike, for instance, subcontracts 100 percent of its goods production to 75,000 workers in China, South Korea, Malaysia, Taiwan, and Thailand (Steger 2003, 49). Recently, the CEO of Levi Strauss and Company closed six plants in the United States stating that Levi Strauss was becoming a "marketing company" with future production to be subcontracted to places such as Mexico, Bangladesh, and China (Dickey 2002, 16).

Globalization and Political Changes

Let's return to the question of how globalization is affecting politics. What have been the local political effects of economic globalization? How have global economic processes changed the distribution of political power, political participation, and ultimately democracy? Are these processes creating a democratic deficit that is reducing the ability of citizens to influence public policy while increasing corporate influence?

To begin, trends suggest that the ability of the nation-state to pursue locally (i.e., nationally) determined goals is increasingly constrained. In other words, democracy is eroded with the emergence of the neoliberal state. Thus, what once had been "Third World or developing world problems"—governments that are simultaneously ineffectual on the international stage and undemocratic—are now increasingly concerns for the First World. Even U.S. policy making has been affected by global economic pressures, as we discussed in the previous chapter. In 2003, the WTO found tariffs on imported steel imposed by the George W. Bush administration to be in violation of free trade rules; under the threat of global retaliatory measures, the administration eliminated the tariffs.[12] Or, as the Finns discovered with Nokia, the global strategy of TNCs is not necessarily consistent with the interests of the local community or society. In a little over a decade, Nokia grew from modest beginnings to ranking 136 in *Fortune*'s global 500 (2003), manufacturing 37 out of every 100

cell phones worldwide and connecting over one billion people in its global communications web. As Manfred Steger (2003, 51) writes,

> . . . Nokia's gift to Finland—the distinction of being the most interconnected nation in the world—came at the price of economic dependency. Nokia is the engine of the Finland economy, representing two-thirds of the stock market's value and one-fifth of the nation's total exports. It employs 22,000 Finns, not counting the estimated 20,000 domestic employees who work for companies that depend on Nokia contracts. The corporation produces a large part of Finland's tax revenue, and its $25 billion in annual sales almost equals the entire national budget. Yet, when Nokia's growth rate slowed in recent years, company executives let it be known that they were dissatisfied with the country's relatively steep income tax. Today many Finnish citizens fear that decisions made by a relatively few Nokia managers might pressure the government to lower corporate taxes and abandon the country's generous and equalitarian welfare system.

These two examples are suggestive of two indicators we can use to examine the links between economic globalization and political change. If globalization is empowering corporations at the expense of national-level actors and dominating the national-level political process, we should see changes in tax incentives that encourage investors and corporations to invest in a particular region or country. Likewise, we should see legislation enacted that favors capital over labor and communities.

Taxes

According to the *Economist* (1997, 18–19), data from 17 industrial countries show that average taxes on wages and salaries have risen since 1980 while taxes on capital (corporations) have fallen. Focusing on the United States, an analysis by the Institute on Taxation and Economic Policy (ITEP) of the 250 largest and most profitable U.S. corporations found that these corporations paid only 20.1 percent of their profits in taxes in 1998, down from 26.5 percent a similar group of large companies paid in 1988. The standard federal corporate tax rate is 35 percent (ITEP 2000). By 2004, the average corporate federal tax rate had fallen further to 17 percent (Dobbs 2004b). Between 2001 and 2003, 82 major U.S. corporations paid no federal income taxes for at least 1 year (Dobbs 2004b); and in some cases, corporations pay *less than* zero taxes. Texaco, Chevron, CSX, Pepsico, Pfizer, J. P. Morgan, Goodyear, Enron, General Motors, Phillips Petroleum, and Northrop Grumman, for instance, had before-tax profits of $12.0 billion but actually paid less than zero in federal income taxes in 1998 because of rebates (ITEP 2000).

A snapshot of U.S. individual income tax rates shows a similar picture. In 2002, the average state and local tax rate on the wealthiest 1 percent of families was 7.3 percent before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate on the wealthiest 1 percent declined to 5.2 percent. By comparison, the average tax rate on families in the middle 20 percent of the income spectrum was 9.9 percent before the federal offset and 9.6 percent after the offset. The poorest 20 percent of families pay 11.4 percent, the highest of all (McIntyre et al. 2003).

