1. The Blessings and Challenges of Globalization.

by Daniel T. Griswold

The evidence of globalization can be seen everywhere: in the home, in the workplace, in the discount stores, in the newspapers and business journals, in the flow of monthly government statistics, and in academic literature. The backlash was on display in Seattle in November 1999, when thousands of protesters took to the streets to demonstrate against the ministerial meeting of the World Trade Organization (WTO).

A short definition of globalization is "the growing liberalization of international trade and investment, and the resulting increase in the integration of national economies." Economist David Henderson of the Melbourne Business School expands the definition into five related but distinct parts:

* the increasing tendency for firms to think, plan, operate, and invest for the future with reference to markets and opportunities across the world as a whole;

* the growing ease and cheapness of international communications, with the Internet the leading aspect;

* the trend toward closer international economic integration, resulting in the diminished importance of political boundaries. This trend is fueled partly by the first two trends, but even more powerfully by official policies aimed at trade and investment liberalization;

* the apparently growing significance of issues and problems extending beyond national boundaries and the resulting impetus to deal with them through some form of internationally concerted action; and

* the tendency toward uniformity (or "harmonization"), by which norms, standards, rules, and practices are defined and enforced with respect to regions, or the world as a whole, rather than within the bounds of nation-states.1

Globalization can be seen most clearly in the quickening pace and scope of international commerce. Global exports as a share of global domestic product have increased from 14 percent in 1970 to 24 percent today,2 and the growth of trade has consistently outpaced growth in global output. In the United States, the ratio of two-way trade and investment income flows as a share of GDP has roughly tripled since the 1960s. Annual global flows of foreign direct investment surged to a record $ 400 billion in 1997, with 37 percent directed to less developed countries (LDCs), up from 7 percent in 1990.3 In the 1970s, daily foreign exchange transactions averaged $ 10 billion to $ 20 billion; today, the average daily activity has reached more than $ 1.5 trillion.4

The expansion of international trade and foreign investment has not been the result of some grand design imposed on the global economy. It has been an ad hoc, decentralized, bottom-up process resulting from two developments of the 1980s: the collapse of global communism and the demise of the Third World's romance with import substitution. The fall of the Berlin Wall and the final disintegration of the Soviet empire two years later released 400 million people from the grip of centrally commanded and essentially closed economic systems. Meanwhile, the debt crisis of 1982 and the resulting "Lost Decade" of the 1980s imposed a painful hangover on many Third World nations that had tried and failed to reach prosperity by shunning foreign capital and by protecting and subsidizing domestic "infant" industries. Beginning with Chile in the mid-1970s and China later that decade, LDCs from Mexico and Argentina to India more recently have been opening their markets and welcoming foreign investment. The globalization of the last decade has not been the result of a blind faith in markets imposed from above but of the utter exhaustion of any alternative vision.

In contrast to those failed policies, certain countries have managed to dramatically improve their living standards by deregulating their domestic economies and opening up to global markets. The Four Tigers of East Asia --Hong Kong, Singapore, Taiwan, and South Korea-- are the most prominent examples. From typical Third World poverty in the 1950s, each has achieved a standard of living today equivalent to that of industrialized nations, with per-capita incomes in Hong Kong and Singapore rivaling those of the wealthiest Western nations.

The relative success of openness as a policy, compared with protectionism, has spurred a global movement toward unilateral trade liberalization. Since the mid-1980s, sixty LDCs have unilaterally lowered their barriers to trade. LDCs have flocked to join the WTO. Today more than three-quarters of its members are LDCs, with another twenty waiting in line to join.5 The move to trade liberalization has been accompanied by investment liberalization, with more than 90 percent of national policy changes in the last decade being in the direction of more openness toward foreign investment.6

THE BLESSINGS OF GLOBALIZATION

Beyond all the impressive numbers about the extent of globalization, what kind of impact is it having on national economies? There are at least three fundamental blessings of globalization on nations that embrace it: faster economic growth, reductions in poverty, and more fertile soil for democracy.

The greatest beneficiaries of globalization are the long-suffering consumers in those nations that had been "protected" from global competition. Globalization expands the range of choice, improves product quality, and exerts downward pressure on prices. It delivers an immediate gain to workers by raising the real value of their wages. It transfers wealth from formerly protected producers to newly liberated consumers, with the gains to consumers exceeding the loss to producers because the deadweight losses to the economy are recaptured through efficiency gains.

Under autarky, consumers are often cursed with poor service and overpriced and low-quality goods because there is no real competition to spur domestic producers to meet the demands of their consumers. This explains the poor quality of cars sold by protected domestic producers in such places as India, where the standard Ambassador car is based on the Morris Oxford, a make of car that went out of style in Britain four decades ago.

LDCs have the most to gain from engaging in the global economy. First, they gain access to much larger markets, both for imports and exports. On the import side, consumers gain access to a dramatically larger range of goods and services, raising their real standard of living. Domestic producers gain access to a wider range and better quality of intermediate inputs at lower prices. On the export side, domestic

industries can enjoy a quantum leap in economies of scale by serving global markets rather than only a confined and underdeveloped domestic market.

