



The Globalization Backlash

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By John Micklethwait and Adrian Wooldridge

THE GLOBALIZATION BACKLASH

Lost your job? Your cultural identity? Your democratic rights? Your clean air and water? Blame globalization—everyone else does. From Seattle to Copenhagen and Washington, D.C., to Genoa, protesters of all stripes and creeds have turned globalization into a shorthand for many of the world's ills. But judging by the widespread misconceptions about the true consequences of the integration of markets, politics, and cultures, a smaller world is not necessarily a smarter one.

“Globalization Means the Triumph of Giant Companies”

Nonsense. If you listen to antiglobalists, we live in a world of “Disneyfication” and “Coca-Colonization” in which giant companies simultaneously trample over their smaller commercial rivals and turn national governments into helpless lackeys. They are wrong on both counts.

The proportion of output from big companies has declined, not increased. Globalization radically shifts the balance of advantage from incumbents to challengers. Incumbents could once protect themselves behind lofty barriers such as the high cost of

capital, the difficulty of acquiring new technology, or the importance of close relationships with national governments. Globalization reduces the importance of all these things. Lower barriers make capital easier to raise, technology easier to buy, markets easier to reach, and ties with national governments ever less important. You no longer have to be a multinational to have the reach of one.

By all rights, Motorola Inc. ought to be the undisputed ruler of the wireless world. The company was the first to mass-produce car phones. It also sits in the heart of the world's biggest market for them. But it has been humbled by Nokia Corp., a relatively small company from Finland that only a decade ago was more interested in bathroom tissue than mobile phones. Nokia's only weapons were better phones and better management.

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Against these, mere size proved a puny defense—which helps explain why giants such as AT&T Corp. and General Motors Corp. (GM) now look so vulnerable.

The idea that companies are now more important than governments is equally misleading. Far from getting smaller, governments in most Western countries remain colossal, consuming more than 40 percent of Western Europe's gross domestic product (GDP), for example. They continue to expand their influence over corporate behavior through regulatory policy. Bill Gates rapidly discovered that a rather obscure Justice Department antitrust lawyer, Joel Klein, was a much more fearsome opponent than any mere company.

Jack Welch, the face of American Big Business, met his Waterloo in Belgium when the similarly anonymous bureaucrats of the European Commission blocked what would have been the biggest merger in history, that between General Electric and Honeywell.

As for the oft-quoted "statistics" about so many companies being bigger than countries—the idea that GM is as big as Denmark—these compare sales figures with GDP. Since GDP measures value added, the correct corporate comparison is profits. As Martin Wolf of the *Financial Times* has pointed out, GM then slides from being as large as the 23rd biggest country to the 55th, about the same size as a basket case like Ukraine.

"Globalization Is Destroying the Environment"