The conditions for globalization we discussed earlier also make "hiding" wealth much easier. Offshore financial centers (OFCs), for instance, allow corporations and individuals to evade national banking regulations and taxes. Offshore banking centers include the "traditional" locales, Switzerland and Luxembourg, as well as new locations in the Caribbean region, including Belize, Dominica, Grenada, St. Lucia, and St. Kitts. The Cayman Islands currently represent the world's fifth largest banking center (Gwynne, Klak, and Shaw 2003, 184–185). At least 20 Caribbean jurisdictions offer offshore banking services—more than any other region—that provide secrecy and asset protection among other "benefits" (Gwynne, Klak, and Shaw 2003, 184).

In 2000, it was estimated that the total proportion of the world's wealth based in OFCs was well over 60 percent (Hetherington-Gore et al. 2000). Inevitably, this number will rise, according to Hetherington-Gore et al. (2000) as the Internet introduces "a permanent shift in the balance of power between the taxman and his tax-paying corporate targets [because] countries are anchored in the physical reality of their territory, while companies will increasingly be free to locate large parts of their economic activity in low-tax areas."

Legislation

As we mentioned in previous chapters, the role of the regional and global rules of the North American Free Trade Agreement (NAFTA) and the WTO have a direct effect on legislation. Chapter 11 of the NAFTA charter (not to be confused with Chapter 11 of U.S. bankruptcy laws), for instance, states that no government may "directly or indirectly nationalize or expropriate an investment or take a measure tantamount to nationalization or expropriation" (Mooney 2001, Moyers 2002). The term *tantamount*, as Mooney (2001) and Moyers (2002) show, allows TNCs to subvert local democratic decisions. When California decided to phase out the use of methyl tertiary-butyl ether (MTBE) in its gasoline, the Canadian firm that produced MTBE sued the U.S. government for $970 million for profits *they might have earned* had California not enacted legislation; the company felt that California's decision was *tantamount* to expropriation.[13]

An example of how the WTO affects policy is the 1996 case in which the Brazilian and Venezuelan oil industries contended that U.S. Clean Air rules discriminate against foreign gasoline (Wallach and Sforza 1999, 28–30). The Brazilian and Venezuelan oil industries took their case to the WTO. After deliberations, the WTO dispute panel agreed with the plaintiffs and ruled that the U.S. Clean Air Act regulations adopted under 1990 amendments

were in violation of WTO rules. The WTO instructed the United States to amend its gasoline cleanliness regulations to be consistent with WTO rules; the United States complied in August 1997.

These two examples are illustrative of the national/local political effects of transnational organizations: when democratically created legislation conflicts with corporate goals, corporations have a powerful tool to force changes in the legislation. The underlying issue is power and how the redistribution of power is eroding the effectiveness of local democratic institutions. Power is not only shifted *outward* as governments privatize public services but *upward* toward transnational capital and regional and global institutions. The shift in power atomizes citizens and creates tension between people in "their role as consumers and investors, who might benefit from globalization because of lower prices, wider choices and better income opportunities, and their role as citizens, which risks becoming less and less meaningful because of the declining opportunities for collective [local] self-governance" (Koenig-Archibugi 2003, 14). The result is to break the social bonds between people, to undermine the sense of community and community participation within the nation-state, and to devalue democratic participation that is manifested most vividly in decreased voting rates (see Derber 2002, Hertz 2001, Koenig-Archibugi 2003).

These trends support the basic point of the global social democrats. Democratic institutions and procedures remain in place, but they are increasingly ineffective or are being "hollowed out" by globalization. This institutional hollowing out creates a democratic deficit reflected in three political outcomes. First, "political participation" is redefined in terms of consumption patterns ("one dollar one vote"). Second, the ability of citizens to influence the political process is minimized, while corporate influence is maximized; many argue that this is why voting participation continues to decline (see Derber 2002, Hertz 2001). Third, the range of economic and social policy options declines due to the constraints imposed by global markets and by investors threatening to exit countries with "unfriendly" policies. We see this with the shift in the tax burden away from capital to labor, which reduces a government's ability to pursue democratically determined political policies.[14]

Solution?

So what now, you may be wondering? Are these trends inevitable, or is there some way to counter the negative political effects of economic globalization? Recall our earlier discussion of Karl Polanyi and his theory of the double-movement. With globalization, power is being shifted not only upward and outward but *downward*. Globalization may be altering the more established modes of political participation (e.g., voting) by weakening traditional movements (e.g., labor unions), but these same processes may create new forms of political participation. In the previous chapter, we cited data on transnational civic organizations and international non-governmental organizations (INGOs). Data show that the number of INGOs increased from under 20 in the 1940s to nearly 5,500 in the mid-1990s (Boli and Thomas 1997, 176; Held and McGrew 2000, 11). Similarly, the number of **transborder civic associations** increased from 1,117 in 1956 to 16,586 in 1998 (Scholte 2000a, 86). These groups and organizations, responding to the democratic deficit, point to a nascent movement from *below* that is attempting to alter the process of globalization, deepen democracy, and reinvigorate citizenship through increased mass participation in setting global policy.

