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Globalization and the State: An Illusion of Convergence

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ABSTRACT

Globalization is an important economic and political phenomenon that has become one of the most intensely debated topics in political science. Globalization, broadly defined, refers to the increasing level of human interaction across both national borders and the world, which results in a plethora of new economic, political, technological, intellectual, and cultural developments. Globalization is most commonly conceived in terms of its economic component, such as the reduction of barriers to trade and the proliferation of free trade areas, which enables transnational capital to move both across and within domestic markets. The economic and political ramifications of globalization have led some commentators to advocate the convergence of the market and the state. This thesis demonstrates, however, that in practice, the convergence of the market and the state is illusionary. Despite some erosion to the overall power of the state by the actions of transnational capital, the state is still very much an important actor in the international economy. The state has the capacity to either participate in the international economy or to impose trade barriers. Moreover, the state is a flexible institution that has the ability to control transnational capital for the benefit of its citizens.

ACKNOWLEDGEMENTS

I spent the good part of the spring and summer sequestered in my bedroom, emerging only to pace the house or to prepare food or drink. Most of the time, I sat transfixed at my desk, peering into the glowing screen of my computer. Piles of file folders filled with journal articles and other documents could be found strewn across by bed. Stacks of books littered the floor of my room to the extent that I could barely make my way to and from my desk. Surprisingly, I actually met some of the self-imposed deadlines for completing the various chapters of the thesis. Admittedly, the urge to revise and to rework sections of my thesis was so great that I often wondered if I would finish on time.

Most of the credit for the completion of my thesis is reserved for the following individuals. I would like to thank my fellow graduate students in the Department of Political Science for their encouragement and support. I am particularly appreciative of the help provided by Laura Dunham and Axel Hülsemeyer by lending me several relevant books and articles. Special recognition is extended to Drew Green and the entire Inter-Library Loan staff at the University of Calgary for their efforts in quickly locating crucial academic resources for my thesis from various libraries across North America. I would also like to thank Bryn Nunweiler and Liz Blackwood for the tedious work that went into editing my thesis, as well as for their continual moral support. I am also extremely grateful for the excellent learning environment in the Department that has been provided by the Head, Dr. Ronald Keith.

Several influential people have helped pave the way for my education in political science. In my first year at the University of Calgary, I enrolled in the introductory course in political science, POLI 201, which was also nearly my last course in the field. I initially received a grade of "F" on my term paper. I went to see the teaching assistant, Stephane La Branche, to argue for a higher grade (possibly a "D"). He re-read my paper, and then changed the grade to a "B+." Mr. La Branche explained that I had written the paper in such a unique way that, upon his first reading (along with grading 100 papers on the same subject), he had simply dismissed it as wrong-headed. I often look back upon this experience and wonder which discipline would I have chosen to major in if I had not gotten that grade changed.

I would like to recognize Dr. Robert Huebert, Department of Political Science, and Dr. Robert Ware, Department of Philosophy, for impressing upon me a sense of academic scholarship and integrity.

I would also like to extend a very special thank you to my supervisor, Dr. Don Ray. My gratitude for his immense moral and academic support during the final three years of my honours undergraduate programme, as well as throughout my two years as a M. A. student, defies expression. Dr. Ray has truly shown me what it takes to be both an excellent scholar and teacher. Dr. Ray, thank you for believing in my abilities.

This thesis is dedicated to my parents. Barry and Bonnie Grant. who never forced me to succeed either academically or in life. as some parents do. but who were always there to support me nonetheless. I can only hope to be as perfect as they have been when I raise my children.

TABLE OF CONTENTS

Approval page ii

Abstract iii

Acknowledgements iv

Dedication vi

Table of Contents vii

Epigraph viii

CHAPTER ONE: INTRODUCTION 1

CHAPTER TWO: A HISTORICAL PERSPECTIVE OF GLOBALIZATION AND THE STATE 10

CHAPTER THREE: THE THREAT OF GLOBALIZATION 33

CHAPTER FOUR: THE END OF THE STATE 59

CHAPTER FIVE: THE ILLUSION OF CONVERGENCE 85

CHAPTER SIX: CONCLUSION 102

BIBLIOGRAPHY 111

Only change is constant.

Heraclitus

CHAPTER ONE

INTRODUCTION

Why Globalization?

As the end of the second millennium nears, the world finds itself under the aegis of globalization. Accordingly, globalization has become a "buzzword" among academics, politicians, and media pundits. Neil Lazarus estimates that from 1995 to 1999, approximately 50 books have been written on globalization, in addition to the roughly 500 academic articles that have focused on the concept.[1] These figures do not include the thousands of newspaper and magazine articles, and television news segments that have discussed globalization. In addition, today's world leaders often mention both the concept and the potential implications of globalization in their policy speeches. Thus, one may conclude that globalization is an extremely important economic and political phenomenon, on par with other capitalist phenomena, such as mercantilism, colonialism, and imperialism.

The Illusion of Convergence

Although globalization is often applied to a wide variety of topics, one of the main goals of this thesis is to give the reader a clear and well-rounded definition of

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[1] "Charting Globalisation," Race & Class, (Vol. 40, Nos. 2/3, October 1998-March 1999), p. 91. Lazarus' estimate is modest. Based on the research undertaken for this thesis, I would estimate that approximately 100 books and upwards of 700 academic articles have been published on the topic of globalization over the past five years.

globalization.[2] This will be attained by thoroughly exploring both the concept itself and the related concepts of the state and transnational capital. This will also provide the context and foundation to the primary goal of the thesis, which is to focus on one of the most compelling arguments relating to the globalization phenomenon. That is, the globalization of economic activity has allegedly provided massive increases in the power of transnational capital, consisting of multinational corporations (MNCs), foreign direct investment (FDI), and financial institutions. The subsequent erosion of the political capacity of the state, through both the proliferation of neoliberal economic policy-making and the conclusion of various bilateral and multilateral trade agreements, has enabled multinational corporations and financial institutions to pursue their financial goals in a relatively free manner. This has led some observers, such as Kenichi Ohmae, to conclude that transnational capital has supplanted the state's role as the principal actor in the global economy.[3] Generally speaking, Ohmae represents the position put forth by those who perceive globalization as a macro-level phenomenon that is leading to a more or less complete convergence between the market and the state. Convergence means that the economic policy-making role of the state is replaced by the functioning of the market in accordance with transnational capital. As we will see, this perception of globalization is largely an illusion.

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[2] See chapter two of the thesis for a comprehensive discussion of the various definitions of globalization.

[3] The End of the Nation State: The Rise of Regional Economies, (New York: Simon & Schuster Inc., 1995). Ohmae's arguments will be expanded upon in the fourth chapter of the thesis.

The complete convergence between the state and the market is illusionary on several grounds. This is articulated by the position that the state has retained a significant role in the global economy. First, states are flexible actors that are capable of reacting to the forces of globalization. Linda Weiss contends that some states have shown great flexibility in response to the ever-changing forces of the global economy.[4] This flexibility is contingent upon a particular state's level of strength in terms of its domestic institutions, linkages with key economic actors, and overall transformative capacity. Second, transnational capital depends on the state in order to reproduce itself. Without the social and economic infrastructure that states provide, capital would not be able to accumulate. Third, the state still has the capacity to erect trade barriers and to pursue an isolationist economic policy. These arguments lead to the conclusion that globalization will not lead to the convergence of the state and the market. This is not to say that there will be a complete divergence between the state and the market. Rather, these two overarching forms of social organization will continue to evolve over time in an integral, yet distinctive manner. A clear and accurate view of globalization and its effect on the state and markets is crucial for competent and coherent policy-making at all levels of governments, and within all economic trade and financial organizations.

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[4] The Myth of the Powerless State, (Ithaca, NY: Cornell University Press, 1998). Weiss' arguments will be expanded upon in the fifth chapter of the thesis.

Methodology and Theoretical Approach

The methodological framework of the work is as follows. In terms of research methods, the thesis employs secondary academic sources. Secondary sources are used because much of the literature on globalization is in the form of books and articles. While primary sources, such as interviews or original data collection, are academically useful, they are not required in this instance due to the scope of this thesis. In addition to books, the secondary sources are derived from articles located in academic journals, but also reputable Internet websites, newspapers and newsmagazines.[5] In fact, several significant academic resources that went into the writing of this thesis were discovered on various Internet websites. One must keep in mind that articles appearing on a website are not always subject to the same level of rigourous academic standards that are found in a refereed journal. In most instances in this thesis, however, the articles were published as part of an electronic or web-based format of the actual journal. In the remaining instances, I thoroughly scrutinized the scholarly composition of the web-based article before including its content in the thesis.[6] If an article was questionable in any way, ranging from dubious content to suspect publishing, then it was discarded.

Owing to the primarily economic and political attributes of globalization, the theoretical approach to this thesis will be placed within the general framework of international political economy. Nevertheless, because of the multifaceted nature of

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[5] The New York Times, the Globe and Mail, and the Economist. "Reputable" sources should not be confused with "mainstream" sources. "Alternative" sources, such as articles published by Z Magazine and works by Noam Chomsky, are considered reputable as well.

[6] The responsibility for assessing the academic integrity of an article published on the Internet lies with the author of this thesis alone.

both globalization and its related issues, several types of analysis will be employed in the work, depending upon the subject under scrutiny. For example, a section of chapter three incorporates a culturalist perspective in the discussion of the effects of globalization on culture. Throughout the thesis, however, the structuralist approach will be employed because both economic and state structures comprise the foundation of the global capitalist economy. A quantitative approach will also be employed where applicable. In chapter two, quantitative comparisons will focus on global financial indicators, such exports as a percentage of Gross National Product (GNP), international capital investment (FDI figures) as international trade flows, and other financial data. In addition, scientific calculations will be included within the section on globalization and the environment in chapter four.

The thesis will incorporate both mainstream and alternative paradigms of political science in its empirical and theoretical focus. Paradigm selection is important because it guides the political scientist's choice "of problems, evaluation of data, and advocacy of theory."[7] This is not an attempt to synthesize the two paradigms, although some overlap will take place within the sections devoted to the effect of globalization on the environment and labour standards. By recruiting elements of each paradigm, the thesis attempts to determine what is truly taking place in the real-world of international political economy. The sections of the thesis that deal with issues relating to the sub-field of international relations will be examined from a neorealist perspective. The neorealist credo of "the survival of the fittest" is

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[7] Ronald H. Chilcote, Theories of Comparative Politics: The Search for a Paradigm Reconsidered, (Boulder, CO: Westview Press, 1994), p. 373. Also see pp. 55-76 for a detailed discussion of paradigms in politics and science.

particularly applicable to states acting in their own strategic interests. Neorealism also attempts to explain the rationalist actions of global capitalist market forces, such as global capital flows, MNCs, and the proliferation of supranational economic and political organizations where applicable.[8]

The alternative paradigm is consistent with the structuralist approach in that it looks to the configuration of the global capitalist economy in its explanations. A discussion of the configuration of the global capitalist economy entails a class-based analysis because it enucleates the allocation of financial resources, such as income, within a particular society or economy. A class-based analysis also identifies socioeconomic groupings, such as the working class (proletariat) and the capitalist class (bourgeoisie), which are based on a common relationship to the structures of political and economic power. This is of particular relevance to the sections of the thesis that deal with economic inequality, colonialism, imperialism, the environment, culture, and employment issues. The alternative paradigm is also consistent with the historical-inductive analyses of globalization, the state, and transnational capital in chapter two. This lends a more holistic perspective to the thesis as it begins by addressing whether or not globalization is a new phenomenon. The purpose of the historical introduction to globalization indicates that while it is an old phenomenon, it is significantly different today in comparison with previous eras. The historical introduction is intended to give the reader a sense of the significance that

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[8] For a comprehensive survey of the different approaches and methodologies in the sub-field of political economy see Andrew Gamble, "The New Political Economy," Political Studies, (No. XLIII, 1995), pp. 516-530.

globalization possesses in terms of being an integral part of the economic and political development of the modern era.