Second, LDCs that open themselves up to international trade and investment gain access to a much higher level of technology. This confers on LDCs a "latecomer's advantage": rather than bearing the cost of expensive, up-front research and development, poor countries can import the technology off the shelf. They can incorporate new technology by importing capital equipment that embodies the latest advances and computers with the latest soft ware. Subsidiaries of multinational companies also bring with them new production techniques and employee training that bolster the host nation's stock of human capital.

Third, engagement in the global economy provides capital to fuel future growth. Most LDCs are people-rich and capital-poor. In a few countries in Asia, the level of domestic savings has been high enough to finance domestic investment, but typically the domestic pool of savings in an LDC is inadequate. Global capital markets can fill the gap, allowing poor nations to accelerate their pace of growth. In 1998, $ 166 billion in foreign direct investment flowed from the advanced economies to the less developed. A poor country that closes its door or fails to maintain sound domestic policies will forfeit the immense benefits this capital can bring.

Fourth, openness to the global economy can provide the infrastructure a developing economy needs for growth. Foreign capital can finance more traditional types of infrastructure, such as port facilities, power generation, and an internal transportation network, just as British capital helped to finance America's network of canals and railroads in the nineteenth century. But just as importantly, multinational companies can provide an infrastructure of what could be called "enabling services," such as telecommunications, insurance, accounting, and banking. As China and India have realized, a protected and inefficient service sector weighs down an entire economy, retarding the development of manufacturing and other industries. LDCs need to shed the mistaken idea that opening their economies up to international service competition is a "concession" to be made to gain access to farm and manufacturing markets in the advanced economies. In reality, liberalizing their service sectors by opening them to foreign competition is a favor LDCs can do for themselves.

Fifth, engagement in the global economy encourages governments to follow more sensible economic policies. Sovereign nations remain free to follow whatever economic policies their governments choose, but globalization has raised the cost that must be paid for bad policies. With capital more mobile than ever, countries that insist on following antimarket policies will find themselves being dealt out of the global competition for investment. As a consequence, nations have a greater incentive to choose policies that encourage foreign investment and domestic, market-led growth. New York Times columnist Thomas Freidman, in The Lexus and the Olive, his 1999 book on globalization, describes these progrowth policies as "the Golden Straitjacket." The increasingly manifest rewards of engagement encourage nations to unilaterally restrict the scope of government action. As Friedman explains:

To fit into the Golden Straitjacket a country must either adopt, or be seen as moving toward, the following golden rules: making the private sector the primary engine of its economic growth, maintaining a low rate of inflation and price stability, shrinking the size of its state bureaucracy, maintaining as close to a balanced budget as possible, if not a surplus; eliminating and lowering tariffs on imported goods, removing restrictions on foreign investment, getting rid of quotas and domestic monopolies, increasing exports, privatizing state-owned industries and utilities, deregulating capital markets, making its currency convertible, opening its industries, stock, and bond markets to direct foreign ownership and investment, deregulating its economy to promote as much domestic competition as possible, eliminating government corruption, subsidies and kickbacks as much as possible, opening its banking and telecommunications systems to private ownership and competition, and allowing its citizens to choose from an array of competing pension options and foreign-run pension and mutual funds.7

While globalization may confront government officials with more difficult choices, the result for their citizens is greater individual freedom. In this sense, globalization acts as a check on governmental power, making it more difficult for governments to abuse the freedom and property of their citizens.

Any casual survey of the world today will confirm that nations relatively open to trade tend to be more prosperous than nations that are relatively closed. The wealthiest nations and regions of the world--western Europe, the United States, Canada, Japan, Hong Kong, Taiwan, South Korea, Singapore--are all trade-orientated. Their producers, with a few notable exceptions, must compete against other multinational producers in the global marketplace. In contrast, the poorest regions of the world --the Indian subcontinent and sub-Saharan Africa--remain (despite recent, halting reforms) the least friendly to foreign trade. And those countries that have moved decisively toward openness--Chile, China, and Poland, among others--have reaped real (and, in the case of China, spectacular) gains in living standards.

Systematic studies confirm a strong link between openness and economic growth.8 A study of 117 countries by Jeffrey Sachs and Andrew Warner found that open economies grew much faster than closed economies. Specifically, the authors found that the developing countries that maintained open economies throughout the 1970s and '80s grew at an average annual rate of 4.5 percent, compared with an average growth rate of 0.7 percent for closed economies. As a result, the open developing economies tended to converge toward the slower-growing rich economies, while relatively closed economies did not converge.9

A more recent study, by Jeffrey Frankel and David Romer, produced similar results. The authors found that trade exerts "a qualitatively large and robust E positive effect on income." In their study of 150 countries, they concluded that increasing the ratio of trade to gross domestic product by 1 percentage point raises income per person by between 0.5 and 2 percent.10 The Organization for Economic Cooperation and Development (OECD) concluded that nations relatively open to trade grew on average twice as fast as those relatively closed to trade.11

HOPE FOR THE WORLD'S POOREST

Globalization offers hope to the world's poorest. Just as more open trade tends to promote economic growth, growth in turn leads to poverty reduction. A World Bank study found that periods of sustained economic growth are almost always accompanied by reductions in poverty. Specifically, the study found that poverty fell in 77 of the 88 decade-long periods of growth covered by the survey.12

