Globalization & Sovereignty
Shimko Keith, Ch. 8
Notes by Denis Bašić
Globalization ...

• ... is the multifaceted process by which the nations and societies of the world are increasingly being merged into a single global society and economy.

• ... means that traditional divisions and boundaries that used to mark global society are no longer what they once were.

• ... means that the world is becoming a smaller place.

• ... means “the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa.”

• ... represents “all those processes by which the people of the world are incorporated into a single world society.”
Globalization is Multifaceted

- There are important environmental, cultural, and even medical aspects of globalization.

- It is no understatement, for example, to note that “the globalization of trade is inextricably linked to the globalization of disease…. With globalization, widespread diseases are literally a plane ride away.” The worldwide spread of AIDS and fears of bird flu are dramatic examples of the globalization of disease.

- And the same technologies that allow us to move consumer goods and legitimate investments around the world with ease can be utilized to traffic in illegal narcotics and funnel money to terrorist organizations.

- The Internet might undermine totalitarian governments by making it easier for people to access ideas and information, but it may also be helpful to terrorist networks in providing links between operatives in cyberspace.

- The technology and process of globalization are neutral and can be used for good or ill.
Constrained State Thesis

• However, the fear is that nations are gradually losing the ability to determine their own fate as the forces of globalization shift power and decision making to other entities.

• According to this constrained state thesis, “changes in the international political economy have radically restricted policy choice and forced policy shifts that play to the preferences of global investors and mobile corporations, rather than to the needs of the domestic political economy and its citizenry.”

• Dani Rodrik frames the stakes in the globalization debate most succinctly and dramatically, arguing that “we cannot have hyperglobalization, democracy, and national self-determination all at once.”

• If this is the case, which of the three should we be prepared to sacrifice?
**Interdependence**

- **Interdependence** was the buzzword of the 1970s. Middle East crises, oil embargoes, and long gas lines brought home how interdependent the economies of the world had become.

- **Globalization** appears to have entered the lexicon of international relations in the early 1980s and reflected a sense that interdependence no longer captured the full magnitude of how much our world was changing.

- **Interdependence** suggested that increasing levels of international trade and investment were creating mutual dependencies among different national economies.

- **Globalization** conveys something more—not merely increasing interdependence but the emergence of single global economy.

- Hence, globalization does not imply just greater interdependence, but something well beyond that.
Death of the Nation State

• Kenichi Ohmae, “On the political map, the boundaries between countries are as clear as ever. But on the competitive map, a map showing the real flows of financial and industrial activity, those boundaries have largely disappeared...” “the modern nation-state itself—the artifact of the eighteenth and nineteenth centuries—has begun to crumble.”

• Nicholas Negroponte, “Like a mothball, which goes from solid to gas directly, I expect the nation-state to evaporate.”

• And Anthony Giddens joins the funeral chorus: “Nations have lost the sovereignty they once had, and politicians have lost their capability to influence events.... The era of the nation-state is over.”

• But why? Why might globalization be eroding the nation-state’s sovereignty, or even threatening its extinction?

• According to Shimko, the answer is to be found in technological and political changes that have made it easier to move, communicate, and trade without regard to location and national borders.
Tyranny of Location

The process of moving from local to national economies and from national economies to an international economy has taken several centuries and involves developments allowing people to overcome previous obstacles to long-distance commerce.

Before the industrial revolution, transporting goods across great distances was either extremely expensive or impossible (e.g., one could hardly transport fresh produce from Brazil to France without refrigeration).

The advent of the internal combustion engine, the railroad, the steamship, and the telegraph helped overcome many of these obstacles. Advances in transportation drove the first wave of globalization in the 1800s and early 1900s.
No More Tyranny of Location

• The current wave of globalization rests more on **revolutions in communications** (though easy and cheap air transportation is part of contemporary globalization).

• As Thomas Friedman explains, “Today’s era of globalization is built around falling telecommunications costs—thanks to microchips, satellites, fiber optics and the Internet.… technologies now allow companies to locate different parts of their production, research and marketing in different countries, but still tie them together … as though they were in one place.”