Overview

By way of introduction, chapter one has explained the significance of globalization and outlined the main arguments relating to globalization and the convergence of the market and the state. The methodological framework and theoretical approach of the thesis have also been delineated. Chapter two provides the reader with a thorough definition of globalization, including the sub-concepts of economic, political, and technological globalization. The history of the concept of globalization is explored, as well as the historical development of transnational capital and its constituent forces in terms of foreign direct investment and multinational corporations. Because of its relevance to the overarching argument of the thesis, the state is also examined in great detail. This requires that a section be devoted to sovereignty and the international state system, respectively. In addition, the rise of capitalism, and the related phenomena of mercantilism, colonialism, and imperialism are investigated in the context of the rise of the state and international trade. It will also be shown that globalization is not a new occurrence. This is evident in the comparison of levels of international trade (exports as a percentage of GNP), and international capital investment (FDI figures) from different time periods.

Chapter three examines globalization from the position of those who fear the effects of globalization, within the context the potential convergence of the market and the state. The chapter begins by discussing the effects of globalization on

democracy. This discussion expands to include the detrimental effect of globalization on the environment, culture, employment issues, and income inequalities both within and between countries. The chapter concludes by providing the reader with an in-depth look at the Multilateral Agreement on Investment (MAI) and its implications for the state.

Chapter four looks at the arguments put forth by Ohmae and others who support the idea of the convergence between the economic forces of globalization and the state. These scholars generally view globalization as a natural, inevitable, and favourable outgrowth of capitalism. Next, the issues of the environment and employment are revisited. The argument is also put forth that globalization, in the form of trade liberalization, is not harmful to either the environment or employment in terms of labour standards. The chapter concludes by examining the position of those who foresee global governance as the most desirable form of government once the market and the state converge.

Chapter five presents an alternative position in the debate on the convergence of the market and the state. The chapter posits that while the state has suffered some erosion in its powers, it is still a very significant actor in both the economic and political realms of the international system. Politics are shown to be superior to economics as the issues of *de facto* and juridical sovereignty are investigated. The doomsayers who predict the convergence of the market and the state are shown to be upholding a sort of illusion. This illusion is demonstrated through the examination of the actual flexibility and transformative capacity of the state.

By way of conclusion, chapter six highlights the main arguments of the thesis. The concluding chapter provides the reader with a qualitative analysis of the strengths, weaknesses, and implications of the various theories on globalization in general, and the convergence of the market and the state in particular. This chapter also includes a prescription for government policy-makers on how to better prepare themselves for the challenges of globalization.

CHAPTER TWO

A HISTORICAL PERSPECTIVE OF GLOBALIZATION AND THE STATE

Introduction

The purpose of this chapter is to not only introduce the reader to the concept of globalization, but to thoroughly define it and to include a brief historical summary of several related concepts, such as international trade, foreign direct investment (FDI), capitalism, and the state. Several distinctions are made between concepts that are often used interchangeably or misused altogether. This includes political globalization and globalism, and multinational corporations (MNCs) and transnational corporations (TNCs). The intertwined concepts of capitalism and the state entail a discussion of sovereignty and the international state system, as well as mercantilism, colonialism, and imperialism. This chapter will provide the reader with a better comprehension of globalization so that one is not duped by the rhetoric and exaggeration that is often attached to globalization. A clearer conception of globalization will prove useful throughout the thesis as the arguments regarding the convergence of the market and the state are examined. This will also aid the reader to understand why the convergence of the market and the state is illusionary.

Defining Globalization

Globalization, broadly conceived, refers to the increasing level of human interaction across both national borders and the world, which results in myriad new

economic, political, technological, intellectual, and cultural developments. Globalization is most commonly defined as "an economic process with political consequences."[9] This definition of globalization is often applied to the current proliferation of supranational economic organizations, such as the World Trade Organization (WTO), the North American Free Trade Agreement (NAFTA), the Asian Pacific Economic Cooperation group (APEC), and the European Union (EU). References are made to economic, political, and technological globalization. Consequently, these three types of globalization require a closer examination.

The term "globalization" is most often employed in reference to economic globalization. "Economic globalization," however, is a precise form of the globalization process. Economic globalization pertains to the reduction of barriers to trade, such as tariffs and quotas, which is entailed by the expansion of free trade blocs and zones, and bilateral and multilateral trade agreements. These initiatives enable capital to become increasingly unfettered and unregulated in its movements both within and among domestic markets.[10] These movements of capital are transacted in the form of cash, credit, stocks, bonds, and equities, which fall under the term "global finance." In subsequent chapters of the thesis, the term "forces of globalization" will be employed to refer to the various phenomena associated with of economic globalization, such as MNCs, FDI flows, transnational capital, and trade liberalization.

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[9] Claire Turenne Sjolander, "The Rhetoric of Globalization: What's in a Wor(l)d?" International Journal, (Vol. LI, No. 4, Autumn 1996), p. 605.

[10] Niall Fitzgerald, "Harnessing the Potential of Globalization for the Consumer and Citizen," International Affairs, (Vol. 73, No. 4, October 1997), p. 739.

Economic globalization and global capital comprise what is referred to by some observers as the global economy. It is important to note that the global economy differs from the international economy. The global economy is a system wherein markets and production are truly global in focus. In contrast, the international economy consists of distinct domestic economies, and operates according to regulations and agreements between states.[11] The international economy is therefore inward-looking in character. Although there has been some movement towards a global economy, a perfectly "global" economy does not exist. Nevertheless, the term "global economy" is used (or misused) by many authors of the literature on globalization. A more accurate term for the combination of economic globalization and global capital is a "globalized" economy. The globalized economy is also a more apt description of the current world market, which is mostly outward-looking due to the strong influence of supranational economic actors and the counterbalance of national trade regulations and policies.[12]

The WTO is approaching a form of economic global community. Established in April 1994, the WTO began operations on 1 January 1995 with 85 members. By mid-1997, membership to the WTO had grown to 131 states with another 29 applicants awaiting admission. The WTO is the successor to the General Agreement on Tariffs and Trade (GATT). The GATT, established shortly after the end of the Second World War, enabled both developed and developing countries to gain access

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[11] Robert W. Cox, "Structural Issues of Global Governance: Implications for Europe," Gramsci, Historical Materialism and International Relations, Stephen Gill (Ed.), (Cambridge: Cambridge University Press, 1993), p. 260.

[12] Paul Hirst and Grahame Thompson, Globalization in Question: The International Economy and the Possibilities of Governance, (Cambridge: Polity Press, 1996), p. 16.

to each other's domestic markets. The GATT focused on trade in goods, and provided an institutional framework through which the reduction of tariffs and the elimination of quotas could be negotiated by member-states. Member-states also retained a significantly high degree of control over their sovereignty because their adherence to trade obligations was voluntary. The GATT also allowed for various protectionist policies, which were often for the benefit of the developed member-states. For example, industries relating to the production and trade of textiles, automobiles, and appliances were protected through the imposition of tariffs and quotas by the developed countries.[13]

The WTO is considered more powerful than the GATT due to its stronger institutional framework and wider applicability to contemporary international trade issues, ranging from trade of services to intellectual property rights to FDI flows.[14] Membership to the WTO requires that states adhere to all the commitments of the trade agreements negotiated during the Uruguay Round. This means that the 130+ states that comprise the WTO have essentially agreed to adhere to WTO rulings on the same basis as their national laws.[15] The only exception to the norm is that the "plurilateral agreements," which relate to bovine meat, dairy, government

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[13] Gary Gereffi, "The Elusive Last Lap in the Quest for Developed-Country Status," Globalization: Critical Reflections, James H. Mittelman (Ed.), (Boulder, CO: Lynne Rienner Publishers, 1996), pp. 55-56.

[14] Donald M. McRae, "From Sovereignty to Jurisdiction: The Implications for States of the WTO," The Asia-Pacific Region and the Expanding Borders of the WTO: Implications, Challenges and Opportunities, Mark A. Buchanan (Ed.), (Victoria, BC: Centre for Asia-Pacific Initiatives, 1996), pp. 39-40.

[15] Louis Uchitelle, "Globalization Has Not Severed Corporations' National Links," New York Times, (30 April 1998), p. D1.

procurements, and trade in civil aircraft, must be signed separately by individual member-states.[16]

Multinational corporations (MNCs), which are also known as multinational enterprises (MNEs), play a significant role in the process of economic globalization. A firm is considered multinational if it has production facilities or subsidiary locations in one or more countries that are outside of its "home" country. The home country is the site of a particular MNC's main headquarters. The very first type of MNCs appeared in the eighteenth and nineteenth centuries. These MNCs were trading companies of British, Dutch, and French origin, such as the British East India Company. Essentially, these companies provided the means through which the home countries could exploit the resources of their colonial possessions. In the early twentieth century, companies such as Singer and Kodak began to set up overseas subsidiaries. These firms were similar to the MNCs that are in operation today because their main motivation was profit-earning for themselves, rather than for their home country. In the 1960s, a significant increase in both the scope and number of MNCs took place due to rapid developments in communication and transportation technologies, as well as increasing trade liberalization in the capitalist countries.[17] By the early 1990s, approximately 37,000 MNCs were in operation, along with about 170,000 affiliates.[18] Some of the better known MNCs are Coca-Cola, IBM, Nestlé,

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16 McRae, "From Sovereignty to Jurisdiction," pp. 41, 56.

17 Brian J. L. Berry, et al., The Global Economy in Transition, 2nd ed., (Upper Saddle River, NJ: Prentice Hall, 1997), p. 5.

18 McRae, "From Sovereignty to Jurisdiction," p. 53.

and Union Carbide. Counting only those sources of income from outside their home countries, the 100 largest MNCs own approximately US$2 trillion in total assets.[19]

MNCs and transnational corporations (TNCs) are sometimes used interchangeably because they are essentially the same type of corporate entities. Both MNCs and TNCs abide by various national and international trade regulations and policies, employ an internationalized management structure, and are willing to relocate to any region in the world in order to gain the highest financial returns. Although MNCs and TNCs often have a distinct national "home base," a growing proportion of these firms are "stateless" in the sense that they are owned by interests in several countries.[20] For reasons of consistency, this thesis will employ the term "MNC" when referring to firms that are transnational in their operations.

Beginning in the 1970s, multinational firms began to search for foreign locations for their manufacturing divisions. This was part of their international investment strategies that also included placing subsidiary companies in other countries. The logic behind this strategy of internationalizing production and general expansion is based on the fact that other countries, mostly those that are less developed, provide MNCs with lower operating costs. These countries usually have little or no corporate taxation, lower wage expectations from the workers, and less environmental and workplace safety regulations. This also leads to the practice of

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[19] John Stopford, "Multinational Corporations," Foreign Policy, (No. 113, Winter 1998-99), p. 13.

[20] Peter Willetts, "Transnational Actors and International Organizations in Global Politics, " The Globalization of World Politics: An Introduction to International Relations, John Baylis and Steve Smith (Eds.), (Oxford: Oxford University Press, 1997), pp. 292-293.

producing the various components of a major product in several countries. Therefore, the final assembly of a particular product may even take place in a country where none of its components were fabricated. The steady removal of trade barriers over the past decade has lead MNCs to devise their levels of production based on worldwide consumption rates.[21] Consequently, MNCs are moving towards a production system wherein "global" economies of scale are maximized. In effect, MNCs are the main vehicle of globalization, which is fuelled through their nearly-complete ownership of international foreign direct investment (FDI) flows.[22]

Political globalization refers to the movement towards a truly global community wherein a system of global governance exists. Currently, the United Nations is the only political entity that comes close to a structure of global governance. Political globalization holds democracy as the only viable decision- and policy-making mechanism. It also views the capitalist market as the most efficient economic system. Subsequently, political globalization inculcates democracy and the "free" market as the founding elements of a global society.[23] In other words, political globalization entails the operation of the capitalist free market as a necessary pre-condition for democracy.

The term "democracy" is derived from the Greek words for people (*demos*) and rule (*kratos*). According to this translation, democracy is governmental rule by

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[21] Sjolander, "The Rhetoric of Globalization," p. 605.