The 1999, protest against the WTO meeting in Seattle revealed the possibilities of the countermovement using the tools of globalization to forge transnational connections between geographically dispersed groups (see Faux 1999, 2001; Urry 1999; Cockburn, St. Clair, and Sekula 2000; Nichols 2000; also Levi and Olson 2000). In organizing across borders on such issues as sweatshops, environmental problems, wages, working conditions, human rights, and the rights of women and children, these groups are constructing what Ronaldo Munck (2002) calls a "new internationalism."

As we discuss in later chapters, these groups are taking on the growing power of TNCs and declining power of local governments (i.e., the democratic deficit) through such strategies as guerrilla theater, boycotts, media campaigns, and **codes of conduct** to compel corporations to alter the way they produce goods and services. The effort to bring democratic control over corporations is a multidirectional process of organizing and sharing resources and strategies across geographical space that may create the conditions for a **global civil society** upon which a new form of global democracy can be constructed. Thus, in keeping with the position of the social democrats, politics, it appears, are being recast in the age of globalization (see Kazin 1999; Meyerson 1999; Brysk 2000; Evans 2000; Mandle 2000; Nichols 2000; Scholte 2000a; Alpert 2002; Brecher, Costello, and Smith 2002; Conroy 2002; Derber 2002; Hertz 2001; Stiglitz 2002; Armbruster-Sandoval 2005).

Globalization and Cultural Change

Cultural globalization involves the movement of objects, signs, and people across geographical regions (Held et al. 1999, 329). While culture has always shown a "greater tendency toward globalization" (Waters 1995, 124) than other forms (e.g., economic or political), what distinguishes this period from previous ones is the global reach and speed of cultural traffic.

Crucial to the process of cultural globalization, according to Michael Mann (1986), is the notion of *transcendence*, in which culture rises above the existing (local) ideological, economic, military, and political institutions. Mann argues that the movement of people and texts helps establish patterns of exchange and shared cultural beliefs between separate places and the possibility for cultural ideas in one place to influence those in another (see also Held et al. 1999). Culture does not "merely integrate and reflect an already established 'society'; indeed it may actually create a society-like network, a religious or cultural community, out of emergent, interstitial social needs and relations" (Mann 1986, 23).

Clearly, this argument is consistent with the globalist position that globalization is fostering a global culture. While we agree with this position, we are not arguing that globalization is supplanting national-level culture or leading to cultural global homogeneity. The skeptics are right that cultural forms and institutions are deeply embedded nationally (locally) and that culture remains strongly tied to local memories, values, and symbols.

The preeminence of local-level culture explains why corporations try to impart a local flavor on global brands. On its web page, the Hong Kong and Shanghai Banking Corporation calls itself "the world's local bank" that allows personal Internet banking "when you want from where you want."[15] Headquartered in London and with 9,500 offices in 79 countries, its slogan is designed to position the bank as a global brand while stressing its ability to operate as a local organization in each of its markets. Other attempts to manage the global-local nexus include McDonald's creating a mutton-based "Maharaja Mac" that replaces the beef burger on its menus in India (Scholte 2000b, 60), Teriyaki McBurgers in Japan, and McArabia sandwiches in the Middle East. Not to be outdone, Burger King includes *gallo pinto* (the traditional breakfast staple of black beans and rice) with breakfast in Costa Rica.

The globalization of culture is often portrayed as moving from the "West to the rest," as illustrated by indigenous leaders in the Amazon region of South America wearing Nike shoes or Palestinian youths wearing Chicago Bulls sweatshirts in downtown Ramallah (Steger 2003, 70–71). Culture flows in the other direction as well, however, as demonstrated by the popularity in the United States of the Japanese-produced Pokémon and Yu-gi-oh games and cards or television programs such as *Dragon Ball Z*.[16] As Ritzer (2004, 78) argues, globalization is creating the possibilities of eating Irish bagels, Chinese tacos, or kosher pizza in New York or Dublin.