The greatest reductions in poverty in the last twenty years have occurred in nations that have moved decisively toward openness and domestic liberalization. The most spectacular gains have been realized in East Asia. Between 1993 and '96, the number of people living in absolute poverty--what the World Bank defines as less than $ 1 per day -- declined in the region from 432 million to 267 million. In China alone, the number of poor people so defined fell by 150 million between 1990 and '97.13 The 1997--98 financial crisis that began in East Asia brought a temporary halt to this progress, but poverty rates in the hardest-hit countries--Korea, Thailand, and Indonesia--have begun to decline back toward their precrisis levels. Globally, the number of people living in absolute poverty has declined in the 1990s to an

estimated 1.2 billion in 1998.14

Globalization facilitates the spread of modern medicine, which has helped to extend life expectancy and reduce infant mortality in rich and poor countries alike. On average, life expectancy in developing countries rose from 55 years in 1970 to 65 years in 1997. This good news is tempered by the fact that life expectancy has actually fallen in thirty-three LDCs since 1990, in large part because of AIDS epidemics, and remains far behind the OECD average of 78 years. Infant mortality rates in Asia and sub-Saharan Africa have fallen by about 10 percent since 1990.15

Opponents of globalization try to blame poverty in the world on the spread of trade and investment liberalization. But those regions where poverty and inequality have been the most visible and intransigent for decades--Latin America, sub-Saharan Africa, and the Indian subcontinent--for most of that time self-consciously followed policies of economic centralization and isolation.

FERTILE SOIL FOR POLITICAL FREEDOM

By raising the general standard of living, free trade helps people achieve higher levels of education and to gain access to alternative sources of information. It helps to create a larger and more independently minded middle class that can form the backbone of more representative forms of government. The wealth created from expanded trade can help to nurture and sustain civil institutions that can offer ideas and influence outside government. Engagement in the global economy exposes citizens to new ideas and new social and business arrangements. In his book Business as a Calling, Michael Novak explains the linkage with what he calls "the wedge theory":

Capitalist practices, runs the theory, bring contact with the ideas and practices of the free societies, generate the economic growth that gives political confidence to a rising middle class, and raise up successful business leaders who come to represent a political alternative to military or party leaders. In short, capitalist firms wedge a democratic camel's nose under the authoritarian tent.16

The wedge theory seems to be working in practice: As a general rule, the citizens of nations that are more open economically tend to enjoy other liberties as well. The relationship can be confirmed by comparing cross-country data measuring economic openness and political/civil liberties. For the political and civil data, I have used recent ratings from Freedom House, which classifies the nations of the world as free, partly free, or not free.17 Then I compared the Freedom House scores with international economic freedom as measured in the study Economic Freedom of the World: 1998/1999 Interim Report, written by James Gwartney and Robert Lawson. The authors rated nations according to their level of taxation on trade, the size of the trade sector, exchange rate controls, and restraints on capital mobility, with a rating of 10 representing maximum openness.18

Comparing these two sets of data confirms that nations that respect human rights tend to be relatively open to commerce with the rest of the world. Nations that are classified by Freedom House as being free scored an average of 7.9 on the scale of economic openness. Those that are partly free scored a less open 6.7, and those that are not free scored the lowest, 5.4 (see fig. 1). If we start at the other axis we find that, of those countries in the top third of the Gwartney-Lawson scale of economic openness, 84 percent earned a political/civil ranking of "free." Of those in the middle third according to economic openness, 57 percent were free, but in the bottom third, only 22 percent were free. In other words, citizens who enjoy the freedom to engage in international commerce are about four times more likely to be free from political and civil oppression than those who do not enjoy such freedom.

Globalization and the growth it spurs have contributed to expanded political and civil freedom in a number of countries. Taiwan and South Korea were essentially dictatorships two decades ago, but they are now governed by elected legislatures and presidents. Political debate in those countries is robust, and civil liberties are more secure than ever. A share of the credit for political reform must be given to economic liberalization and the educated middle class it helped to create and nurture. In Latin America, the movement toward economic liberalization has been intertwined with a flowering of representative government. Chile, a leader in economic reform, now enjoys one of the region's most stable democracies. A decade of dramatic economic reform in Mexico has helped lay the foundation for a more open political system, including Mexico's first competitive presidential primary within the Institutional Revolutionary Party.

Skeptics of the link between economic and political reform routinely point to India and Singapore to refute the thesis. These countries are clearly outliers in the scatterplot: Singapore is one of the world's most open economies but its government remains authoritarian, while India remains relatively closed economically yet is ruled by democracy. Exceptions, however, do not negate a clear trend. And even these two notable exceptions seem to be migrating toward the trend line, with India opening up to trade and foreign investment since its balance of payments crisis in 1991, and the Singapore government gradually loosening its controls on civil society.

THE CHALLENGES OF GLOBALIZATION

The advance of globalization has not been a smooth or a pain-free process. The changes it has caused, or is perceived to have caused, have spurred a political backlash--dramatically evident in the street protests that plagued the WTO ministerial in Seattle. Two of the most common complaints against globalization are that it has undermined labor and environmental standards, and that it has exacerbated the gap between rich and poor, both among and within countries.