[22] Gordon R. Walker and Mark A. Fox, "Globalization: An Analytical Framework," Indiana Journal of Global Legal Studies, (Vol. 3, No. 2, Spring 1996), <http://www.law.indiana.edu/glsj/vol3/no2/walker.html>,visited 3 May 1999, p. 5. Foreign direct investment (FDI) will be examined in greater detail near the end of the chapter.

[23] Ruud F. M. Lubbers, "Political Globalization," The Club of Rome, (19 April 1999), <http://www.globalize.org/clubofrome/corlexicon/cpolglob.html>, visited 3 May 1999, p. 1.

the people. For the purposes of this thesis, a more concise definition of democracy will be employed. Democracy refers to the political structures and mechanisms of representation that ensure that holders of state power respond to the mandate articulated by its politically equal citizens.[24] The free market relates to the unrestrained (*laissez-faire*) operation of the capitalist economy, based on private property rights. In theory, the free market is guided by an "invisible hand" that represents the actions of individuals and firms attempting to maximize their wealth-producing capacities.[25] The free market, at both the international and national level, requires only the minimum amount of institutional and legal frameworks so that capital may reproduce itself in a secure manner.

Political globalization is also sometimes conceptualized of as a form of global consciousness, such that it "refers both to the compression of the world and the intensification of consciousness of the world as a whole."[26] This conception of political globalization as a form of global consciousness may be confused with globalism. Globalism relates to the belief of international solidarity in ensuring world peace and global environmental protection. These two goals are attained by actively upholding the values of respecting diversity, freely exchanging knowledge and information, sharing resources, and providing mutual assistance.[27] The brief description of the two terms demonstrates that globalism and globalization appear

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[24] Georg Sorensen, Democracy and Democratization: Processes and Prospects in a Changing World, (Boulder, CO: Westview Press, 1993), pp. 3-7.

[25] Berry, et al., The Global Economy in Transition, p. 26.

[26] Roland Robertson, Globalization: Social Theory and Global Culture, (London: Sage Publications, 1992), p. 8.

[27] Mark Ritchie, "Globalization vs. Globalism: Giving Internationalism a Bad Name," Institute for Agriculture and Trade Policy, (January 1996), <http://www.panix.com/~jimcook/globalization/gl_vs_gl.html>, visited 3 May 1999, p. 1.

similar on the surface, however, they are diametrically opposed on many fronts. Globalism and the related concept of global governance will be elaborated on in chapter four.

Technological globalization has enhanced the overall process of globalization through innovations in information and communication technology (ICT). ICT primarily consists of microprocessors, computers, satellites, fiber-optics, and wireless transceivers (e.g. cellular telephones). These components make communication faster and more efficient, thereby overcoming the constraints normally associated with communicating over large physical distances.[28] Ruud F. M. Lubbers and Jolanda Koorevaar contend that ICT has resulted in what is called the "third wave" of societal change. The first wave took place when human beings began to form agricultural societies instead of societies that were based on hunting and gathering. The second wave was marked by the Industrial Revolution, which observed the transformation of agricultural societies to industrial societies. According to Lubbers and Koorevaar, the third wave is denoted by a departure from an industrial society to an information society wherein knowledge is the main resource of trade based on a communication-infrastructure.[29] Technological advances have resulted in near-instantaneous trading on computer screen-based trading networks that may be operated 24 hours a day, seven days a week. Within international financial markets, currencies may be transferred around the world in mere seconds from either the click of a computer

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[28] Ruud F. M. Lubbers, "Technological Globalization," The Club of Rome, (19 April 1999), <http://www.globalize.org/clubofrome/corlexicon/ctechglob.html>, visited 3 May 1999, p. 1.

[29] "Introduction to Governance in an Era of Globalization," The Club of Rome, (19 April 1999), <http://www.globalize.org/clubofrome/ introduction.html>, visited 3 May 1999, p. 1.

mouse or the press of a button on a computer keyboard. These actions transpire without stopping at geographic borders.[30]

Technological globalization is also apparent in the evolution of transportation systems. Due to technological innovation, transportation systems are much faster and more efficient than in the past. The speed of commercial jet airplanes has greatly enhanced the speed of shipping products. The advent of superfreighters enables huge shipments to be transported by sea. The proliferation of containerization, which provides more security and speed for the transfer of products from one mode of transportation to another, has also aided world production and trade.[31] These innovations enable companies to operate globally with relative speed and efficiency.

The History of Globalization

It will be useful to include a historical overview of the development of globalization. This historical look at the phenomenon is necessary because it places globalization in the context of human economic and political change. Moreover, as we will see, the origins and growth of globalization are subject to differing interpretations. Although some identify the first appearance of globalization with the interaction of early human groups, most commentators place the origins of globalization somewhere between the fifteenth and sixteenth centuries. Adam Smith's work, Wealth of Nations (1776), is widely considered to be the first treatise

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30 Stephen D. Krasner, "Economic Interdependence and Independent Statehood," States in a Changing World: A Contemporary Analysis, Robert H. Jackson and Alan James (Eds.), (Oxford: Clarendon Press, 1993), p. 302-303.

31 Gereffi, "The Elusive Last Lap in the Quest for Developed-Country Status," p. 55.

on globalization because it advocates the advantages of *laissez-faire* economics under capitalism.[32] In concert with capitalism, globalization has grown in both scope and intensity since the early nineteenth century.

The term "globalization" first came into existence in the 1960s. It was not until the 1990s, however, that the term gained widespread use. This should not lead one to conclude that globalization is a recent phenomenon. A very basic conception of globalization is that of human groups interacting with neighbouring groups. If one holds such a view of globalization, then globalization is a phenomenon that has existed since the emergence of *Homo sapiens*, or even earlier.[33] Since the earliest period of human existence, interaction between human groups has taken place, albeit at a lower level of intensity and sophistication than today.

Globalization truly began to develop during the fifteenth century, due in large measure to the development of both the state system and capitalism. A general, yet accurate view of the state defines it as "an organized structure of government that rules a population living within fixed territorial boundaries."[34] The "ruling" aspect of this definition refers to sovereignty, which is the "power or authority which comprises the attributes of an ultimate arbital agent ... entitled to make decisions and settle disputes within a political hierarchy with some degree of finality."[35] A state may divide its sovereign authority among either different levels of government, such as is

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32 G. Andrew Karolyi, Globalization and the Forces of Change for Canada's Capital Markets, Working Paper Series No. 97-34, (London, ON: Richard Ivey School of Business, 1997), p. 1.

33 Lubbers and Koorevaar, "Introduction to Governance in an Era of Globalization," p. 1.

34 "Sovereignty," (Introduction) Introductory Readings in Government and Politics, 4th ed., Mark O. Dickerson et al. (Eds.), (Scarborough, ON: Nelson Canada, 1995), p. 13.

35 Preston King, "Sovereignty," The Blackwell Encyclopedia of Political Thought, David Miller (Ed.), (New York: Basil Blackwell), p. 492.

the case within federal systems, or other governing bodies, so long as sovereign authority is located within its geographic borders. Despite the relatively recent proliferation of transnational economic and political organizations, the state retains the highest level of authority in the international system, which is based on the concept of sovereignty.[36]

One of the most important events in the development of the modern state, and the subsequent evolution of the international state system was its ascendancy over the Catholic Church.[37] In 1648, the Treaty of Westphalia signaled both the end of the Thirty Years' War and the beginning of the state as a sovereign entity. Before the Treaty, states were little more than princedoms or territories that were held together through their common allegiance to a king (or queen) who was held as sovereign. The international system formed shortly thereafter, coordinating the economic, political and legal relations among states. The state was seen as a structure of social identification within which collective action could be realized.[38] The state is a logical unit of analysis because any discussion of globalization involves an analysis of economic, political, or social issues that are relevant to all countries. Instead of comparing the economies, political systems, or societies of two or more states, this study will concentrate on examining the common forces of the global political economy. A macro-level approach is therefore most applicable to this thesis because it examines the relationship between two dominant forms of socioeconomic

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36 This argument on the authority of the state, as well as the related concepts of legitimacy and coercion, will be investigated in the fifth chapter of the thesis.

37 Krasner, "Economic Interdependence and Independent Statehood," p. 301.

38 Philip G. Cerny, "Globalization and Other Stories: The Search for a New Paradigm for International Relations," International Journal, (Vol. LI, No. 4, Autumn 1996), pp. 620-622.

organization: the state and the market. This will lead us to a general conclusion regarding globalization and its effect on the institution of the state, rather than several narrow generalizations based on specific countries.

With the decline of feudal political and economic relations, the development of the state also saw the rise of capitalism. Most scholars place the rise of capitalism as the primary organizing force of economic development somewhere between the fourteenth and nineteenth centuries. According to Robert W. Cox, the approximate point of origin of capitalist economic relations depends on one's conception of capitalism. Those who conceive of capitalism in terms of relations of exchange and accumulation place its inception closer to the fourteenth century. Those who view capitalism as an economic structure through which financial capital may reproduce itself (as was the case under colonialism and imperialism), place its origins nearer to the nineteenth century.[39] Capitalism entails the private ownership of property and the means of production. Under capitalism, goods and services are sold or traded for profit, generally in the form of money. The working class (proletariat), which consists of those individuals who do not own property or the means of production, must sell their labour to the capitalists (bourgeoisie) in order to earn wages.[40]

From the mid-seventeenth century to the end of the Second World War, domestic wealth-creation was based on technological capabilities and the physical size of a particular country. Technological capabilities ranged from military

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[39] Robert W. Cox, Production, Power, and World Order, (New York: Columbia University Press, 1987), p. 51.

[40] Ronald H. Chilcote, Theories of Development and Underdevelopment, (Boulder, CO: Westview Press, 1984), pp. 4-9.

technologies to agricultural techniques. Physical measures included population and amount of land that a state possessed. The rationale of relative physical size held that the more land a state controlled, the greater the potential for discovering and exploiting natural resources, such as oil, minerals, water, and other commodities (based on agriculture or forests).[41] Natural resources generated a wealthy domestic economy in terms of industrial growth, personal consumption, and increased international trade. Countless wars have been waged over the control of more territory, and thus, more resources. In addition, the expansion of capitalism requires a search for more territory and resources, as well as new markets. The expansion of capitalism relates to colonialism, mercantilism, imperialism, and neocolonialism, all of which will be described in detail in the next section.

Since the beginning of the 1960s, the world economy has witnessed a profound change in national strategies of wealth-creation. Although countries still clash over control of territory and resources, the current trend that one sees with globalization is that states are vying for market share in certain manufacturing and service industries. Increasingly, resource-poor countries, like Japan and South Korea, have created a substantial level of national wealth with a relatively small land-mass, and more importantly, without a significant amount of natural resources. These two countries have created national wealth by garnering market shares in certain products or services, such as electronics. In comparison to natural resource- and commodity-based industries, which are very sensitive to world fluctuations in supply and demand,

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[41] Susan Strange, "The Defective State," Daedalus, (Vol. 124, No. 2, Spring 1995), pp. 55-56.

manufacturing and service industries allow for a much higher value-added profit margin.[42]

The Expansion of Capitalism

The structure of the capitalist market-economy encouraged international trade because of the profits that could be made by exploiting new markets overseas.[43] The profitable nature of international trade also led European countries to colonize other parts of the world, thereby spreading capitalism around the world. International trade and colonialism were therefore the earliest forms of globalization. Cotton played a very important role in the growth of international trade, which coincided with the development of both mass markets and high demand for particular raw materials throughout the various phases of imperialism.

The mechanization of the cotton textile industry began in Great Britain with the introduction of the spinning jenny by James Hargreaves in 1764. Approximately twenty years later, Edmund Cartwright devised a method to power the spinning jenny by mechanical means.[44] By the end of the eighteenth century, labour productivity in the cotton textile industry surged by 100 to 200 times the pre-mechanized level. During this time, the real price of cotton yarn decreased by about 93 percent.[45] The combination of increased productivity and lower prices resulted in both a mass

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42 Cox, Production, Power, and World Order, p. 56.