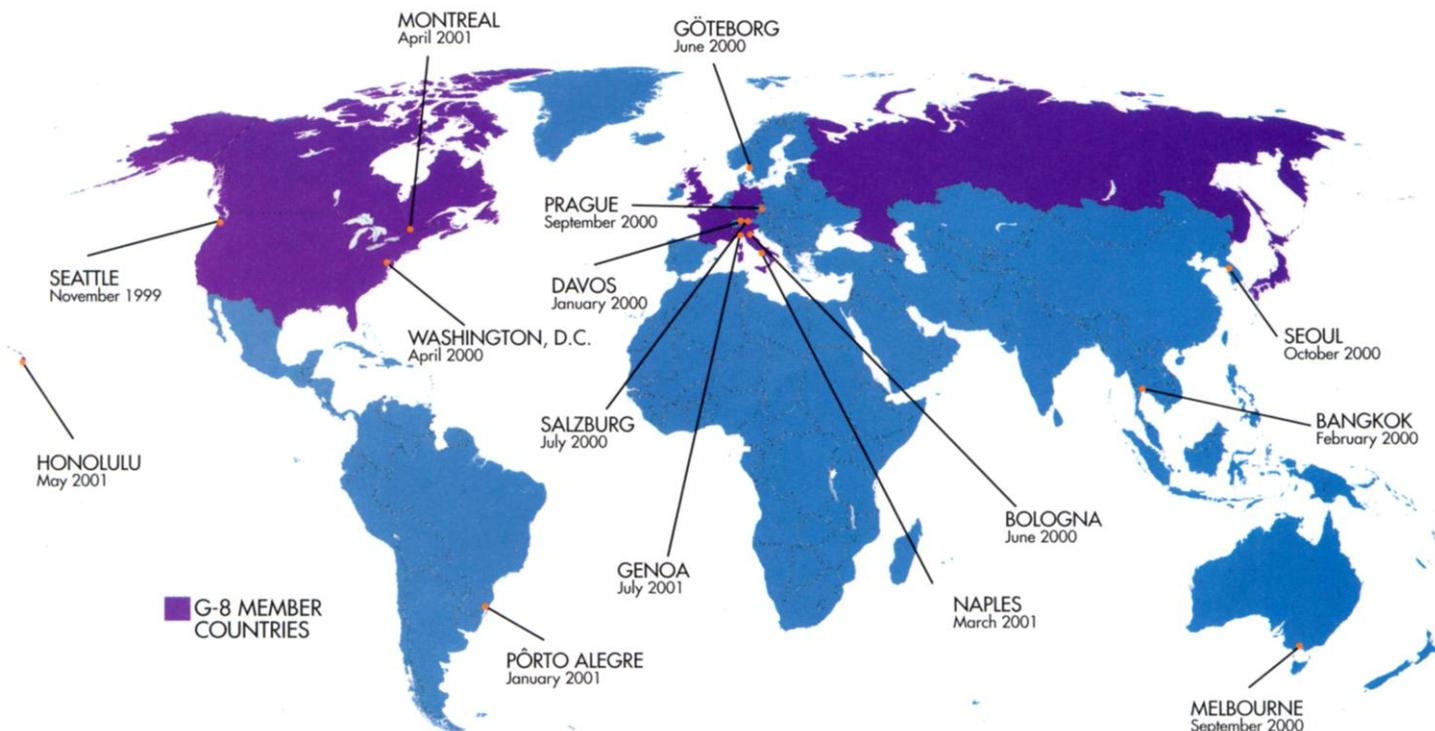
Not really. This myth provides a prime example of a conceit that underlies a great deal of antiglobal thinking. Take one self-evident truth that all sensible people can agree upon—business of all sorts tends to despoil the environment. Then repeat that observation in highly emotive language, ignoring all other mitigating factors. Then heap all the blame on global companies, global regulators, and

indeed globalization itself, when the bulk of the damage is done by local governments, local companies, and even local voters. And, whatever happens, keep running away from the really hard question: How much is greenery worth?

A good starting point is that almost all business that produces a physical product tends to be dirty. Until relatively recently, businesspeople were reluctant

A World of Protests

Sites of Major Antiglobalization Demonstrations Since November 1999



to admit this reality. That not only made them look shiftier, it also meant that they never made arguments about the choices involved. For instance, during the furor in 1995 over the offshore disposal of its Brent Spar oil rig, Shell failed to argue with any force that Greenpeace's demand that the rig be disposed of on land was by no means the greener solution.

Nowadays, business, particularly multinational business, is better behaved. Businesspeople have not become softer. They have simply wised up to two things. The first is that dirty factories lose them consumers. The second is that environmental regulations are not prohibitively expensive, particularly for multinationals. A 1990 study by the U.S. Environmental Protection Agency, for instance, found that even the most polluting industries don't have to spend more than 2 percent of their revenues on being good environmental citizens. Go to a ghastly eyesore in the Third World, such as Cubatão, the capital of Brazil's chemical business (once dubbed the most polluted city on earth), and you find that multinational companies tend to be cleaner than their Brazilian counterparts—and keener to abide by international standards.