Critics of globalization warn of a destructive "race to the bottom," as advanced nations are forced to weaken labor and environmental standards to compete with less-regulated producers in developing nations. This theory rests on the assumption that lower standards give LDCs a significant advantage in attracting global capital and gaining export markets at the expense of more developed countries. The OECD has found that, in practice, a lack of core labor standards plays no significant role in attracting foreign investment or in enhancing export performance. The OECD did find strong evidence "that there is a positive association over time between sustained trade reforms and improvements in core standards."19

In other words, trade liberalization encourages higher standards, not lower standards. If anything, the real race may be toward the top. For reasons of internal efficiency as well as public perceptions, multinational companies tend to impose higher standards on their overseas production plants than those prevailing in local markets, thus raising average standards in the host country. Free trade and domestic liberalization--and the faster growth they create--are the best ways to encourage higher standards. As per capita incomes rise in less developed countries, so does the domestic political demand for higher standards, and the ability of the productive sector to pay for them. Punishing LDCs with trade sanctions would only cripple their long-term ability to raise domestic labor and environmental standards.

Some environmental activists complain that the global trading system, as embodied in the WTO, favors free trade at the expense of

environmental protection. But WTO rules place no restraints on the ability of a member government to impose any environmental regulations determined to be necessary to protect its own environment from domestically produced or imported products. Article XX of the General Agreement on Tariffs and Trade 1994, the basic charter of the WTO, plainly states that members may impose trade restrictions "necessary to protect human, animal, or plant health." The Sanitary and Phytosanitary Agreement of the Uruguay Round does require that such restrictions be based on sound scientific evidence --a commonsense requirement necessary to discourage the use of health and safety issues as a cover for protectionism.

If WTO members are found to be in violation of their commitments, they remain free as sovereign nations to simply ignore any adverse WTO rulings against domestic regulations that impact trade. A prominent example is the European Union's ban on the sale of beef from cattle treated with growth hormones. The EU has repeatedly lost in the WTO, but it has no plans to lift its ban, even though it has produced no scientifically sound evidence that the banned beef poses any hazard to public health. The United States retaliated against the EU in May 1999 by imposing sanctions on $ 117 million worth of imports from Europe, but retaliation as a weapon of trade disputes existed long before the WTO.

Antitrade environmental activists complain that several decisions by the WTO have undercut U.S. environmental regulations. In the so-called Shrimp-Turtle case, the WTO ruled against a U.S. ban on shrimp from countries the United States judged were not adequately protecting sea turtles from being caught and killed in shrimp nets. In an earlier, similar case, the WTO had ruled against a U.S. ban on tuna from Mexico that the United States claims was caught through a process that endangers dolphins. Environmental critics of the WTO point to these two cases as proof of their claim.

In both these cases, however, the United States remains free to simply ignore the WTO ruling and continue enforcing the law as is. The affected nations could in theory retaliate with trade restrictions of their own if the United States refuses to comply, but that option would always exist even if the WTO did not. And in the case of the Shrimp-Turtle decision, it was not the law itself that ran afoul of WTO rules but the discriminatory way the United States went about implementing it, for example giving Latin American suppliers more time than Asian suppliers to comply with the law.

Expanding trade is not merely compatible with high standards of environmental quality but can lead directly to their improvement. As a country sees its standard of living rise through economic liberalization and trade expansion, its industry can more readily afford to control emissions and its citizens have more to spend on the "luxury good" of improved environmental quality, above what they need for subsistence. And as economic growth creates a growing, better-educated middle class, the political demand for pollution abatement rises. Today the most restrictive environmental laws are maintained in developed countries that are relatively open to trade.

This helps explain the so-called Environmental Kuznets Curve, where environmental quality in a developing nation initially deteriorates as the economy begins to industrialize but then improves after its citizens reach a certain standard of living. Research by Alan Krueger and Gene Grossman indicates that the turning point occurs at about $ 5,000 per capita: "We find no evidence that environmental quality deteriorates steadily with economic growth. Rather, for most indicators, economic growth brings an initial phase of deterioration followed by a subsequent phase of improvement." By $ 8,000 per-capita income, the authors found, almost all the pollutant categories had begun to improve.20

The United States itself is a classic example of the benign effect of trade and growth on the environment. It has simultaneously one of the most open economies and one of the cleanest environments in the world. In the past decade, the United States has continued to open its economy further, signing the North American Free Trade Agreement and shepherding the creation of the World Trade Organization. Meanwhile, two-way trade and foreign investment continue to climb as a percentage of GDP. This liberalization of international trade and investment has been accompanied by ever-rising environmental standards. According to the President's Council on Environmental Quality, mean ambient concentrations of both sulfur dioxide and carbon monoxide in the atmosphere of the United States have dropped by nearly 40 percent since 1988. During that same period, the annual number of "bad air days" in major U.S. cities has dropped by two-thirds. The direct discharge of toxic water pollutants is down dramatically as well. Since the early 1970s, during a time of growing globalization of the U.S. economy, real spending by government and business on the environment and natural resource protection has doubled.21

Despite the rhetoric heard on the streets in Seattle, expanding global trade has not spurred a race to the bottom on environmental regulation or quality. In fact, the evidence points in the opposite direction.