43 Lubbers and Koorevaar, "Introduction to Governance in an Era of Globalization," p. 2.

44 Allen Isaacman and Richard Roberts, "Cotton, Colonialism, and Social History in Sub-Saharan Africa: Introduction," Cotton, Colonialism, and Social History in Sub-Saharan Africa, Allen Isaacman and Richard Roberts, (Eds.), (London: James Currey Ltd., 1995), p. 3.

45 Ibid., p. 4.

market for textile-goods and a demand-side increase for cotton. The United States was the principal supplier of cotton to Great Britain and the other textile-producing countries in Europe, such as Germany, France, Belgium, and Spain. Cotton was also supplied to Europe by India, the West Indies, Brazil, and Egypt.[46]

In addition to its role in the growth of international trade, the cotton industry was one of many reasons behind the practice of colonialism, which was a specific form of imperialism. The two concepts are intimately linked; therefore, any discussion of one term entails a discussion of the other. Entire books have been devoted to each concept, however, a relatively concise examination of colonialism and imperialism will be sufficient for our purposes.[47] Colonialism encompasses the exploitative relationships between nations that takes place under imperialism, however, it is more specific as it pertains to the formal establishment of colonies by European powers. Colonialism refers to the rule of one group of people (the colonial centre) over another group of people (the colony). The colony is a usually located a considerable distance away from the colonial centre.[48] The colonial centre and the colonial territory are defined according to formal national or ethnic groupings, ranging from empires and states to tribes. European countries, such as England, France, Spain, Portugal, Germany, Belgium, and the Netherlands, were each colonial centres, and ruled over colonies in Africa, Asia, and the Americas.

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[46] Ibid., pp. 5-7.

[47] Each term became a concept with a definite meaning following the publication of J. A. Hobson's Imperialism: A Study, (London, 1902), and P. Louis' Le Colonialisme, (Paris, 1905), respectively.

[48] H. L. Wesseling, Imperialism and Colonialism: Essays on the History of European Expansion, (Westport, CT: Greenwood Press, 1997), p. x.

Imperialism refers to the exploitative relationships between nations that have existed since the Greek and Roman empires. Contemporary imperialism evolved over three main periods. The first period of imperialism took place throughout the sixteenth and seventeenth centuries. Within this period, imperialism transformed from primarily being a form of exchange to a form of extraction. "Exchange" imperialism operated on the basis of mercantilism, wherein mercantile states, such as Portugal, controlled major coastal trading points, especially in Africa and Asia. Mercantilism is the term given to the set of measures that states implemented in order to both augment their economic and political power at home, and in relation to other states.[49] European governments instituted various economic regulations for reasons of national prosperity, but also to promote economic cohesion and political control within state boundaries. Economic regulations ranged from protectionist policies over domestic trade to setting up colonies in order gain access to resources.[50] Each European power strove to attain economic self-sufficiency. Competition for economic and political prestige led to increased efforts to gain more raw materials. Subsequently, exchange imperialism evolved into "extractionist" imperialism, wherein European nations would move inland in order to garner control over the actual sources of trade, such as minerals, ivory, and slaves.[51]

By 1870, extractionist imperialism grew in proportion with a "transformer"-type of imperialism, which involved more direct political and economic control by

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[49] Gerhard Rempel, "Mercantilism," Western New England College, (25 January 1996), <http://mars.wnec.edu/~grempel/courses/wc2/lectures/mercantilism.html>, visited 5 May 1999, p. 1.

[50] Cox, Production, Power, and World Order, p. 115.

[51] Chilcote, Theories of Comparative Politics, pp. 251-252.

the European powers over their colonies. The colonies provided raw materials, such as mineral and agricultural commodities, at an artificially low price that was set by European markets. In European factories, the raw materials were transformed into manufactured goods, then exported to the captive colonial markets. This period of imperialism is also synonymous with the aforementioned practice of colonialism. The colonies provided the European powers with cheap raw materials, commodities, and labour. The Conference of Berlin, which took place from 15 November 1884 to 28 February 1885, is widely held to have divided Africa among the European empires. H. L. Wesseling contends that this conception of Africa being "carved up" is largely a myth that has been propagated by various history books.[52] A more accurate account of the Berlin Conference reveals that only one division was made, that is, the Free Trading Zone. The actual partitioning of the continent took place once representatives of the various European states ventured inland and staked out colonial territories. If anything, the Conference of Berlin was symbolic of the carving up of Africa, and the subsequent acceleration of the process of colonialism.[53]

The third period of imperialism is often referred to as neocolonialism. Between 1945 and 1975, virtually all of the former colonies attained formal independence from their European masters. Political ties often remained in place between the newly independent state and the former colonial power. In most cases, these newly independent countries were still indirectly linked to their former colonial masters through economic ties, such as exploitative trade relations.[54] To a lesser

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52 Imperialism and Colonialism, p. 93.
53 Ibid., p. 94.
54 Chilcote, Theories of Comparative Politics, p. 252.

extent, cultural and social ties also remained fairly strong between the two states. In effect, neocolonialism is the practice of a particular state that dominates over another, through political and economic control. The subordinate country loses a certain amount of sovereignty and autonomy to the dominant country in the relationship.[55]

Globalization in the Modern Era

Globalization is not a new phenomenon. In fact, the world has experienced two cycles of globalization. The first cycle spanned roughly forty-five years, from about 1870 to the mid-1910s.[56] At present, we are experiencing the second cycle of globalization, which began in approximately 1960. These two cycles demonstrate several similarities. Key financial indicators of globalization, such as levels of international trade and foreign direct investment, and Gross National Product (GNP) trade ratios are quantitatively similar. Before moving on to a comparison of the two cycles of globalization, it is important to define these financial indicators.

International trade and FDI play a crucial role in both the formation and the growth of domestic economies. According to the investment organization, The Interactive Investor, there are main two reasons for the occurrence of international trade under liberalized trade conditions. First, international trade enables people in

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[55] Benjamin Cohen, The Question of Imperialism: The Political Economy of Dominance and Dependence, (New York: Basic Books, 1973), p. 15.

[56] 1870 is widely cited as the approximate date of the emergence of globalization as a world-wide phenomenon. See Robertson, Globalization: Social Theory and Global Culture, p. 6; and Richard E. Baldwin and Philippe Martin, Two Waves of Globalisation: Superficial Similarities, Fundamental Differences, Working Paper 6904, (Cambridge, MA: National Bureau of Economic Research, January 1999).

various regions of the world to obtain items, ranging from commodities to technologies, that they would not be able to purchase at home. Second, a particular item may be purchased through international trade at a cheaper price than it would cost to produce such an item domestically. The cheaper price is achieved because certain regions of the world have a comparative advantage in producing a particular item in relation to other regions.[57] Several factors exist that affect a country's comparative advantage of a particular product, ranging from the amount of natural resources that it possesses to the realization of technological advances in a particular industry. A significant portion of the dollar amount of world trade is conducted within MNCs, which is referred to as intrafirm trade or intra-MNC trade. Intrafirm trade is the practice of exporting and importing goods from one subsidiary of a MNC to another subsidiary of the same MNC. Since this trade occurs across national borders, it is included in world trade figures. Intrafirm trade comprises approximately 30 percent of world trade.[58]

FDI is defined as that financial capital belonging to investors located outside the borders of the country wherein the investment is allocated. The directness of the investment means that the financial capital is tightly controlled by the investors, normally through the ownership of stocks. MNCs are the primary type of owners of the stocks that comprise FDI.[59] FDI is considered to have a significant impact on

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57 "Why International Trade Occurs," The Interactive Investor, (1998), <http://www.inv.com/ref30.html>, visited 18 May 1999, pp. 1-2.

58 James R. Markusen and Anthony J. Venables, Foreign Direct Investment as a Catalyst for Industrial Development, Working Paper 6241, (Cambridge, MA: National Bureau of Economic Research, October 1997), p. 1.

59 Berry, et al., The Gobal Economy in Transition, p. 4.

revitalizing individual companies. Increased investment allows companies to augment their competitiveness in several ways. More funding is potentially available for research and development operations, which may result in better production efficiency, improvements on current products, and the creation of new and innovative products. A firm may be able to either expand its operations, particularly in production, or engage in a strategy of diversification.[60] Additional funds may also be allocated to advertising in order to promote the company and its products.

Economists often employ GNP figures in order to determine and compare the economic status of countries. GNP is a calculation of all the "wealth" produced by both the residents and the government of a particular country. The calculation of wealth begins by adding the annual amounts that are spent on individual consumption and investment, government expenditures, and total exports. This sum is then subtracted by the annual amount of total imports and the depreciation of buildings, factories, and equipment.[61] The amount resulting from this calculation is a country's GNP. One must keep in mind that GNP figures may not always be accurately reported by developing countries. In some instances, the governments in these countries may inflate the actual economic figures to appear "wealthier" or stronger in economic terms.[62] In other cases, the figures may be understated in order to receive greater financial assistance from outside sources, such as foreign aid packages or loans from the World Bank.

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[60] "Toward a Smoother Execution of FDI," Japanese External Trade Organization, (1999), <http://www.jetro.go.jp/WHITEPAPER/Invest99/inv1-7.html>, visited 17 May 1999, p. 1.

[61] Robert K. Schaeffer, Understanding Globalization: The Social Consequences of Political, Economic, and Environmental Change, (Oxford: Rowman & Littlefield Publishers, 1997), p. 32.

[62] Ibid., p. 33.

The two cycles of globalization are demonstrated by the ensuing financial statistics. From 1870 to 1913, the annual rate of growth for international merchandise exports was 1.7 percent.[63] A historical look at international trade and FDI reveals that in 1913, world exports as a percentage of world GNP (the amount of wealth produced by all the countries in the world) was 11.4 percent.[64] In the same year, the percentage of the world's total output that consisted of FDI was approximately 9 percent.[65] Beginning in 1914, the First World War signaled a decrease in world trade, calculated as the sum of world exports and imports. In 1929, the stock market crash and the subsequent Great Depression resulted in a drastic increase of trade barriers and protectionism in the form of government regulation. Even after the conclusion of the interwar period, which spanned the beginning of the First World War in 1914 to the end of the Second World War in 1945, world trade remained low. In 1950, world trade as a percentage of world GNP was 8 percent.[66] It was not until the 1960s that world trade began to recover to pre-interwar levels. By 1980, world trade rose to 17 percent of world GNP.[67] In 1992, the amount of total world trade was US$4 trillion.[68]

Currently, foreign direct investment comprises a significant portion of world trade. In the mid-1990s, the proportion of FDI was 10.1 percent of world GNP.[69] This is only about 1 percent below the figure recorded in 1913. In 1997, global FDI rates attained a record amount of US$423.7 billion in outward investment and

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63 Louis Uchitelle, "World Economy Is as Interconnected Today as in 1913," New York Times, (30 April 1998), p. D6.
64 Krasner, "Economic Interdependence and Independent Statehood," p. 312.
65 Uchitelle, "World Economy Is as Interconnected Today as in 1913," p. D6.
66 Krasner, "Economic Interdependence and Independent Statehood," p. 312.
67 Ibid.
68 Hirst and Thompson, Globalization in Question, p. 53.
69 Uchitelle, "World Economy Is as Interconnected Today as in 1913," p. D6.

US$400.5 billion in inward investment.[70] It is notable, and unsurprising that the United States and the United Kingdom contributed the highest proportion of global FDI. Although figures are not yet available, global FDI levels are expected to surpass the 1997 amount. This is due in part by active investment by MNCs that have their main headquarters in the United States and Europe. Therefore, the above discussion has demonstrated that globalization in not a quantitatively new phenomenon.

This chapter has provided the reader with both a definitive and historical look at the various terms and concepts that will be employed throughout the remainder of the thesis. Many of the terms and concepts will be investigated further in forthcoming arguments. Let us now proceed to the next chapter wherein the potential dangers of globalization will be examined. The Multilateral Agreement on Investment (MAI), democracy, culture, environmental protection, employment concerns, and the economic disparity between the North and South are the main issues that will be discussed in the context of globalization in chapter three.