These examples illustrate the hybrid nature of culture. Culture as a product of a multitude of global–local interactions is not recent, however, but dates back hundreds, if not thousands, of years. Navajo weaving, for instance, reflects a pattern borrowed from the ponchos and clothing of Spanish shepherds in Mexico, which in turn drew upon Moorish influences in Spain (Cowen 2002). This notion is captured in the preamble of the Convention for the Protection or Cultural Property in the Event of Armed Conflict of May 14, 1954, which argues that "each people makes its contribution to the culture of the world . . ." (quoted in Appiah 2006, 121). Yet, to say that cultural patterns are historic products of global–local interaction is not to argue that these interactions have been equal. To do so, as Benjamin Barber (2003) points out, is to miss the importance of power in this hybridization process. As the Marxists argue, inequalities of power mean that cultural interchange will evolve in ways consistent with the interests of the more powerful actor. The African slave trade may have revolutionized world music, but these exchanges and interactions were hardly fair or equal.

There is something else at work in this interaction. With changes in the information infrastructure, we now have access to a greater variety of values and ideas. At the same time, globally sourced news and information increase our subjective awareness of—or what we know, think, and feel about—world phenomena. Enhancing our subjective awareness is the fact that ecological risks are no longer confined to local areas or particular groups and classes: global warming, acid rain, mad cow disease, or severe acute respiratory syndrome (SARS) show no respect for geographical, political, or class boundaries. Beck (1992) coined the term *risk society* to describe these changes and in so doing contributed to the debate in three important ways. First, ecological risks associated with unregulated industrial growth can no longer be confined to a local area. This *extensification* of ecological risks forces people to become more aware that everyone inhabits the same planet or, as Beck (1992) argues, forces our subjective consciousness in the direction of globalization. Second, because ecological risks are increasingly not bound by any particular locale, solving them requires global cooperation and global solutions—e.g., strategic arms talks, global agreements on emissions reductions and global warming, agreements on banning the use of cancer-causing chemicals, an international court to bring human rights violators to justice, or even multilateral agreements on working conditions. Finally, increased risks and the realization that we all share a common fate create the basis for a global pool of memories (e.g., the Holocaust), which is a key component of global civil society.

Layered Culture

Still, these changes do not necessarily mean that globalization will result in a homogeneous global culture. This would be an oversimplification of the complexities of humanity and the culture we create; even within strong national cultures, there exist vibrant sub-cultures. The most likely cultural manifestation of globalization is a "layered culture," a kind of composite of local and global. The notion of a layered culture seems to be at the center of Roland Robertson (1994) concept "glocalization", in which there is a complex interaction between the global and the local.[17]

By "layered culture", we mean that people increasingly inhabit a cultural space that is simultaneously local, national, regional, and global, with *understandings* corresponding to these different levels.[18] Everyone has—and will continue to have—a "local life," but the subjective changes induced by globalization mean "the ways people make sense of the world are increasingly interpenetrated by ideas and values from many diverse settings" (Held and McGrew 2002, 36). If, for instance, you decide to buy a hybrid car because you wish to reduce the consumption of fossil fuels or reduce the impact on the ozone, you are acting locally out of concern for the global—a positive effect of subjective changes. At the same time, the increasing popularity of SUVs in Costa Rica—even though gas is double what it is in the United States

and the streets are not built for SUVs—reflects a negative effect of subjective awareness (i.e., the local incorporation of globally generated ideas and values).

Finally, as work on multicultural changes and transnational communities suggests, globalization may actually be decoupling ethnicity from locality. Cities such as Los Angeles reveal the complex ways in which multicultural groups are forming beyond our existing explanatory categories. What does it mean culturally to have parents from Korea and Cuba while growing up in a predominantly African American community in Los Angeles? Our existing cultural categories and reference points are inadequate to understand the globalized world of the twenty-first century. Even the nation-state is being challenged in new and different ways, illustrated by Scotland's and Catalonia's attempts to seek independence within a new relationship with the European Union, rather than within the framework of a new state (Waters 1995, 139).

Culturally, globalization means that everyone everywhere is less and less living out their lives in a network of local cultures, yet the effects of globalization on identity and knowledge remain uneven and contradictory. They remain so because global processes take place within culturally local contexts. Culture then "has to be seen as a complex, overlapping disjunctive order" that cannot be understood in terms of simple dichotomies such as local and global (Appadurai 1996, 32), similarity and dissimilarity, or heterogeneity and homogeneity. Globalization may create homogenizing pressures, as Ritzer (1996) shows in his work on McDonaldization; but even McDonald's restaurants differ depending on the cultural setting. In the end, we must see cultural globalization as something both "out there" and "in here," a fusing of local and global elements through a process that is homogenizing and heterogenizing, multi-dimensional, and layered.