• The head of Levi-Strauss provides an illustration: “Our company buys denim in North Carolina, ships it to France where it is sewn into jeans, launders these jeans in Belgium, and markets them in Germany using TV commercials developed in England.”
Hence, until the industrial revolution economic production and exchange suffered from the tyranny of location — that is, a business’s prospects depended to a significant degree on its physical location.

Given dramatic increases in the price of oil in 2007–2008 and 2011, some suggest that rising transportation costs might reverse this trend, i.e., the location in combination with oil prices may become “tyrannical” again.

Let us not forget the impact of extensive transport on the environment.
Reversibility of Globalization

• Jeff Rubin and Benjamin Taj warn that “Globalization is reversible. Higher energy prices are impacting transport costs at an unprecedented rate. So much so, that the cost of moving goods, not the cost of tariffs, is the largest barrier to global trade today.”

• Until recently, however, the conjuncture of free trade policies and technological advances liberated commerce from the shackles of geography, permitting the emergence of national and, now, international economies.

• This declining relevance of physical location underpins the threat to national sovereignty.
The Mobility of Capital

- **mobility of capital** - The ease with which businesses and investment can move from one part of the world to another. Potential obstacles might include costs associated with commerce over long distances or government policies that make trade difficult.

- Diminishing technological and political obstacles to trade increases what we call **the mobility of capital**.

- When **corporations** enjoy such freedom of mobility, the relative power between **governments** and business shifts. **This is the critical point.** If a business needs to locate in a certain place, the government controlling that territory has leverage allowing it to tax and regulate. The stronger the shackles of location, the stronger are the powers of governments to control and regulate business. But as businesses enjoy greater mobility, they can simply relocate if governments enact policies they do not like.
The Fear of “Capital Flight”

• The Company X announces that it has narrowed its choice for a new factory to three cities. City leaders then engage in a feverish competition to see who can offer the best deal, usually involving exemptions from local taxes.

• In such cases, one has to wonder who is really in charge: Are governments regulating businesses, or are businesses regulating governments?

• Martin and Schumann frame the problem in stark terms: “It is no longer democratically elected governments which decide the level of taxes; rather, the people who direct the flow of capital and goods themselves establish what contribution they wish to make to state expenditure.”

• The fear of “capital flight” allows businesses to dictate what policies, regulations, and tax levels governments can impose: Give us what we want, or we (and our jobs) move elsewhere. This shifting of power from governments to mobile capital is one of the developments threatening the sovereignty of states.
Race to the Bottom

- **race to the bottom** - The proposition that globalization is exerting downward pressure on wages, regulations, taxes, and social welfare benefits as corporations relocate in search of lower wages, fewer regulations, and lower taxes.

- Let us watch this [video](#) on “America’s Race to the Bottom”

- Hence, the ability of capital to dictate policies is most clearly seen in what critics of globalization refer to as the *race to the bottom.*
Wages & Globalization

If corporations are no longer tied to any particular location, what determines where they will set up shop? There are, of course, a host of considerations that businesses take into account. But surely the costs of doing business are paramount. All other things being equal, businesses prefer to locate where the costs of production are lowest, because this maximizes profits. The story of Nike, the familiar American sports apparel company, provides an illustration:

- All but 1 percent of the 90 million shoes Nike makes each year are manufactured in Asia. If the costs in a particular country or factory move too far out of line, productivity will have to rise to compensate, or Nike will take its business elsewhere…. Until recently, almost all of Nike’s shoes were made in South Korea and Taiwan, but as labor costs there have soared, the firm’s contractors in these two countries have moved much of their production to cheaper sites in China, Indonesia, and Thailand. Now, Vietnam looks like the next country on the list.

- Immobility of workers and mobility of the capital.
Environment & Globalization

- In a globalized economy, states imposing the fewest regulations will be most attractive to corporations. This pressures states to reduce regulations to attract business. In terms of environmental regulations, John Gray explains the result:

- “The countries that require businesses to be environmentally accountable will be at a systematic disadvantage…. Over time, either enterprises operating in environmentally accountable regimes will be driven out of business, or the regulatory frameworks of such regimes will drift down to a common denominator in which their competitive advantage is reduced.”
Globalization also poses a danger to social welfare programs that protect the poor. Businesses, like individuals, generally prefer lower taxes to higher taxes.