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[70] "FDI Exceeds US$400 Billion in 1997," Japanese External Trade Organization, (1999), <http://www.jetro.go.jp/WHITEPAPER/Invest99/inv1-1.html>, visited 17 May 1999, pp. 2-3.

CHAPTER THREE

THE THREAT OF GLOBALIZATION

Introduction

This chapter is divided into two main sections. The first section begins by examining the effect of the forces of globalization on democracy in general. This is followed by an investigation of the effect of globalization and various phenomena, such as the environment, culture, employment, and North-South economic inequalities. The second section consists of an in-depth analysis of the Multilateral Agreement on Investment (MAI). The MAI is an example of how the forces of globalization may be articulated as a binding set of agreement with legal force. In fact, the MAI is potentially the greatest threat to the sovereignty of states. Although negotiations on the MAI seem to be permanently suspended in the OECD, indications are that a similar treaty may be formulated in the WTO in late-1999. The purpose of this chapter is to provide the reader with a survey of the various criticisms pertaining to globalization.

The Erosion of the State and the Threat to Democracy

Following the end of the Second World War, the world economy enjoyed a "long boom" with steady overall growth. The conditions of this growth are often associated with Keynesian economic policies that were employed in varying degrees by most capitalist countries. Keynesian economic policies emphasized the

importance of the state in terms of protecting domestic economies from the volatility and unpredictability of international markets. A corporatist-type relationship existed under Keynesianism, wherein the state, organized labour, and industrial interests worked together, more or less, in the attempt to provide full employment and steady economic growth.[71] During the Keynesian era, the political parties that were in power in the capitalist countries usually legislated reformist or centrist policies, which saw the implementation of pensions, employment insurance, and subsidized health care. As a result, the standard of living steadily rose in these countries during this time. It is important to note that these leftist-based reforms represented a watered-down version of socialism, which also served to consolidate capitalism's position of dominance in the West.

The Keynesian era ended in the 1980s with both the rise of right-wing economic policies in several capitalist countries and the decline, and subsequent demise, of the Soviet Union. These forms of economic liberalism were referred to as "Thatcherism" in the United Kingdom and "Reaganomics" in the United States. The conservative or Rightist political parties in power governments during this time implemented radical individualist, pro-capitalist policies. Economic policy was executed under the auspices of monetarist theory, whereby the economy is affected by the amount of currency that is in circulation. This served to reduce the role of government in the economy. Moreover, much of the gains made by the corporatist

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[71] Stephen Gill and David Law, The Global Political Economy: Perspectives, Problems, and Policies, (Baltimore: The Johns Hopkins University Press, 1988), p. 44.

alliance during the Keynesian era were eroded as cuts to government spending and the deregulation of various industries paved the way for the proliferation of globalization by the 1990s.[72]

Since the end of the Keynesian era, the role of the state has obviously changed. Those who view globalization as a qualitatively negative phenomenon generally hold that currently, "states are less autonomous, they have less exclusive control over the economic and social processes within their territories, and they are less able to maintain national distinctiveness and cultural homogeneity."[73] The MAI, which will be examined in the latter part of the chapter, represents a significant danger to the ability of governments at all levels to control economic and social policies. Without this ability, governments will be severely hampered in their capacity to promote safe working conditions, environmental protection standards, social programs, and cultural diversity.

Globalization is often seen as a force that undermines the democratic control of both citizens and their governments because the political institutions of the state are perceived to be largely helpless against transnational economic forces. The legislative functions of the state, under democratic principles, are bypassed by transnational capital interests. Governments are restrained in their ability to respond to the needs and demands of its citizens. This is important because individuals have the democratic right to articulate their interests in decisions that affect them both directly and indirectly. The strengthening of both international trade organizations,

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72 Hirst and Thompson, Globalization in Question, pp. 176-177.
73 Ibid., p. 177.

such as the WTO, and regional trade agreements, such as the EU and NAFTA, have eroded the autonomy of states. At the same time, transnational capital interests have enjoyed a reciprocal increase in power as barriers to trade have been either relaxed or eliminated. It should be noted that over the last two decades, privatization, decentralization, and deregulation by national governments has boosted the relative power of transnational capital.[74]

Environmental Degradation

The sovereign control over environmental protection considerations that countries maintain, in terms of the actions of citizens and companies operating within their borders, is under threat. Arthur MacEwan points out that "the greater mobility of capital makes it more and more difficult for citizens of any one political unit to organize and use their government to impose regulations on polluting firms."[75] This may lead one to conclude that the proliferation of the forces of globalization will result in increased environmental destruction. Opponents of globalization cite environmental degradation as an example of how unrestrained flows of transnational capital may be dangerous. Moreover, the destruction of the environment is an overwhelming threat, not only to the survival of various plants and animals, but to the human species as well. It is estimated that the extinction of approximately 1,000

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[74] Vivien A. Schmidt, "The New World Order, Incorporated: The Rise of Business and the Decline of the Nation-State," Daedalus, (Vol. 124, No. 2, Spring 1995), p. 75.

[75] "Globalization and Stagnation," Monthly Review, (Vol. 45, No. 11, April 1994), p. 2.

plant and animal species takes place each week.[76] Each year, deforestation results in the disappearance of 17 million hectares of forest.[77]

Pollution is the most obvious form of environmental degradation. Pollution may be released into the atmosphere through the burning of fossil fuels, and chemical reactions from commercial products and industrial applications. Another form of pollution relates to the placement of waste products in our natural surroundings. Pollution is detrimental to the healthy development of life on earth. Pollution is a problem that human beings create that poisons the air we breathe, the water we drink, and the soil that we use to grow food. In a compelling study of environmental degradation, scientists have calculated the amount of environmental damage that the citizens of each country cause. The study indicated that the United States has one of the highest environmental damage rates in the world. For example, an American citizen causes 280 times as much environmental damage as a citizen of Chad.[78] Many pollution problems are transnational or global in that their effects are felt across national borders. Sulphur dioxide emissions that originate in a particular country may be transformed into acid rain that falls in surrounding countries depending on wind direction and other atmospheric factors. CFCs (chorofluorocarbons) and carbon

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[76] Hernando Gómez Buendía, The Limits of the Global Village: Globalization, Nations and the State, World Development Studies 5, (Helsinki: UNU World Institute for Development Economics Research, September 1995), p. 17.

[77] Ibid.

[78] Paul R. Ehrlich and Anne H. Ehrlich, The Population Explosion, (New York: Morton, 1990), p. 134.

dioxide emissions cause ozone depletion and climate change on a global basis respectively.[79]

Under the auspices of the United Nations, an "Earth Summit" was planned that addressed issues of environmental degradation and sustainable development. This resulted in the 1992 UN Conference on the Environment and Development (UNCED) held in Rio de Janeiro, which was attended by 150 countries and 1,500 nongovernmental organizations (NGOs). Several conventions were signed during the Conference, the most significant being the Rio Declaration and Agenda 21. The Rio Declaration promulgated 27 principles on environmental protection and development. Agenda 21 provided a framework of sustainable development wherein developing countries are encouraged to implement development strategies that reduce environmental degradation to a minimum. While the Rio Conference was considered to be successful in attaining most of its original aims, one must keep in mind that no mechanism exists to bind signatories to their obligations. Moreover, several contentious or complex issues had to be "watered-down" in order to gain approval from various signatories. For example, several developed countries, including the United States, Japan, Australia, and Canada, did not support the proposals that called for 5 to 20 percent reductions of their greenhouse gas emissions by 2005 or 2010. Almost all the developed countries agreed to the proposal to stabilize their emissions

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[79] Owen Greene, "Environmental Issues," The Globalization of World Politics: An Introduction to International Relations, John Baylis and Steve Smith (Eds.), (Oxford: Oxford University Press, 1997), p. 314. These widely held generalizations are subject to a minor amount of debate within the scientific community, however, this sort of debate is beyond the parameters of this study.

at 1990-levels by 2000.[80] Nevertheless, the Conference is a positive endeavour in that it provides a programme for environmental protection and sustainable development.

Robin Broad and John Cavanagh identify three interrelated myths regarding the environment and economic development. The first myth is that the inhabitants of developing countries are the main perpetrators of environmental degradation because they must concentrate on their putting food on their tables rather than protecting the environment. Conversely, wealthy people in the developed countries are the only ones who can afford to be concerned about environmental protection. Second, environmental degradation in developing countries may be curbed by strengthening their economies, which is attained by increased participation in international trade. Third, the North must furnish more foreign aid funding to the South in order to alleviate the developing countries' reliance on environmentally destructive development practices.[81] These three myths lead one to conclude that since poverty leads to environmental degradation, environmental protection is attained through economic growth. In turn, economic growth may be stimulated in the developing countries through the combination of the integration of those economies in the world market and the provision of foreign aid from the North.

Broad and Cavanagh proceed to attack the validity of these three myths. The belief that poverty overwhelmingly leads to environmental destruction is shown to be false. Although the poor may individually affect the environment through population

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80 Ibid., pp. 330-332.

81 Robin Broad and John Cavanagh, "Beyond the Myths of Rio: A New American Agenda for the Environment." World Policy Journal, (Vol. X, No. 2, Spring 1993), p. 65.

growth and migration, these are relatively minor transgressions. Rather, it is the wealthy people within the developing countries that cause the significant portion of environmental degradation. The wealthy own large logging companies, plantations, mining firms, and other commercial interests that pollute and destroy vast amounts of the environment. The claim that free-market growth in developing countries will help prevent environmental degradation is based on the logic that corporations will protect the environment once they can afford to do so. Such a claim is problematic because in an open and largely unregulated economy, corporations are compelled to cut costs due to increased competition.[82] Environmentally responsible behaviour, such as the safe disposal of industrial waste products or reforestation projects, adds to a firm's overall operating costs. The third argument that more foreign aid to developing countries is required for environmental protection is equally unfounded. Research by the United States Agency for International Development (USAID) has shown that development aid may actually exacerbate environmental destruction. In several cases, mega-development projects, which were funded through various aid agencies, have been extremely harsh on the environment.[83]

The Globalization of Culture

The debate on the globalization of culture often revolves around efforts to preserve the aspects of a particular community's culture. Culture may be defined as the customs, beliefs, values, stories, music, art, fashion, lifestyles, and symbols of a

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82 Ibid., pp. 66-67.

83 David Korten, "Sustainable Development: A Review Essay," World Policy Journal, (Vol. IX, No. 1, Winter 1991-92), p. 157.

particular group.[84] These aspects of culture are usually conveyed through a common language, and are expressed in literature, architecture, movies, and television programs.[85] Taken together, these aspects form an identity that defines a particular culture through its unique qualities. There are three main positions within the debate on the globalization of culture. The most widely held position contends that globalization is a destructive force against cultural identities. Other observers completely disagree, positing that culture in heterogeneous by nature, and is thus impervious to the effects of globalization. The third position holds that individual cultures are subject to global cultural forces under globalization, yet each culture varies in its response to these forces.

The geographical isolation that various cultures once enjoyed has been vastly reduced by several factors that are linked to globalization. These factors range from the proliferation of transnational organizations, including the media, to technological advances in transportation and communication, to the world-wide increase in literacy rates.[86] These factors have also served to spread what is referred to as "global" culture, which connotes a homogenized type of culture. The content of this homogenized global culture is strongly moulded by American influences or "Americanization." Many fear that the integration and uniformity of a homogenized global culture will eventually eradicate indigenous cultures due to its manufactured

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[84] Culture is a complex and widely studied concept. See Robertson, Globalization: Social Theory and Global Culture, for a comprehensive study of culture within the context of globalization.

[85] Gary T. Neil, "The MAI and Culture," Dismantling Democracy: The Multilateral Agreement on Investment (MAI) and Its Impact, Andrew Jackson and Matthew Sanger (Eds.), (Ottawa: The Canadian Centre for Policy Alternatives, 1998), pp. 139-140.

[86] Buendía, The Limits of the Global Village, pp. 10-11.