What about the idea that trade, by increasing business activity generally, harms the environment? This is certainly true in the short term. If open borders increase the market for a chemical factory in Lagos, the factory will create more chemicals. But as countries grow richer, they also tend to clean up their act: An elaborate index of environmental sustainability in 122 countries prepared for the World Economic Forum this year showed a strong correlation between a country's greenness and wealth (though, to be fair, an even stronger one with its lack of corruption). More generally, although environmentalism is a good thing, it must be balanced against other virtues, including, from a developing country's point of view, economic growth. It is patronizing for rich-

world greens to decide that Africans should not tolerate dirtier air and water in exchange for more wealth.

Alas, the cost of the environment is nearly always tabulated incorrectly. In China, according to the World Bank, air and water pollution cost \$54 billion a year—8 percent of the country's GDP. But it is not the polluting companies that bear this price. For that matter, what incentive do Indian polluters have to stop throwing rubbish into the Ganges that then wrecks Bangladesh's rice paddies? One reason why fish stocks are alarmingly low globally is because the seas of the world provide a textbook example of the "tragedy of the commons." Because nobody owns them, nobody feels responsible for them. If a Norwegian fisherman does not pillage them, then his British rival will. This dynamic is also dramatically evident in the current impasse over global warming.

But blaming these things on globalization seems a spurious way to let local politicians off the hook. The right way to protest, say, George W. Bush's decision to junk the Kyoto Protocol is not to blame "the market," but Bush himself. And how exactly would a less interlinked world help? Global warming would not go away if trade barriers went up. Far from being caused by unfettered capitalism, environmental damage is often caused by exactly the opposite. One reason fishing fleets can continue to ravage the oceans is because governments spend \$21 billion a year supporting them. Brazil's government initially spurred on the despoliation of the rain forest. The Worldwatch Institute reckons that there are \$650 billion worth of subsidies going to environmentally destructive activities. On the other hand, globalization sometimes directly benefits the environment by promoting things such as trade in pollution-control technology and the privatization of state-owned companies, which become less polluting as they are restructured.

"Globalization Makes Geography Irrelevant"

Wrong again. You might think that the death of distance also means the death of geography. The truth is probably the opposite. If most tangible resources are within anyone's reach, then what matters are the intangible things, which in turn means proximity to people.

The world economy is visibly organizing itself around various clusters of excellence, most obviously

Hollywood, Silicon Valley, and Wall Street. The main challenge for companies in a global economy is to situate themselves in various centers of excellence and weave together different centers of excellence into a global production network. The main challenge for communities is to invest in their comparative advantage. Look at the way that Miami has exploited its connections with Latin America. Or the way that the

energy cluster in Houston has used its expertise in oil to move into gas, electricity, and energy trading.

The idea that businesses can simply up-sticks and move is also rubbish. Considerable publicity has been given to the few Swedish and German companies that have eventually moved some operations out of their highly taxed homelands; the real story is how long those firms stuck it out. Wander around Los Angeles, America's main manufacturing center, and you will find squadrons of low-tech factories churning out toys, furniture, and clothes, all of which could probably be made cheaper elsewhere. They stay partly for personal reasons (many are family-owned), partly because they

can compensate for high labor costs by using more machines, but mostly because Los Angeles is a hub for all three industries—a place where designers, suppliers, and distributors are just around the corner.

Finally, borders remain much more important than many people imagine. Canada and the United States are both English-speaking countries and members of the North American Free Trade Agreement. But the average Canadian province does 12 times as much trade in goods and 40 times as much trade in services with another Canadian province as it does with an American state of the same size and proximity. Similar figures exist for the European Union (EU) countries.

“Globalization Means Americanization”

Not necessarily. True, globalization certainly tilts the playing field in favor of liberal virtues such as accountability, transparency, and individual rights that are often deemed to be American.

Yet does this mean Americanization? Foreign dictators who want to use xenophobia to prop up their positions would no doubt argue that it does. But the United States has no monopoly on liberal virtues. Classical liberalism was first developed by a group of British thinkers—John Locke, David Hume, and Adam Smith. We still use a French phrase, *laissez faire*, when we invoke the ideal of a free market economy. The first joint stock company was developed in Britain rather than the United States. Indeed, American democracy was arguably the product of British corporations such as the Virginia Company. For all its bureaucracy, the EU now enshrines liberal values such as democratic representation and individual rights every bit as firmly as the U.S. Constitution.