THE GAP BETWEEN RICH AND POOR

Another challenge of globalization is the perception that economic liberalization has exacerbated the gap between rich and poor countries, and between the rich and poor within countries that have liberalized. The perception that the gap has been growing, both among and within nations, is broadly true. The connection with globalization is much less clear.

While some previously poor countries have managed to close the gap with the more advanced economies, a disturbingly large number of countries have fallen further behind. According to the World Bank, the ratio of income per capita in the richest countries compared with that in the poorest rose from 11 in 1870 to 38 in 1960 to 52 in 1985.22 Concern about the "marginalization" of poor countries in the global economic system has rightly focused on sub-Saharan Africa. Since 1976, the region's share in world trade has fallen from 3 percent to slightly more than 1 percent in the 1990s.23 While the flow of foreign direct investment to LDCs has risen dramatically in the 1990s, sub-Saharan Africa has been almost entirely overlooked. But the phenomenon of marginalization has not been a random event.

Poor nations that have fallen further behind the rich nations are almost uniformly those that have clung to state-directed and inward-oriented economic policies. Sub-Saharan Africa has lagged behind the rest of the world in economic growth in significant part because its markets remain among the most closed in the world. Its governments have neglected domestic infrastructure such as roads and have distorted their domestic economies with subsidies, high taxes, and regulations. Granted, many African nations must also bear the burden of civil and tribal strife, poor soil, and inaccessible geography. But domestic economic policy must be considered a key variable in explaining the region's failure to develop. Those African nations that have implemented more open, stable, and market-friendly policies in the last decade--such as Uganda, Botswana, and Mauritius--have achieved growth rates exceeding those of the advanced nations.

The most obvious variable that separates countries that are closing the gap from those falling further behind is their own domestic policy choices. Simply put, nations that adopt the "Golden Straitjacket" begin to catch up with the advanced economies, while those that reject it become increasingly marginalized. In their Economic Freedom of the World: 1997 Annual Report, Gwartney and Lawson found strong

empirical evidence linking growth rates to economic freedom. The authors measured seventeen categories of economic policy for each of 115 countries-- covering monetary policy, property rights, government spending and regulation, and restraints on foreign trade. They found a strong correlation between economic freedom and both economic growth and per-capita GDP. The authors found that each quintile of greater economic freedom corresponded with faster growth and higher per-capita GDP. Nations in the top quintile in 1995 grew almost three times faster (2.9 percent annually) on average than those in the middle quintile (1.1 percent). Those in the bottom quintile saw their economies shrink an average of 1.9 percent.24

There is nothing inherent in the process of globalization that would cause the gulf between rich and poor nations to expand. In fact, the access to capital, new technology, and larger markets that comes with global integration should be expected to accelerate the convergence of less developed regions of the world and to make global trade and wealth less concentrated across countries. This dynamic has been at work inside the United States, which has itself been a continent-sized free-trade area for more than two centuries. At the turn of the last century, in 1900, per-capita income varied widely across the four major regions of the United States. While incomes in the Midwest were close to the national average, at 103 percent, incomes in the Northeast were 139 percent above the national average and those in the West were 153 percent above. In contrast, income levels in the South were only 54 percent of the national average. One century later --thanks in large measure to the free flow of goods, capital, and people within U.S. borders --regional disparities have shrunk dramatically. Today, income levels in the Northeast are only 117 percent above the national average, incomes in the Midwest and West are within 2 percentage points of the national average, and incomes in the South as a share of the national average have risen to 90 percent.25

Evidence of a similar trend exists among countries that have chosen to join the global economy. A 1998 study sponsored by the WTO found that global trade and investment flows have actually become less concentrated in the last two decades when adjusted for the growth in world trade. Moreover, the authors found that the concentration of trade and financial flows has fallen among countries that have more rapidly liberalized, whereas it has increased among those that have integrated more slowly. "We argue this shows that marginalization of individual countries from world markets can be mostly explained by inward-looking domestic policies," they concluded, "and therefore that marginalization is not inherent to the globalization process."26

Of course, the advanced economies have not always been helpful. Despite progress in the post-war era, advanced-economy trade barriers remain stubbornly high against clothing, textiles, and agricultural goods, the very products in which LDCs have a natural comparative advantage. A recent study by Thomas Hertel of Purdue University and Will Martin of the World Bank found that the average tariff that rich countries impose on manufacturing goods from poor countries is four times higher than the average tariff rich countries impose on each other's goods.27 One of the many disappointments left in the wake of the failed WTO talks in Seattle has been the indefinite postponement of negotiations to lower barriers to poor-country exports. It would be wrong, however, to blame advanced-country trade barriers for the lack of economic progress in so many LDCs. After all, the Four Tigers of East Asia managed to hop on the income-convergence conveyor belt in the face of advanced-country trade barriers that were even higher than they are today.

For poorer nations, the global economy has become like one of those giant conveyor belts that speed passengers through airport terminals. Globalization can accelerate a country's development, but only if its policymakers allow its citizens to hop onboard by opening the economy to international trade and investment. This conveyor belt of growth provides new technology, investment capital, domestic competition, expanding export markets, and powerful incentives for further domestic policy reform. The result is faster growth and dramatic improvements in living standards within a generation or two --as we have seen most strikingly in the Far East. The fact that some nations insist on walking their own, uphill, isolated, and often dead-end path is not the fault of globalization but of their own policymakers.