Though celebrities can escape to tax havens or hide their money in foreign banks, the average person is stuck paying whatever taxes the government imposes.

In a globalized economy, corporations can move to places where taxes are minimal.

This freedom places national governments with generous welfare programs in a bind. If they impose high taxes on business to finance social welfare spending, they run the risk that the businesses will pick up and move. This leaves two unpalatable options:
Welfare & Globalization 2

- First, governments can raise taxes on people and businesses that cannot move. The ability of firms to move around the globe “puts downward pressure on corporate tax rates and shifts the tax burden from capital, which is internationally mobile, to labor, which is much less so.”

- Second, governments can simply cut the social welfare programs financed through taxation. Thus, the race to the bottom in corporate taxes can also become a race to bottom in social welfare programs, further harming those already vulnerable to the pressures of globalization.

- Thus, the mobility of capital creates a race to the bottom on many levels—wages, environmental and safety regulations, corporate taxes, and social welfare benefits.
The Mobility of Capital & Sovereignty

- And to the extent that individual states must respond to these pressures or risk the flight of capital, they have been robbed of their effective sovereignty. Corporations tell governments what they can and cannot do rather than the other way around. Governments that do not toe the line are “disciplined” by the global market and capital. National governments either conform to the dictates of the global market or suffer the consequences.

- It is not only business and the global market that threaten national sovereignty. Nations also have to deal with increasingly powerful international organizations, such as the **International Monetary Fund (IMF)** and **the World Bank**. As discussed in Chapter 7, many Third World nations borrowed money during the 1970s and found themselves unable to pay back these loans in the 1980s. The IMF and the World Bank stepped in to deal with the crisis. As a condition for rescheduling debt payments or granting new loans, the IMF required nations to adopt **structural adjustment programs**, which included reductions in social spending, the elimination of deficit spending, privatization, and opening markets to international competition. The IMF deemed these policies essential for attracting foreign investment and thus for promoting economic growth.
Democratic deficit

- Taken as a whole, the race to the bottom thesis embodies three key fears about globalization.

  - First, the possible erosion of national sovereignty and ability of governments to pursue independently determined policies.
  
  - Second, the further immiseration of poor, working class, and marginalized people around the world as wages are depressed, environments degraded, and social welfare benefits slashed.
  
  - Third, the erosion of democratic governance as international markets, corporations, and organizations shape, influence, or even dictate policies to national governments.

- When the corporations and the unelected leaders of the IMF and World Bank can tell elected leaders what to do, both sovereignty and democracy are compromised. As a result of globalization, national policies are increasingly determined by forces, people, and institutions that no one ever voted for. This results in a democratic deficit.
Investments

• The proponents of **Free Trade** [(Neo-)Liberals] claim that the proponents of **Dependency Theory** [(Neo)-Marxians] are not right when claiming that there is "a race to the bottom," because, simply, investments are not massively pouring into the developing world. The key argument of the Liberals is that the world is not actually globalized enough, implying also that Marxists are not right when claiming that corporations are guided by greed when investing in the Third World. In other words, free market and capitalism are not guilty for the poverty of the Third World.

• This argument was used even at the beginning of the 20th century to prove that the theory of Marxism and Leninism are meaningless and that capitalism, as an economic system, does not causes wars, because it was not fueled by greed. Neo-Marxians, referring to the current situation, would rather claim that the very fact that even with small investments Western investors can still reap immense profits only confirms that Western investors are primarily interested in profits when investing in the Third World, not in liberal ideals of development, democracy, & human rights. Small investments actually also reflect small investments in workers’ salaries, safety, and protection of the environment. The acquired profits are usually not reinvested back into the Third World where they were made, but are rather transferred back into the First World, thus, further increasing the gap between the rich and the poor.
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<th><strong>Nation &amp; Sovereignty</strong></th>
<th>Is a single global society emerging in which traditional national divisions are increasingly meaningless?</th>
<th>Is the sovereign state on its way to the dustbin of history?</th>
<th>Is this process beneficial or detrimental?</th>
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<tr>
<td>Realists</td>
<td>NO</td>
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<tr>
<td>Liberals</td>
<td>YES</td>
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Realists on Globalization

- Realists see **globalization**, which Kenneth Waltz referred to as “the fad of the 1990s,” as either wildly exaggerated or mythical.