Certainly, Europe is now moving closer to the Anglo-American shareholder model of capitalism than it had in the immediate postwar years. A popular share-owning culture is slowly putting down roots in Europe. The euro, like the single market before it, is forcing European companies to slim. But these developments do not mean that European companies or European society will become mere facsimiles of America. Europeans will probably continue to put much more emphasis on social solidarity than the United States. France's tight labor laws (including a relatively new 35-hour week) have not stopped its global companies from being competitive, though they have

arguably kept its unemployment rate unnecessarily high. The Nordic countries, whose economic performance has matched America's, argue that their well-developed welfare states make their economies more flexible because people are not afraid to change jobs. There are growing signs that Europe (with a potential internal market of 500 million people) is beginning to flex its muscles against the United States, whether it be through vetoing mergers, building its own army, or generally disagreeing with American foreign policy in areas such as the Middle East.

Nor does globalization necessarily mean the Americanization of popular culture. True, American films can be seen almost all over the world, the Big Mac™ is the closest thing we have to a universal food, and Britney Spears is hard to avoid, even if you are in Tibet. But cultural trade is a two-way process. If you look at popular musicals (Andrew Lloyd Webber's) or the bestseller lists (the *Harry Potter* series), Britain continues to exercise a powerful influence on the United States. The most successful programs on American television at the moment are “reality” programs imported from Europe. Foreigners own half of America's top 20 book-publishing houses and half of its film studios. On the whole, consumers have a marked taste for local products, something that is becoming easier to satisfy as technology makes economies of scale less important. The most popular television program in European countries is nearly always a local production. A few years ago hardly any self-respecting European teenager would have been caught listening to local groups. Now France has Air and Sweden has The Cardigans.

But there is a more important reason why globalization does not mean the triumph of a particular nationality. The essence of globalization is that it increases choice. And this includes the choice to live life according to your own lights. A nice example of this is the Bruderhof, a religious group that is rather like the Amish. The Bruderhof reject many features of the modern

world. They don't have radios or televisions; they don't approve of feminism and homosexuality. But they have established a highly successful global toy business using a mixture of Japanese management techniques and American technology. The result: They have all the money that they need to keep their community flourishing, but they have not had to abandon their way of life.

“Globalization Means a Race to the Bottom in Labor Standards”

No. This argument rests on four misconceptions.

The first is that employers are concerned, above all, with the price of labor. In fact, what really interests them is the value of labor. Some companies will undoubtedly move routine tasks to parts of the world where hourly wages are lower. But in general what employers want is not cheap workers but productive ones. And the most productive workers are usually those with the best education, access to the best machinery, and a support system that includes things like good infrastructure.

If the “race to the bottom” argument were correct, you would expect foreign direct investment (FDI) to be pouring into countries with the lowest wages and the weakest labor standards. Nothing could be further from the truth. The United States is the world's largest recipient of FDI. Year after year the United States has run a net surplus in its capital account (and the inflow of foreign capital has helped to keep interest rates low, build new factories, and bring new production methods to bear on the economy). About 80 percent of U.S. FDI goes to other rich countries. American investment in countries like Mexico and China is a mere fragment of U.S. investment at home.

The second is that globalization is weakening the ties of companies to their home regions. But companies depend on the environment that first created them in all sorts of ways, some obvious, some more subtle. During the Justice Department's investigation of Microsoft, Bill Gates could not have threatened to move his operation to the Bahamas, even though Microsoft has relatively few fixed assets. Microsoft depends not just on a supply of educated workers (who would have refused to move) but also on its close relationship with American universities.

The third idea—that global companies are hostile to “worker protection” such as trade-union rights

and labor standards—contains a half-truth. Companies rarely react favorably to unions (or indeed to governments) that want to shackle their freedom of maneuver with inflexible rules about, say, hiring and firing. But, by and large, multinationals are much less hostile to things such as safe working environments, on-the-job training, and opportunities for promotion. Once again, the key factor for companies is boosting productivity rather than lowering the price they pay for labor, so a well-trained and healthy workforce is important. Survey after survey shows multinationals providing higher wages and better working conditions for their employees than their local competitors.