"appeal" at the hands of large entertainment syndicates. The term "McWorld" is often employed to invoke the images of a homogeneous global culture that is fabricated by powerful commercial interests.[87]

Some commentators, such as James Lull and Arjun Appadurai, assert that culture is still highly heterogeneous. Lull argues that by its very definition, culture is based on the assumption of difference. Therefore, the local or regional characteristics do not vanish when exposed to foreign cultures, including the forces of a homogeneous global culture.[88] Appadurai identifies five "scapes" that preserve cultural heterogeneity: ethnoscapes; technoscapes; finanscapes; mediascapes; and ideoscapes. The prefix of each term refers to a particular movement. For example, ethnoscape relates to the movement of individuals, ranging from immigrants to tourists, from one region of the world to another.[89] These five "scapes" guarantee cultural heterogeneity because each movement is deeply disjunctive and each landscape acts as a constraint on the movements of the others.[90] This position rejects the notion that a global culture even exists.

This position is supplemented by Sir Leon Brittan's decidedly neoliberal perspective of culture and cultural subsidies. Brittan contends that the interaction and exposure of different cultures that increases through globalization is a positive

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[87] For an examination of cultural conflict see Samuel P. Huntington, "The Clash of Civilizations?" Foreign Affairs, (Vol. 72, No. 3, 1993), pp. 22-49; and Benjamin R. Barber, Jihad vs. McWorld: How Globalism and Tribalism are Reshaping the World, (New York: Ballantine Books, 1995).

[88] James Lull, Media, Communication, Culture: A Global Approach, (Cambridge: Polity Press, 1995), p. 148.

[89] Arjun Appadurai, "Disjuncture and Difference in the Global Cultural Economy," Mike Featherstone, (Ed.), Global Culture: Nationalism, Globalization, and Modernity, (London: Sage Publications, 1990), pp. 296-297.

[90] Ibid., p. 301.

phenomenon. Culture, by its very nature, is in a state of constant flux. Moreover, culture is a complex phenomenon that will not become homogenous due to the effects of mass media. Subsidies for cultural projects, such as those within the film industry, should be made available to all interests, including foreign ones, so long as the cultural project promotes the cultural values and themes of the country providing the subsidy. Otherwise, the restriction of cultural subsidies to domestic interests is a form of protectionism.[91]

The third position, which is a sort of synthesis of the other two positions, is more nuanced in its approach to the overall debate on the globalization of culture. Proponents of this position admit that the forces of globalization have reduced the isolation that most cultures previously possessed, and thrust them into the global arena. Individual cultures are then subject to global cultural flows, thereby undergoing the process of relativization. The results of the relativization process range from complete rejection to varying degrees of integration with the cultural forces and trends of globalization.[92] Subsequently, each culture has a unique response to these global cultural flows. Despite the validity of the arguments on the heterogeneity and relativity of culture, it does not repudiate the fact that many people view globalization as a force that is replacing individual cultures with a homogeneous global culture.

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91 Leon Brittan, Globalization vs. Sovereignty? The European Response, (Cambridge: Cambridge University Press, 1998), p. 10.

92 Charles O. Lerche, "The Conflicts of Globalization," International Journal of Peace Studies, (Vol. 3, No. 1, January 1998), p. 55.

It will be useful to investigate the above discussion on the globalization of culture in the context of the proposed MAI because the agreements within the treaty deal with the culture and cultural industries of OECD countries. In many countries, the government provides the arts with funding because it is an expression of culture that is not always a profitable endeavour. Governments justify the subsidization of cultural industries based on three main arguments. First, culture possesses a certain intrinsic value that may be damaged through commercialization. Second, each citizen should be exposed to the values that are passed on through cultural means, regardless of one's socioeconomic position, gender, or ethnicity. Third, the creativity and talent of the artist are the ultimate source of cultural values. Therefore, cultural production should not have to conform to the free market forces of supply and demand, which would otherwise distort the transmission of cultural values.[93]

The MAI undermines the ability of governments to provide grants, subsidies, and content quotas to their respective cultural industries. Cultural industries are those corporations that "produce and disseminate symbols in the form of cultural goods and services ... [such as] newspapers, periodical and book publishing, record companies, music publishers, commercial sports organizations, etc."[94] Nonetheless, governments still provide funding for domestic music, film, and stage productions. Under the provisions of the MAI, foreign companies, such as film and music corporations, could sue a country if they do not receive the same level of subsidization as domestic cultural firms. In addition, the MAI bars countries from limiting the amount of access

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[93] Nicholas Garnham, Global Culture and the Economics of Information, (London: Sage Publications, 1990), pp. 154-155.
[94] Ibid., p. 156.

of foreign cultural and entertainment corporations to their domestic markets.[95] These issues will be explored in further detail within the upcoming section on the MAI.

Globalization and Labour

One of the main critiques of globalization is that it facilitates the adversarial role that transnational capital has against the workers of the world. Without the control of state structures and policy-making (e.g. minimum wage levels, workplace safety regulations), transnational capital becomes unrestrained. Intuitively, the economic integration of globalization would seem to have a significant impact on both workers and labour markets. Free market forces of globalization, such as unrestrained FDI flows, the proliferation of MNCs, increased trade, and the reduction of barriers to workers' migration, affects labour markets in that the demand for unskilled labour becomes more elastic. This means that unskilled workers can be more readily replaced by other domestic or foreign workers.

With the reduction of trade barriers, particularly those envisioned under free trade agreements, all workers are subject to market instability, job insecurity, unemployment, and low wages. Low- or unskilled workers are more susceptible to these consequences of free trade than skilled workers because the latter are harder to replace. Consequently, low- and unskilled workers are much more likely to

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[95] Tony Clarke and Maude Barlow, MAI Round 2: New Global and Internal Threats to Canadian Sovereignty, (Toronto: Stoddart Publishing, 1998), pp. 70-71.

experience anxiety and feelings of insecurity about their jobs.[96] Dani Rodrik emphasizes that although this model of elastic demand on workers seems intuitively correct, very little research has been conducted to determine the quantitative magnitude of demand elasticity in response to economic integration under globalization. Trade volumes, immigration rates, and prices are significant factors that have not been included in the few studies that have been done. Rodrik states that more empirical studies must be undertaken in order to give scholars a clearer picture of the effect of globalization on labour markets.[97]

What is known, however, is that globalization requires both governments and corporations to cut costs due to international competition. International competition to attract FDI has led governments to reduce taxes.[98] In turn, less money is allocated to social services, and for the jobs that are necessary in the provision of those services. As a result, the number of government-sector jobs are reduced. World Bank statistics indicate that from 1972 to 1986, developing countries decreased the portion of total government spending designated for social services from 35 percent to 29 percent. During the same period, industrialized capitalist countries reduced their expenditures on social services from 58 percent to 56 percent.[99] For corporations, the majority of cost-cutting is realized by reducing labour costs through lay-offs and "restructuring." Capitalists argue that this is a positive thing because it

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[96] Dani Rodrik, Has Globalization Gone Too Far? (Washington, DC: Institute for International Economics, 1997), p. 11.
[97] Ibid., pp. 26-27.
[98] Paul Streeten, "Globalization: Threat or Salvation?" Globalization, Growth and Marginalization, A. S. Bhalla (Ed.), (New York: St. Martin's Press, 1998), pp. 22-23.
[99] Ibid., p. 23.

makes both actors more efficient. The obvious downside is that these cost-cutting measures affect human beings in terms of the feelings of rejection and under-appreciation that come with being laid-off, having one's wages reduced, or even being transferred horizontally. Unemployment brings uncertainty and depression, which is added on top of the obvious stress of having to find another job in order to earn a living.

The above argument may be applied to jobs that are both moderately skilled and pay moderately well. In Germany, labour costs average about US$29 per hour. This rate is among the highest in the world, and is approximately double the average labour cost in the United States.[100] In order to remain competitive, German companies are compelled to invest outside the country. For example, Volkswagen's New Beetle is built in Mexico, thereby saving a significant portion of labour-related production costs.[101] In 1997, it was calculated that "German companies invested about 10 times as much money outside Germany as non-German corporations invested within Germany."[102] Once the implementation process of the Euro is complete on 1 January 2002, these figures for German companies will likely increase. With a common European currency and increased economic integration, companies from countries within the EU will look to invest in other member-states that have lower average labour costs and work benefits, such as Spain and Portugal. The German example is

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100 John Tagliabue, "In Daimler's Hometown, Globalization is Focus," New York Times, (9 May 1998), p. D2.

101 Ibid.

102 Ibid., p. D1.

symptomatic of how economic integration of globalization enables corporations to increasingly outsource both labour and components for their products.

Economic Inequality between the North and South

The strong economic character of globalization lends itself to the fear that the wealthy industrialized countries of the North will set the pace for future economic development around the world. Globalization sustains a set of both aggregate concentrations of power and deprivations of power among the countries of the world. This is often referred to as a sort of hegemony that is enjoyed by the North, which is based on economic power. Moreover, free-market initiatives have not decreased the gap between the rich industrialized countries of the North and the developing countries of the South. It is not in the interests of transnational capital to attempt to close the North-South economic gap because they can pay workers in developing countries of the South much lower wages, etc. International financial institutions would seem like a logical candidate to close the North-South gap. However, these institutions are controlled by corporate interests (transnational capital) who are not compelled to close this gap.

FDI capital is located mostly in the developed countries of the North, and moves primarily among these countries, thereby bypassing the countries of the South. Recently, a minor amount of change has taken place in terms of including the South in global investment flows. FDI outflows originating from the Triad, which consists of the countries of North America, Europe, and Japan, numbered some 94 percent of the world total in the 1980s. 22 percent of global FDI outflows were directed to the

economies of developing countries.[103] By 1993-95, the Triad's share of global FDI outflows decreased to 84 percent, while the proportion of total global FDI outflows to developing countries increased to 38 percent.[104] The MNCs of developing countries are also growing in terms of FDI. In the 1970s, FDI outflows from developing countries accounted for only 0.3 percent of world totals. By 1993-95, this figure rose to 15 percent.[105] Despite the increase of FDI to developing countries, it does not seem that this influx of capital actually improved the standard of living in these countries.

Statistics from the early 1990s show that approximately 800 million people do not have regular access to the basic necessities of life, such as food, water, and shelter. Roughly the same number of people are illiterate.[106] UN data indicates that as many as 100 countries are worse off in the late 1990s than they were in 1980.[107] Moreover, increased FDI inflows do not seem to reduce economic disparity between individuals. In the 1960s, the richest 20 percent of the world's population owned 70 percent of the world's wealth. By the 1990s, this figure jumped to 85 percent. Conversely, the poorest 20 percent of the world's population owned 2.3 percent of the world's wealth in the 1960s. By the 1990s, they owned 1.4 percent of the world's wealth.[108] These numbers indicate the economic disparity that exists between the

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103 Richard B. Du Boff and Edward S. Herman, "A Critique of Tabb on Globalization," Monthly Review, (Vol. 49, No. 6, November 1997), p. 30.

104 Ibid.

105 Ibid.

106 John Macneill, et al., Beyond Interdependence: The Meshing of the World's Economy and the Earth's Ecology, (Oxford: Oxford University Press, 1991), p. 6.

107 William K. Tabb, "Globalization is *An* Issue, the Power of Capital is *The* Issue," Monthly Review, (Vol. 49, No. 2, June 1997), p. 22.

108 All figures are cited from "The Alarming Multilateral Agreement of Investment (MAI) Now Being Negotiated at the OEDC," Public Citizen Global Trade Watch, (1998), <http://www.citizen.org/pctrade/mai/What%20is/maibg.html>, visited 30 May 1999, p. 1.

world's population. This is relevant in that most of the world's wealthiest populations reside in the developed countries of the North and the poorest are located in the developing countries of the South. Clearly, globalization has not remedied the disparity that exists between the North and South.