The story of income inequality within nations is more complicated. The trend within the United States and other developed nations has been toward a wider earnings gap between the lowest- and the highest-paid workers. The gap has been driven primarily by a difference in worker skills rather than by international trade. An information-based economy will naturally produce jobs that require more specialized and technical skills than a less developed economy, which is more weighted toward agriculture and industry. As a result, in the United States in the last twenty-five years, the gap in income has been increasing between workers with college degrees and those with only high school diplomas.

International trade has probably contributed something to this trend in the United States, because trade should in theory accelerate the transition toward industries that rely more intensively on high-skilled labor. But the primary engine of change in the U.S. economy during that time has been technological innovation.

The relatively larger importance of technological change compared with trade can be seen in recent trends of job displacement. U.S. Labor Department surveys show that three-quarters of Americans displaced from their jobs in 1995 --97 were working in sectors of the economy that are relatively insulated from trade.28 Even in the more trade-intensive manufacturing sector, technological change rivals trade as the principal engine of labor-market change. International trade is often blamed for job displacement in manufacturing when in fact the cause is rising productivity. This explains why the number of workers employed in manufacturing in the United States has remained stable in the 1990s at slightly more than eighteen million, at a time when manufacturing output has been rising an average of 3.8 percent a year in the decade (and 5.5 percent a year since 1994).

As with employment, technology is also the chief explanatory variable of changes in income inequality. William Cline, in a study on the impact of trade on wages, concluded that international trade and immigration "are unlikely to have been the dominant forces in rising wage inequality."29 After surveying the literature and employing his own Trade and Income Distribution Equilibrium model, Cline concludes that skills-based technological change is by far the largest identifiable contributor to the growth in income inequality. International trade and immigration together "contribute only about one-tenth of the gross (total) unequalizing forces at work over this period."30

If curbing inequality is the aim, trade policy is a poorly suited instrument for achieving it. The right response to this growing demand for higher skills is not to stifle change through trade barriers but to raise the general skill level of the workforce. Instead of a futile effort to "save" the jobs of yesterday, the focus should be on preparing workers to meet the rising demands of the labor market for specialized skills.

EXPANDING ECONOMIC LIBERTY

Globalization is really just shorthand for expanding economic liberty across international borders. The debate it has spawned is the repackaging, on a global scale, of the long-running argument over whether the way to prosperity is through free markets or centralized government planning, or some "third way" between the two. If you believe free markets unleash forces that are destructive to human happiness and must be controlled by active government intervention, you will tend to see globalization as a threat. If you believe that free

markets, operating within a rule of law, are essentially self - regulating and lead, in the words of Adam Smith, "as if by an invisible hand" to a greater general prosperity, then you will tend to see globalization as a blessing.

The argument that globalization is much more the latter than the former is supported not only by economic theory but by decades of hard - earned experience. A growing majority of nations have made their peace with globalization based not on whim or blind ideology but on the manifest failure of any alternative. They have come to realize that the spread of free markets and the institutions that support them offer the best hope that the fruits of prosperity can be shared by a wider circle of mankind.

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Notes

1.David Henderson, "The Changing International Economic Order: Rival Visions for the Coming Millennium," Melbourne Business School, 9 Sept. 1999.

2.Figures quoted by Alan Greenspan, chairman, Federal Reserve Board of Governors, "Technology and Trade," Speech before the Dallas Ambassadors forum, 16 Apr. 1999, http://www.federalreserve.gov/boarddocs/speeches/1999/ 19990416.htm

3.United Nations, World Investment Report: 1998 (hereafter WIR:1998), 9.

4.United Nations, Human Development Report: 1999, 25.

5.Organization for Economic Cooperation and Development, Policy Coherence Matters, (Paris: OECD, 1999), 45.

6.United Nations, WIR:1998, 57.

7.Thomas Friedman, The Lexus and the Olive Tree (New York: Farrar, Straus and Giroux, 1999), 86 --87.

8.One problem with these cross-country studies of growth and trade is that trade liberalization is seldom an isolated event. LDCs liberalize in the context of broader economic reforms, which often include selling state -owned industries; reducing government taxation, spending, and borrowing; and deregulating domestic prices and production. This poses the challenge of determining the source of faster growth. Another methodological challenge is in measuring openness. There is no standard statistical measure of a nation's openness. What is clear is a general correlation between openness, under various definitions, and economic performance.

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2. Globalization: Good or Bad?

3. by Lewis Williamon

Guardian

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It is clear that globalization has failed to rid the world of poverty. Rather than being an unstoppable force for development, globalization now seems more like an economic temptress, promising riches to everyone but only delivering to the few. Although global average per capita income rose strongly throughout the 20th century, the income gap between rich and poor countries has been widening for many decades. Globalization has not worked.

The reason globalization has not worked is because there has not been enough of it. If countries, including the rich industrialised ones, got rid of all their protectionist measures, everyone would benefit from the resulting increase in international trade: it's simple economics. If unnecessary government regulation can be eliminated, and investors and corporations can act freely, the result will be an overall increase in prosperity as the "invisible hand" of the market does its work.