The fourth and largest misconception is that globalization is a zero-sum game: that if the rich are getting richer as a result of globalization, then the poor must be getting poorer. But the argument in favor of globalization is that it can improve the lot of everybody by leading to a more efficient use of resources.

Of course, globalization does not always achieve this goal, and of course it cannot impose efficiency without a certain amount of pain, but in general, globalization improves the living standards of the vast majority of people. In the half century since the foundation of the General Agreement on Tariffs and Trade (GATT), the world economy has grown sixfold, in part because trade has expanded 16-fold. The Organisation for Economic Co-operation and Development calculates that nations that are relatively open to trade grow about twice as fast as those that are relatively closed. Despite the Asian crisis, the World Bank calculates that some 800 million people moved out of absolute poverty in the past decade. And the people left behind still tend to suffer from too little globalization (be it trade barriers to the goods that they produce or restraints on the information they can get at home) rather than too much.

“Globalization Concentrates Power in Undemocratic Institutions Like the WTO”

No. Organizations like the World Trade Organization (WTO) and the International Monetary Fund (IMF) are not quite paper tigers. But they are much less powerful than their detractors (and a few of their inmates) imagine. The WTO is essentially an arbitration mechanism: It deals with issues that clashing governments refer to it. The IMF is a crisis management agency. True, it can impose stringent requirements for structural reforms on its clients, and it has often done so with breathtaking arrogance and insensitivity. But governments only resort to the IMF if they are already in serious trouble.

By any conceivable measure, national governments are far more important players in the international order than global institutions. During the Asian crisis, it was the U.S. Treasury Department that decided whether to bail out countries, not the IMF. (And why not? It was writing the checks.) For all the fears in the American heartland about the U.N.’s black helicopters, national governments decide whether to send peacekeeping troops. And now the international institutions face a new constraint. The number of international nongovernmental organizations (NGOs) increased from 6,000 in 1990 to

26,000 by the end of the decade. Visit any old-fashioned multilateral institution and you will find it surrounded by NGOs monitoring it. There are 1,700 clustered around the United Nations’ offices in Geneva, for example.

Membership of the WTO suggests that globalization is a bottom-up process. When GATT was founded in 1948, it only had 23 contracting parties, most of them industrialized nations; today the WTO has 142 members, more than three quarters of them developing nations, and 20 more countries are eagerly waiting to join. It may be true that the global civil servants who run most international institutions are not directly elected (just as the heads of civil service departments are not directly elected). But they are accountable to national governments, the majority of which are now democracies.

Indeed, you could argue that the real democratic deficit in global institutions is to be found not in the IMF and the WTO but in the NGOs that protest against them. NGOs claim to represent global civil society (whatever that is). But nobody elects them. They are not accountable to democratic governments. They represent nobody but their members and their activist cadres, which in some of the noisiest cases means a few hundred people.

“Globalization Is Irreversible”

Nonsense on stilts. This assertion is perhaps the ruling orthodoxy among globalization’s supporters. Economic common sense and technology are supposedly propelling us toward an ever more borderless world. So what can possibly resist this force? Plenty of businesspeople seem to believe this. Yet three things contradict this belief.

The first is the nature of globalization. It is not so much a thing or a structure as it is a process—and a highly uneven and sometimes contradictory process at that. The same technological forces that whip up, say, global television channels such as CNN or MTV also produce ever more local news programs. The current technologically enabled fashion for producing local editions of newspapers is actually making people more parochial and less knowledgeable about world affairs.

The second thing is human nature. There is a wonderful passage in *The Theory of Moral Sentiments*, Adam Smith’s other great work, where he compares the pain you would feel if you lost your little finger to the distress you would feel over the news that “the great empire of China, with all its myriad of inhabitants, was suddenly swallowed up by an earthquake.” You would be hugely shocked, he said. You would express your sorrow. You would reflect on the precariousness of life. But you would sleep soundly and go about your business. And you would certainly not offer up your finger for them.