The Multilateral Agreement on Investment

The Multilateral Agreement on Investment (MAI) is a proposed treaty that allocates a significant amount of power to foreign investors and corporations, such as MNCs. Once the MAI is signed, a member-state must wait five years until it may withdraw from the treaty. After this time period, a country may withdraw on six month's notice, but it must honour all the existing investments that were executed under the MAI for an additional 15 years.[109] Signatories are therefore bound by the provisions of the MAI for a total of 20 years. The proposed MAI allocates "national treatment" to foreign investors and companies, which means that they are granted legal standing that is equal to domestic investors and companies. This provision enables foreign corporations to be included in the privatization process of bidding for ownership of state corporations.[110] A similar provision, which is equivalent to granting a country the status of Most Favoured Nation (MFN), forbids governments to censure foreign investors based on the violation of human rights, workers' rights, or environmental regulations. Several authors have pointed out that had the MAI been

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[109] Martin Khor, "The MAI and Developing Countries," Dismantling Democracy: The Multilateral Agreement on Investment (MAI) and Its Impact, Andrew Jackson and Matthew Sanger (Eds.), (Ottawa: The Canadian Centre for Policy Alternatives, 1998), p. 282.

[110] Uchitelle, "Globalization Has Not Severed Corporations' National Links," p. D1.

in operation during South Africa's policy of apartheid, then sanctions and boycotts against that country would have been illegal, and Nelson Mandela would likely still be in prison.[111]

Regarding the issue of workers' rights and labour regulations, the MAI removes any form of performance requirements that normally exist when a foreign corporation is allowed to operate within a country. Performance requirements are an agreed upon set of minimum levels that must be met by the foreign company, such as the number of jobs for local workers and the purchase of locally-produced materials.[112] Foreign companies and investors are able to legally challenge labour laws, such as workplace health and safety regulations, if they can prove that these laws adversely affect profits. Moreover, foreign enterprises are able to terminate operations in a particular country without meeting any type of minimum residency requirement. This may lead to the sort of economic instability that is associated with capital flight.[113] This "non-discrimination" proviso also removes a government's power to promote economic growth in domestic industries through low-interest loans, start-up grants, or various protectionist policies.

The MAI also establishes strong legal standing for foreign investors and corporations by enabling these actors to sue sovereign governments. The MAI contains a provision that establishes an international tribunal that not only arbitrates

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[111] James Davis and Cheryl Bishop, "The MAI: Multilateralism from Above," Race and Class, (Vol. 40, Nos. 2/3, October 1998/March 1999), p. 161; Douglas Mattern, "Democracy or Corporate Rule?" The Humanist, (Vol. 58, No. 4, July/August 1998), p. 5; and Stephen J. Kobrin, "The MAI and the Clash of Globalizations," Foreign Policy, (No. 112, Fall 1998), p. 104.

[112] Clarke and Barlow, MAI Round 2, p. 63.

[113] Ibid., p. 64.

disputes between states, but also adjudicates over cases where private investors or corporations take legal action against a particular country.[114] For example, if a particular government announces tax breaks for small business, the MAI enables foreign companies to sue that government on the grounds of committing unfair trade practices. If a country bans a certain foreign-made product from being sold within its borders, then the manufacturer may sue that country's government to recoup the projected profits from its sale.

A compelling example of what may happen under this provision of the MAI took place in July 1998 when the Canadian government reversed its legislation banning the import of the controversial fuel additive MMT from the United States. Thirteen months earlier, the Canadian government had banned the fuel additive because studies had indicated that MMT was dangerous for two reasons. First, the fuel additive disrupts the proper functioning of a vehicle's pollution-control system, which leads to an increase in the level of air pollution released by a vehicle. Second, MMT is a neurotoxin that is potentially harmful to the human brain.[115] Following the ban on MMT, its producer, the American-based Ethyl Corporation, launched a CAN$350 million legal suit against the Canadian government under Chapter 11 of NAFTA. This provision entails the formation of a confidential panel of three trade bureaucrats to rule on cases wherein a foreign company is suing a NAFTA government for passing legislation that allegedly results in the loss of profits by that company. Under the advice of its legal experts, the Canadian government repealed

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114 Kobrin, "The MAI and the Clash of Globalizations," p. 101.

115 Clarke and Barlow, MAI Round 2, pp. 33-34.

the legislation banning the import of MMT. The Canadian government then paid Ethyl Corporation approximately CAN$20 million in compensation for lost profits over the preceding thirteen months.[116]

The above case is one of several examples of how the MAI increases the amount of power that MNCs have vis-à-vis sovereign states without attaching the requisite obligations. The governments of countries are obligated to protect the economic, social, cultural, and environmental rights of their people because they are subject to national laws and regulations, and to democratic control by their citizens. Under the MAI, however, MNCs are free of virtually all regulations, and are not subject to any sort of democratic control. The MAI is unique in comparison to other international trade agreements in that it is binding on provincial, state, and municipal levels of government. Consequently, the MAI ignores the constitutional division of legislative powers of its signatories.[117] This is particularly relevant to a country with a federalist system, which allocates a significant amount of legislative power to various subcentral levels of government. For example, each Canadian province is responsible for providing health care, education, and social services for individuals residing within its borders.[118] If the MAI is signed by the Canadian government, then the control of the provinces over these jurisdictions will be severely undermined.

In 1995, the Organisation for Economic Co-operation and Development (OECD) and the WTO initiated plans for the formation of a global investment treaty.

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116 Ibid., pp. 34-36.

117 Joseph K. Roberts, "Multilateral Agreement of Investment," Monthly Review, (Vol. 50, No. 5, October 1998), p. 25.

118 Ibid.

The goal of the treaty was to replace the approximately 1,600 bilateral investment agreements with a cohesive and streamlined document. These initial negotiations, on what eventually came to be known as the MAI, were cloaked in secrecy. The OECD eventually became the primary forum for the planning and negotiating of the MAI. By January 1997, a draft document of the MAI was prepared by the OECD for internal circulation only.[119] A network of researchers who were investigating the then-rumoured global investment treaty obtained a leaked version of the MAI.[120] The researchers passed on the leaked version of the MAI to various media outlets in Canada, which was then quickly spread to the United States and Europe. On 3 April 1997, the MAI was front-page news in the Globe and Mail. On the same day, the draft document of the MAI was published on the Internet in the Multinational Monitor, based in Washington, DC.[121] In May 1997, a second draft of the MAI was leaked to the public. The second draft contained only minor revisions to the original text.

In early 1998, the trade ministers from the OECD countries met in Paris to conclude the negotiating process of the MAI. In February 1998, the OECD officially released a draft text of the MAI. The main difference between the February 1998 draft text and the two leaked versions was that the negotiating positions of the OECD

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[119] Tony Clarke and Maude Barlow, MAI: The Multilateral Agreement on Investment and the Threat to Canadian Sovereignty, (Toronto: Stoddart Publishing, 1997), pp. 1-3.

[120] Clarke and Barlow make reference to several leads and leaks, and the efforts of a network of researchers, which resulted in their gaining access to the MAI draft document. The chain of events is reported with deliberate vagueness in order to protect those involved.

[121] Clarke and Barlow, MAI, p. 3.

countries were not included in the officially released version.[122] At the Paris meeting, the delegates could not agree on all of the provisions of the MAI, due in large measure to the mounting opposition in OECD member states since the leak of the MAI document the year before. In a public relations move, the OECD published yet another version of the MAI document on its website on 24 April 1998. The April 1998 version of the MAI was virtually the same as the previous drafts. By far the most significant difference was the inclusion of an annex listing several OECD and member-state proposals to serve as an indication that various criticisms, such as those put forth on labour standards and environmental protection, were going to be addressed.[123]

On 27 April 1998, the OECD failed to ratify the MAI by the self-imposed deadline. This was the second time that the MAI had passed an OECD deadline without being ratified. Subsequently, the OECD imposed a six-month moratorium on MAI negotiations.[124] This, of course, did not mean that "unofficial" negotiations had stopped. On 14 October 1998, France announced that it had withdrawn from the negotiations, set to begin a week later. French Prime Minister Lionel Jospin stated that although his government supports the notion of strengthening international investment rules, it is concerned about cultural and environmental protection, labour

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[122] Michelle Sforza, "MAI Provisions and Proposals: An Analysis of the April 1998 Text," Public Citizen Global Trade Watch, (July 1998), <http://www.citizen.org/pctrade/mai/What%20is/ ANALYSIS/html>, visited 30 May 1999, p. 1.

[123] Ibid.

[124] Clarke and Barlow, MAI Round 2, pp. 2-3.

standards, the volatility of financial markets, and the general erosion of state sovereignty.[125]

France now contends that MAI negotiations should start from scratch, and take place in the WTO. Canada, Britain, and the Netherlands have indicated that they support the proposed move to the WTO, however, the United States opposes such a plan. The United States believes that with a significantly larger number of participants (an increase from 29 to 130+ countries), discussions would be more complex and agreements harder to reach. This was evident during the OECD negotiations on the MAI as each country advanced numerous exceptions to the document's general provisions.[126] In addition, many of the members of the WTO are developing countries, whose economies and political climates are generally less stable. United States also opposes a move to the WTO because it anticipates opposition from NGOs and some resistance from developing countries, thereby weakening any sort of investment treaty. For example, India and a few developing countries were successful in blocking the initial WTO negotiations on a global trade and investment in 1996.[127] In theory, the WTO operates by consensus, thereby making it difficult to attain every country's acceptance of a particular treaty.

By December 1998, OECD negotiations on the MAI had come to an unsuccessful close. New negotiations are set to take place within the WTO on a similar international investment agreement. The WTO is a more logical forum for

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125 Heather Scoffield, "France Pulls Out of MAI Talks," Globe and Mail (15 October 1998), p. B1.

126 "The Sinking of the MAI," The Economist, (Vol. 346, 14 March 1998), pp. 8-9.

127 Mark Vallianatos, "Update on MAI Negotiations," Press Release, Friends of the Earth, (27 October 1998), p. 5.

drafting a treaty on international investment than the OECD. Although, OECD members are responsible for approximately 85% of all foreign direct investment outflows and receive about 60% of all foreign direct investment inflows, its expertise lies in conducting economic research.[128] The WTO is comparatively much more experienced in drafting international trade agreements. The WTO has already overseen a series of complex negotiations on information technology, telecommunications, and financial services. Moreover, the OECD does not have the framework in place to deal with members that commit treaty violations, whereas the WTO has a legal mechanism to handle transgressions of this nature.[129] The new international investment negotiations are on the agenda for the WTO's Third Ministerial Conference in Seattle, USA, from 29 November to 3 December 1999. It is interesting to note that on 12 April 1999, Seattle's city council voted unanimously (8-0), to declare itself a "MAI free-zone."[130]

Conclusion

This chapter has examined the position of those who are critical of the convergence of the globalization and the state. The state is directly challenged by the forces of globalization in the sense that they erode its policy-making capacity. State governments, which are responsible for making national law, legislation, and policy in general, are therefore unable to protect their citizens from the actions of unfettered

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128 "The Sinking of the MAI," p. 8.

129 "The Talking FDI Blues," The Economist, (Vol. 346, 14 March 1998), p. 20.

130 Sally Soriano, "Seattle City Council Votes Against International Investment Pact: MAI is a Threat to Local Government," Press Release, Public Citizen Global Trade Watch, (14 April 1999), <http://www.igc.org/igc/en/hl/99041524091/hl8.html>, visited 30 May 1999, p. 1.

transnational capital under globalization. As a result, democratic principles are compromised. Opponents of globalization also perceive it to be leading to: the destruction of the environment; the homogenization of culture; increased uncertainty in the workplace; and the exacerbation of economic inequalities between the countries of the North and South. The MAI is a document that encompasses the above fears of the effects of globalization. Although negotiations on the MAI have stopped, they are scheduled to resume near the end of 1999, albeit in a different form and arena. The next chapter examines many of the themes covered in this chapter, however, from the perspective of those who favour the convergence of globalization and the state.