Tell that to countries that have followed this route. I doubt many people in Argentina would agree. Many developing countries have done exactly what free market evangelists such as the International Monetary Fund told them to and have failed to see the benefits. The truth is that no industrialised society developed through such policies. American businesses were protected from foreign competition in the 19th century, as were companies in more recent "success stories" such as South Korea. Faith in the free market contradicts history and statistical evidence.

You're looking at the wrong statistics. In most cases, low-income countries are the ones that have not been able to integrate with the global economy as quickly as others, partly because of their chosen policies and partly because of factors outside their control. The plain truth is that no country, least of all the poorest, can afford to remain isolated from the world economy.

Even if this were true, what about the other unwanted effects of globalization? The power of corporations and the global financial markets adversely affect the sovereignty of countries by limiting governments' ability to determine tax and exchange rate policies as well as their ability to impose regulations on companies' behaviour. Countries are now involved in a "race to the bottom" to attract and retain investment; multinational corporations are taking advantage of this to employ sweatshop labour and then skim off huge profits while paying very little tax.

First, governments' sovereignty has not been compromised. The power of the biggest corporations is nothing compared with that of government. Can a company raise taxes or an army? No. Second, nations are not involved in a "race to the bottom". Figures last year showed that governments around the world are on average collecting slightly more taxes in real terms than they were 10 years earlier. And the argument that workers in poorer countries are being exploited is hard to support. They are clearly better off working for multinationals. If they weren't, they wouldn't work for them. In fact research shows that wages paid by foreign firms to workers in poorer countries are about double the local manufacturing wage.

But what about these so-called multilateral organisations like the IMF, World Bank and World Trade Organisation? I don't remember electing them, so what gives them the right to say how countries run their own affairs? Isn't it obvious that these organisations only serve the interests of the US and to a lesser extent the other rich countries? Their only role is to peddle the neoliberal orthodoxy - the Washington consensus - that only impoverishes the poorest nations and maximises the profits of multinationals.

It is only through organisations such as these that the less developed countries have a chance to improve their situations. The IMF is there to bail out countries that get into financial difficulties. Governments go to the IMF because the alternative is much worse. If the IMF and its sister organisation, the World Bank, were shut down, the flow of resources to developing countries would diminish, leaving the developing world even worse off. The WTO is a different kind of organisation and is run on a one-country-one-vote basis with no regard for the economic power of each nation; every single member has a veto. In addition, no country can be compelled to obey a WTO rule that it opposed in the first place.

THE IMPACT OF GLOBALIZATION ON DEVELOPING COUNTRIES: RISKS AND OPPORTUNITIES

IV. The Role of the Government in Combating Unemployment. How to Generate More and Better Jobs

I have sought to demonstrate that unemployment, like so many other social issues, has an international dimension. The very nature of globalized development generates dramatic effects, as is illustrated by the trajectory of some developed countries. One point which I have sought to emphasize is that we should not stand passively by in face of the problems which Globalization has caused to emerge. The definition

of the national strategies needed to combat these evils is absolutely imperative and urgent. For this reason I shall now reflect briefly upon the manner in which we in Brazil are dealing with the theme of unemployment.

One of the main problems of Government in a democratic country such as Brazil, which has vast social liabilities resulting from the historical neglect and negligence by its elites, is the misconception on the part of the population that the Federal Executive Branch can do anything, and has the capacity to overcome century-old distortions in the course of a single Presidential term of office. It is natural that this should be so, especially in light of the success which we are enjoying with the stabilization of the economy.

I am fully aware that the problem of employment, both in terms of the quantitative supply of jobs and of the qualitative aspect of the new jobs to be created, constitutes one of the most serious issues to be faced by political leaders throughout the world. This is because the preservation and generation of jobs are prerequisite steps not only for the success of any social policy, but also to ensure the very dignity of the citizenry.

Facing up to this complex theme, however, does not depend only upon governments, though some governmental policies may be essential to minimize the impact of structural unemployment.

I shall now focus upon the Brazilian case which, I believe, bears certain similarities to that of Mexico. Before pointing out some of the measures my government is adopting in this field within the context of a broader strategy for social development, it would be useful briefly to analyze some of the elements which prevail in the dimension of the labor force and on the side of the supply of jobs within the Brazilian economy.

With regard to the dimension of the labor force, we must be aware of the following aspects:

a) the demographic component will continue to exert strong pressure on the labor market over the next 15 years, the period after which the effects of the current drop in fertility rates will begin to be felt;

b) the socio-cultural impact of the rise of the participation of women in the labor force;

With regard to the dimension of the supply of jobs, it is important to stress that:

a) as a result of the opening of the economy and the imperative of competitiveness and productivity, it is necessary to know what will be the sectoral composition of a peripheral industrial economy which is integrated into the new international division of labor;

b) as I have already indicated, a profound restructuring of production is underway, as a consequence of new technologies which, on the one hand, devalue non-qualified labor, and on the other, demand great retraining efforts among the labor force; and

c) an organizational restructuring of the productive sector will demand the abolition of certain intermediate categories of jobs, at the same time as there is a growing trend towards the "informalization" of the labor market, which is further exacerbated by the outsourcing of functions.