- International trade exploded in the second half of the nineteenth century and by the eve of World War I reached levels comparable to what we see today.

- In 1999, for example, U.S. exports were 20.5 percent of GDP, more than double the 9.5 percent of 1960. Advocates of globalization frequently point to such statistics while failing to note that 20.5 percent is roughly the same as it was in 1900. So even though trade as a percentage of GDP has doubled since 1960, it is unchanged since 1900.

- On the issue of overseas investment, Robert Wade points out that “today the stock of U.S. capital invested abroad represents less than 7 percent of the U.S. GNP. That figure is, if anything, a little less than the figure for 1900.”
• Furthermore, in at least one respect the world was even more globalized in 1900: People moved with greater ease, with large-scale immigration to the United States being the most prominent example. At the time there were also optimists who saw an emerging world of trade, prosperity, and peace, at least until World War I and the Great Depression put a damper on things.

• In 1986, for example, exports accounted for 7% of U.S. GDP. By 2008 this had risen to 13%. But even after this large increase, 87% of all goods and services produced in the United States were consumed domestically. So, which number is more telling 13% or 87%?

• Realists also reject the view of globalization as an irreversible process threatening state sovereignty. On the contrary, realists see globalization as a process promoted and enabled by states.

• “Political elites in the U.S., Asia and Europe are struggling to convince citizens that globalization is not just a game that benefits the rich.” “If the argument is lost in any of the major world economies,” Wolf fears “the political consensus that underpins globalization could unravel.”
Liberals on Globalization

- Liberals believe that globalization is largely an irreversible and beneficial process.

- The belief that globalization works to the advantage of all reflects the underlying liberal assumption of the harmony of interests. But there is more to the liberal vision of globalization than economics. Globalization is as much about the spread of ideas as commerce, particularly notions of human rights and political democracy.

- As we have observed elsewhere, the world has witnessed a dramatic expansion of democracy over the past two or three decades, and this is just as much a part of globalization as the spread of McDonald’s and Starbucks. While freedom should reign the world, skeptics are not sure that McDonald’s and Starbucks should do so as well.

- There are forces in the world that have reacted negatively to the modernizing dynamics of globalization, such as fundamentalist religious movements that feel threatened by what they see as the secular and amoral values that are part of the emerging global culture. For these movements, opposition to globalization is easily converted into hostility toward the United States because for many globalization is tantamount to Americanization.
• Perhaps the most troubling aspect of globalization, however, is the widening gap between the haves and have-nots of the world. Whereas some critics see this widening gap as an integral and unavoidable consequence of globalization, liberals are more inclined to see insufficient globalization as the primary culprit. The problem is not that people and nations are being impoverished by globalization, but rather that some are being left behind, excluded from the process of globalization.

• The poorest of the poor among and within nations lack the basic resources—technology, infrastructure, and education—to take advantage of the opportunities that globalization presents. This holds for large sections of the Third World, particularly Africa, and the former Soviet Union, as well as some groups within wealthy nations. For liberals, the solution is to find ways to include these people and nations in the process of globalization: We need more, not less, globalization.
For Marxists, globalization is inseparable from global capitalism. According to Bertell Ollman, “‘Globalization’ is but another name for capitalism, it’s capitalism with the gloves off and on a world scale. It is capitalism at a time when all the old restrictions and inhibitions have been or are in the process of being put aside.”

And since the current global(izing) order is at its core a capitalist system, it suffers from all the shortcomings of capitalism that Marx identified more than a century and a half ago: the concentration of capital, the increasing misery of the working class, the widening of economic inequalities, and the sacrifice of all values to the imperatives of the market. Although Marx might not have foreseen globalization in all its details, he would not be surprised by it, either.

“The fundamental struggle ... is between capital and labor ... and capital is winning big again ... and the inequalities of wealth and power that Marx decried are marching wider almost everywhere in the world.”
Is There An Alternative To Sweatshops?

• Watch these documentaries to see an answer to the above question:
  
  • Alta Garcia clothing factory in Dominican Republic
  
  •