People are far more easily moved by their own immediate concerns—by the state of their fingers—than they are by the fate of millions of people in a distant corner of the earth. The real damage at Seattle was not done by people dressed as sea turtles. It was done by then U.S. President Bill Clinton, who backed away from another trade

round in order to appease the unions (and thus helped a struggling Al Gore win the Democratic nomination).

The third factor is history. We actually live in the second rather than the first age of globalization. Look back 100 years and you discover a world that by many economic measures was more global than it is today: where you could travel without a passport, where the gold standard was an international currency, and where technology (cars, trains, ships, and telephones) was making the world enormously smaller. Pundits then had exactly the same sense of the inevitability of

globalization. Norman Angell even wrote a book in 1911, *The Great Illusion*, which argued that war was now impossible because economic integration meant that people were too dependent on each other to bother with such archaic evils. That grand illusion was shot to pieces on the playing fields of the Somme. The next couple of decades witnessed two world wars, the spread of protectionism, the contraction of the world economy, and the rise of fascism and communism—a piece of history that both supporters of globalization and its opponents should bear in mind. **FP**

[Want to Know More?]

Each of the themes touched on here has seen expansive treatment in other FOREIGN POLICY articles. Notable among these are “Measuring Globalization,” (January/February 2001), Dani Rodrik’s “Trading in Illusions” (March/April 2001), Mario Vargas Llosa’s “The Culture of Liberty” (January/February 2001), Daniel Drezner’s “Bottom Feeders” (November/December 2000), Robert Wright’s “Will Globalization Make You Happy?” (September/October 2000), the FP interview with protest organizer Lori Wallach (“Lori’s War,” Spring 2000), and Stephen Kobrin’s “The MAI and the Clash of Globalization” (Fall 1998). This group of articles is included in a “Best of FP on Globalization” link on the magazine’s Web site, www.foreignpolicy.com.

Arguably the best introduction to globalization comes from its greatest critic: Karl Marx, particularly his *Communist Manifesto* (New York: Labor News Company, 1939). Many American readers might prefer Thomas Friedman’s *The Lexus and the Olive Tree: Understanding Globalization*, revised edition (New York: Farrar, Straus & Giroux, 2000), though some observers feel he overestimates globalization’s inevitability. Another excellent overview is provided in *A Future Perfect: The Challenge and Hidden Promise of Globalization* (New York: Times Books, 2000), by John Micklethwait and Adrian Wooldridge.

A good place to examine the antiglobalization case is John Gray’s *False Dawn: The Delusions of Global Capitalism* (New York: New Press, 1998). As a former follower of Friedrich Hayek, Gray has a better understanding of the free market case than most of the antiglobal crowd. A useful source on changing attitudes to the market over the past century and also about continuing differences in European and American attitudes to regulation is Daniel Yergin and Joseph Stanislaw’s *The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the Modern World* (New York: Simon and Schuster, 1998). In *Globalization and the Perceptions of American Workers* (Washington: Institute for International Economics, 2001), Kenneth Scheve and Matthew Slaughter explore the deep ambivalence of Americans to the further liberalization of international trade, investment, and immigration. Susan Ariel Aaronson chronicles how the public has influenced trade policy throughout U.S. history and points to lessons for future discourse in *Taking Trade to the Streets: The Lost History of Public Efforts to Shape Globalization* (Ann Arbor: University of Michigan Press, 2001). On technology, many of the gung-ho Internet books now look very dated. A splendid exception is by the *Economist*’s Tom Standage: *The Victorian Internet* (New York: Walker & Co., 1998), a fascinating description of the telegraph system, gives a clear idea of how unstoppable people thought globalization was 100 years ago.

One of the most valuable Web sites is that of the **Cato Institute**, which keeps its readers up-to-date not just with economic arguments but also with the minutiae of Washington politics. Another useful source is the **United Nations Conference on Trade and Development**.