In light of these conditioning factors _ and given the limitations of the actions of the State _ how best to seek innovative solutions which involve the different levels of government, civil society, labor unions and employers' organizations? It is not my task here to draw up a more detailed prescription to attack the problem. I merely mention some of the measures, both on the supply and the demand sides for Labor, which my Government has adopted or is in the process of implementing.

On the side of the supply of labor, I am committed to two points which I deem to be essential: massive investment in primary education and wide-reaching training and retraining programs, the costs of which are to be shared with the business community.

On the side of the demand for labor, our actions are to be concentrated on:

a) sustained economic expansion by means of policies to promote growth conciliated with stabilization;

b) the development of specific policies for the generation of employment, with a resumption of large-scale investments in the infrastructure and social areas (the social area, though overvalued as a significant generator of jobs, has enormous potential for employment generation);

c) technical and financial support for better training in labor-intensive sectors, such as construction, family-based agriculture, and tourism;

d) tax incentives, improved conditions of financing for production, and technical support for small and medium companies, which provide most of the jobs in the country;

e) the stimulus, through financing from state development banks, of programs which preserve and create jobs; and

f) the reduction of the cost of the labor factor in negotiations between Capital and Labor so as to make labor relations more flexible, including measures which provide greater autonomy to unions for the celebration of collective labor contracts.

Impact of globalization

The impact of globalization on the Arab world culture is not a matter of simple statistics and reports. It is, in essence, a diagnostic line of analysis to consider its pluses and minuses on the Arab general public.
Globalization consists of social, economic and political adjustments that people may embrace to epitomize their culture and incorporate it with the world. It is a concept that has its economic, social and political roots and consequences.

To a large extent, globalization promotes integration of the world and calls for the removal of all cultural barriers. Although globalization is a vital process toward transferring knowledge and education to the world, it still has its negative effects on most cultures and civilizations. Its impact on cultures, in this case the Arabic culture, is relatively controversial.

Many nationalists and cultural trustees of the Arab world, for instance, condemn the influences of globalization on their culture. Conservative Arab nationalists and fundamentalists argue that their culture cannot adhere to many globalized notions. For them any claim to the contrary is just an inspiration to degrade other cultures in favor of a dominant one, or an attempt to certify the domination of one culture, mainly the modern version of Western culture, over the others.

While its advocates rationalize that with the support of those momentous technological information devices, such as computers and satellites, Arab culture can be acclimatized to retain most globalized concepts regardless of the variances with Western culture and the distinctions between their respective historical and religious roots.

Critics of globalization argue that this cultural invasion will lead to the disintegration of identity and the spirit of culture. In opposition, its cheerleaders consider the decline of cultural distinctions as a substantial sign of enhanced communications, a measure of integration of societies, and a scope toward unification of civilizations.

Actually, the magnification of global media networks and satellite communication technologies enable some dominant powers to have a truly global reach. Distinctly, technological superiority is a definite advantage when it comes to originating a culture as it formulates its universal appeal. Though it is a necessary credit, it is also insufficient.

The fact that the internationalization of information has provided networks of communication and interaction between different cultures of the world is clear and certain. However, the great accomplishments of this information age, which shortened time, distances and shrank the world, should not be employed to determine the guidelines of any civilization or reshape the Arab national cultures.

Hence, it is a mere fact to say that the tools now obtainable in order to bring cultures closer also drained many cultures of this world. This, however, is because of the organic structures of culture, which are grounded on human intellect, traditions and activities that were implanted in a particular geographical and historical setting.

On the economic level, in 1999, a 262-page annual study commissioned by the UN Development Program counseling the unevenness of globalization revealed that open markets are contributing to cultural insecurity in poorer nations, which have removed barriers against Western imports.

This imbalanced flow of Western economic views and lifestyle heading for one direction, from rich countries to the poorer and from giant industrial states to the developing nations, have made in effect these lesser countries under invasion by the global socioeconomic forces of the industrialized West.

Louise Frechette, the UN Deputy Secretary-General, argued (while addressing UN delegates, in 1999) the phenomenon of globalization saying: “It brings up many opportunities to learn from each other, and to benefit from a wider range of choices, but it can also seem very threatening.’’

She added, “instead of widening our choices, globalization can seem to be forcing us all into the same shallow, consumerist culture giving us the same appetites but leaving us more than ever unequal in our ability to satisfy them. Many millions of people have yet to feel its benefits at all.”

In fact, this rapid economic, technological, social and political intrusion of foreign culture into the Arab world may put their cultural magnitude in jeopardy and will force people to fear for the loss of their religious and societal characteristics.

However, if globalization is introduced with significant educational, social and economic support that could make Arab countries flourish alongside foreign cultures, then it may turn into a universal culture in which Arabs may come under its umbrella as equals.

History shows that bridging cultural gaps and functioning as a home to diverse peoples requires a superior ideology and social structure that have far-reaching economical systems that can adopt foreign cultures and surpass any cultural hindrance. Yet, none seems to have all.

At large, compelling a Western model on dissimilar countries may harm the economic future and cultural standing of Arab countries as well as that of other worlds. However, alternative approaches harmonizing economical and cultural diversities should be pursued, and not sameness of the culture.

Yet, what is globalized is only the image of modernity and not its reality. Information barriers have dropped off, yet a cultural stone wall is rising up instead.

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