Conclusion

So is globalization a useful concept? We agree with Jan Aart Scholte (2000b, 40), who argues that there "is no reason to abandon the topic as a vacuous buzzword." Quite the opposite; when key issues of security, justice, and democracy are central to the debate, "social responsibility demands that researchers give globalization serious attention" (Scholte 2000b, 40). At the same time, we need to exercise caution: globalization is a process that suggests convergence, but adopting such a view is misleading, as the skeptics argue. Globalization has been both a homogenizing and a diversifying *set of processes*. It is this multidirectional unevenness that allows for multiple interpretations of the process and for skeptics and globalists to marshal supporting evidence for their respective positions.

As we have argued, globalization is an ongoing process involving political, economic, and cultural changes central to the way social life is (and has been) organized. Globalization is fundamentally about power, the way power is organized and exercised in an increasingly linked system. Decisions and actions by actors on one side of the globe have consequences for societies, communities, and groups on the other side. The stretching of power relations, Held et al. (1999) point out, means that sites of power and the exercise of power become increasingly distant from the subjects or locales that experience the consequences.

Globalization is changing the role of governments and affecting the ability of citizens to democratically influence the policies of their governments. Yet, almost simultaneously, globalization is creating the conditions for new forms of political participation. These forms are based on a "new internationalism" that is more transnational and may potentially create a global civil society.

Globalization is reconfiguring social space as we move from the three-dimensional geography of longitude, latitude, and altitude to adding a fourth dimension of global spaces (Scholte 2000b, 46–61). With globalization, there is the tendency to transcend territoriality, though clearly not to totally transcend territorial space, and there is a proliferation of social connections that are often detached from a defined territory. As economic, social, and political activities are stretched across the globe, what is local, national, or continental becomes reformed and is no longer coterminous with established legal and territorial boundaries (Held et al. 1999, 28). This reconfiguration means that not only transactions but also ecological risks are no longer effectively impeded by space or boundaries.

Globalization is potentially McDonaldizing the world, but it is also responsible for a dazzling array "of consumption possibilities from across the globe in terms of imported products" and imported cultural practices (Waters 1995, 142). Finally, global processes are interpreted through a culture that is local and local action is increasingly shaped by a people's collective understandings (Halford and Savage 1997).

Thus, in our view, the fundamental changes we are witnessing are consistent with the globalist social democratic argument. Powerful forces are shaping the process of change, and these changes reflect deep structural transformations—for the first time in history, we have a global economy capable of working as a unit in real time. Yet, as the social democrats argue, a fully *globalized* world does not exist, though we appear to be in the midst of a *globalization process* that remains incomplete and undetermined as to where it may go and how far it may proceed.

In the end, we need to avoid the tendency to see globalization as a closed-ended linear process that is reducible to universalism or convergence. To say that globalization has exacerbated inequality, for instance, should not be taken to mean that change had to assume this form: globalization is a multidimensional and uneven process significantly shaped by a conjuncture of factors and inscribed with many contradictions. As the "early globalists" Karl Marx, Max Weber, and C. Wright Mills may well have argued, the process of globalization remains a product *shaped* by human action and conditioned by the historical and social context.

CHAPTER 5

Globalization and Stratification

- Infant mortality rates vary from 3 per 1,000 in Norway, Japan, and Singapore to 182 per 1,000 in Sierra Leone (UNDP 2002).
- The percentage of the population living on $1.00 per day ranges from 0 percent in the United States to 82 percent in Ethiopia and Nicaragua (UNDP 2002). Overall, 1.3 billion people live on less than $1.00 per day, or about 20 percent of the world's population.
- Europeans spend about $2 billion a year more on ice cream than the estimated amount needed to provide clean water and safe sewers for the world's population (Crossette 1998).
- In the late 1990s, the world's richest three individuals had assets that exceeded the gross domestic product of the 48 least developed countries (Crossette 1998).
- The percentage of women in government at the ministerial level ranges from 55 percent in Sweden to 5.7 percent in Japan to 0 percent in Turkey (UNDP 2002).
- Carrier, the maker of air-conditioning and heating units, closes its Syracuse, New York plants and moves most of the 1,200 jobs to Singapore and Malaysia.
- IBM announces growth and new jobs creation in the United States and then outsources 90 percent of them—15,000 in all.
- Before Siemens in Orlando, Florida laid Patricia off, the company brought her Indian replacement to the United States so that Patricia could train her.[1]

What comes to your mind when you read these examples? You may be thinking that the world is a very unequal place. Or that inequality manifests itself in many different forms, such as economic, social, and political. You might ask yourself if, or how, these examples are linked to globalization. In this chapter, we concentrate on these kinds of questions by extending our earlier discussion of stratification and inequality. We begin by reviewing the basic concepts and then examine the theoretical links between globalization, stratification, and inequality.