CHAPTER FOUR

THE END OF THE STATE

Introduction

This chapter examines the position of those who generally concur that the forces of globalization have facilitated the increase of power to transnational capital, while eroding the political capacity of the state. Accordingly, they argue that the state has become increasing irrelevant as an actor in the global economy. It is also asserted that the only viable course of action for states is to bequeath most economic functions to the free market, resulting in a convergence between the two institutions. In the opinion of the authors examined in this chapter, this is a positive event because the governments of states are little more than barriers to international trade and investment flows, and the ensuing economic growth and prosperity. This chapter also returns to the debate on whether or not freer international trade is detrimental to the environment and to working standards. The literature presented here suggests that trade liberalization does not harm the environment, nor reduce working standards. In the final section of the chapter, globalism is investigated as a movement that recognizes free market forces as the most efficient determinant of global governance. The report put forth by the Commission on Global Governance (CGG) is outlined as a variation on the theme that the state is becoming obsolete and should be replaced with governing mechanisms that mirror the free market. In this context, globalism is a movement that calls for a convergence of the state with the market.

The Convergence of the State and the Market

Kenichi Ohmae is one of the leading proponents of the convergence of the market and the state. Ohmae employs the term "the interlinked economy" (ILE) to refer to the process of economic globalization and the related phenomena of the reduction of trade barriers, unrestricted FDI flows, and open economies in general. The ILE entails the deregulation of trade and the removal of barriers to the flow of goods, services, information, capital, individuals, and firms between and within countries. In the past, a government may change the interest rate or money supply through its central bank in order to effect macroeconomic change, such as stimulating the economy or reducing inflation rates. This form of monetary policy has become increasingly obsolete under the ILE. If a particular government chooses to restrict its money supply, then the amount of loans from foreign sources will likely surge in the domestic economy. The ILE primarily consists of speculative market instruments, such as currency exchange rates, that are extremely liquid.[131] A high level of liquidity refers to the ease and speed in which investments may be attained, exchanged, or withdrawn. Despite the significant damage to several economies caused by the actions of currency speculators, such as was the case in South Korea, Ohmae claims that the overarching result of the ILE is the increased prosperity of individuals and corporations.

The operation of the ILE has led to the increasingly irrelevance of the state in terms of managing economic activity within its borders. The traditional

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[131] Kenichi Ohmae, The Borderless World: Power and Strategy in the Interlinked Economy, (London: HarperCollins Publishers, 1990), pp. xi-xiii.

conception of the world order, based on the political sovereignty of independent states, is obsolete. Ohmae identifies four factors of globalization -- investment, information, industry, and individuals -- as being responsible for the erosion of this traditional conception of the world order. These four factors, referred to as the four "I's," remove the state's previous role as a sort of intermediary in the marketplace. Ohmae concludes that the state must then be redefined, if not replaced, in view of the current trend towards a global borderless economy.

Ohmae holds that the four "I's" have become more "global" in orientation since the 1980s, thus representing the largely unimpeded flow of transnational capital across national boundaries. Advances in communication and transportation technologies have drastically reduced the great geographical distances that previously restricted international investment. With the click of a computer mouse or the press of a button on a computer keyboard, investment flows now traverse the globe in a matter of seconds. In the past, international investment was either transacted between states or from international lending agencies to states. Over the past decade, however, international investment has become increasingly "private" as funds are owned by individual investors or private corporations.[132] The second "I," information, relates to technological advances that have aided in the transnational advancement of both investment and industry. Technological innovation has enabled MNCs to build and operate a network of affiliates located across the globe. A corporation's executives, experts, and upper management do not have to be duplicated at every

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[132] Ohmae, The End of the Nation State, pp. 2-3.

branch.[133] Rather, communication technology, ranging from telephone conferencing to computer networks to fax machines, allows MNCs to tightly coordinate the operations of its affiliates.

Over the past ten years, industry has become more globally-orientated. In the past, a corporation would negotiate exclusive trade deals with a particular foreign government in accordance with the interests of its country of origin. These trade deals promised the introduction of financial resources and high-level technological skills into the foreign economy in exchange for access to their market. Presently, the actions of MNCs are exclusively dictated by self-interest in terms of scouring the planet in search of profitable markets.[134] Much like industry, individuals as consumers have become much more globally-orientated in their behaviour. Individuals are able to purchase products from around the world with relative ease due to technological advances in transportation and delivery technologies. Toll-free telephone lines, Internet order-forms, and credit cards have all facilitated the purchasing process by removing the importance of close geographic proximity between the buyer and seller. The irrelevance of the location of the seller for the buyer also enables consumers to compare the quality and price of products from around the world. For example, through today's "borderless" economy, a contractor in Singapore discovers that the lowest price for construction materials is from producer X located in country Y. Although construction materials are not produced in Singapore, the Singaporean contractor is able to purchase the products at the lowest

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133 Ibid., p. 4.
134 Ibid., p. 3.

possible price. Japan produces and sells construction materials, but at a higher price than country Y. Through today's borderless economy, a Japanese contractor is also able to purchase the lower-priced construction materials from producer X in country Y.[135]

The convergence of the market and the state is driven through the rapid advances in information- and communication-technologies. This leads to the proliferation of information flows, which are primarily directed towards the individual. The content of information flows, ranging from current news events to consumer products, makes individuals better informed about what is happening around the world and what products are available for purchase. Specifically, these information flows are of particular relevance to consumer choice. Consumers, both individual and industrial, now have myriad products and services available to them in terms of choice, quality, and price. As a result, a government can no longer sustain the deception that the economic interests of the state are the same as those of its citizens.[136] Once consumers are aware of the choices available to them, they will want the freedom to buy those products and services. This erodes the autonomy of the state in economic matters as "governments -- and the national boundaries they represent -- become invisible...[t]hey have no direct role to play."[137] The well-informed consumer, representing the fuel that drives the economy, is one of the main forces leading to the convergence of the market and the state.

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135 Ibid., p. 13.
136 Ohmae, The Borderless World, p. 185.
137 Ibid., p. 183.

Ohmae contends that economic activity, under the auspices of the capitalist market and the borderless economy, is now more powerful than the state because it directs all other forms of societal activity. In the past, the governments of states were able to affect their economies through the redistributionist tools of Keynesian policy. If the domestic economy was sluggish, then government spending was increased coupled with lower interest rates in order to promote growth. If the economy was booming, then government spending was reduced and interest rates were raised. Under today's borderless economy, these sorts of Keynesian principles do not have the same effect. Although the lowering of interest rates may raise supply in one's domestic economy, it may also divert both foreign and domestic capital investment to other countries in search of higher returns. This outflow of investment reduces the amount of capital that may otherwise be invested in domestic supply.[138] Governments of states make these sort of economic decisions with political consequences in mind rather than economic ones. The governing political party often attempts to take credit for a strong economy because this will translate into votes during an upcoming election. When the economy is experiencing a slow-down or slump, job creation initiatives dominate policy platforms and campaign promises. In effect, political considerations take precedence over sound economic decision-making.

According to Ohmae, a minimal role does exist for governments to fulfil. Governments, at every level, should restrict themselves to the following objectives: "to protect the environment, to educate the work force, and to build a safe and

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[138] Ohmae, The End of the Nation State, pp. 41-42.

comfortable social infrastructure."[139] Governments should focus on the needs and interests of their citizens rather than their domestic industries or firms. This means that governments should not try to influence the choices of their citizens.[140] In economic terms, governments must work in accordance with the capitalist market by opening up their domestic economies. Regulations should be kept at a minimum level. An open economy will enable a country's citizens to have access to the best goods and services that the world has to offer, at the lowest price. Conversely, the implementation of isolationist economic policies stifles the productive and entrepreneurial potential of its citizenry, resulting in economic stagnation.[141]

Robert B. Reich echoes Ohmae's vision of the minimalist role of the state. Reich argues that one of the fundamental roles of the state, which is to support its domestic industries, is becoming increasingly obsolete. There is no need for governments to erect trade barriers or cut taxes -- citizens are just as likely to invest additional income in foreign or multinational corporations as domestic firms. The forces of globalization, such as trade, capital, technology, investment, and MNCs, are moving across national boundaries with more and more ease.[142] MNCs are less and less "loyal" to their country of origin as the search for profit is their overarching motivation. MNCs are truly stateless because the production is based on global

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139 Ohmae, The Borderless World, p. x.

140 Ibid., pp. 200-201.

141 Ibid., p. x. In this part of his overall argument, Ohmae assumes that the people have the necessary cash in order to purchase the best goods and services. It is also important to note that the isolationist economic policies pursued by the United States throughout the nineteenth century and early twentieth century did not result in economic stagnation, nor did it adversely affect the entrepreneurial spirit of its citizens. In fact, quite the opposite took place as the United States experienced steady economic growth during this period.

142 Robert B. Reich, The Work of Nations: Preparing Ourselves for 21st-Century Capitalism, (New York: Alfred A. Knopf, Inc., 1991), p. 34.

networks that enhance economies of scale and minimize costs. MNCs extend this logic in determining the location of research and design facilities, and corporate headquarters. The investors of MNCs are often drawn from several different countries, thereby reducing the relevance of national origin of the firm.

From the late nineteenth century until nearly the end of the twentieth century, the purpose of the domestic economy was to increase the socioeconomic well-being of the citizens of the state, which depended on the viability and success of large domestic firms. As more and more large domestic firms become transnational in their focus and operations, their success translates less and less to direct benefits for the citizens of their "home" countries. The most important economic role for governments is to link the skills of its citizens to the world market.[143] This minimal role for governments is consistent with those who espouse the convergence of the market and the state.

A "Friendlier" Globalization

Niall Fitzgerald dismisses those who fear globalization as a sinister plan hatched by transnational capitalist forces. Fitzgerald argues that the globalization phenomenon "is both a cause and effect of the international understanding ... that open markets create wealth."[144] Globalization presents governments with the opportunity to sustain local diversity while fostering global coherence. Global

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143 Ibid., p. 8.

144 "Harnessing the Potential of Globalization for the Consumer and Citizen." International Affairs, (Vol. 73, No. 4, October 1997), p. 739.

coherence is related to globalism, which will be examined in the next section. Fitzgerald encourages both governments and corporations of all sizes to meet the challenges of globalization rather than struggle against them. Moreover, the convergence of the state and the market under globalization will result in the primacy of the consumer and citizen in the economy.

Fitzgerald perceives globalization as an economic and political phenomenon that should be harnessed as a source of wealth creation. The operation of an open market, which allows free trade and unimpeded FDI flows, compels corporations to become more efficient and innovative. The author employs the analogy of surfing to explain why corporations should be aggressive in their approach to globalization. The forces of globalization are similar to a series of enormous waves. Corporations that successfully "surf" the fast-moving waves of globalization will reap the rewards of such a risky, yet necessary endeavour. This is predicated on the logic that higher risk results in higher profit and growth.[145]

Sir Leon Brittan expands upon Fitzgerald's views that open markets and free trade create wealth and prosperity. Brittan holds that globalization leads to global economic growth, which in turn, leads to an overall increase in humanity's well-being.[146] Globalization also promotes international peace through political stability. The rationale for this assertion is that the "opening" of a country's economic system under globalization is a form of economic interdependence. Brittan employs the following example to support the thesis that economic interdependence leads to

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145 Ibid., p. 741. Fitzgerald fails to mention that higher risk may also result in higher losses.

146 Brittan, Globalization vs. Sovereignty? p. 7.

political stability. If a country maintains a closed economic system, then it will become isolated. Isolation leads to economic stagnation, which results in political instability. This is evident as the government loses popular support due to the fact that the needs of the country's citizens are no longer being met.[147]

Brittan argues that globalization does not increase the gap between the wealthy and poor countries, nor does it affect the income inequality that exists among individuals within countries. Recent growth rates in Asia suggest that global economic growth is becoming more equally distributed around the world. Moreover, he contends that the poorest countries of the world should be fully integrated into the international economy in order to reap the benefits of economic growth. Economic liberalization, such as the reduction of trade barriers and integration into the international economy, has resulted in the gradual rise of average income levels in countries with open economies.[148]

Globalization and Employment Issues

With regards to employment, globalization is examined in terms of its relationship with labour standards and wage inequalities, particularly within developing countries. It is important to note that the measurements for classifying labour standards are strictly qualitative and lack international consensus. Consequently, it is difficult to accurately delineate between "low" and "high" labour standards. Nevertheless, some efforts have been made at defining a fundamental set

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147 Ibid.

148 Ibid., pp. 8-9.

of international labour standards. In March 1995, the World Social Summit in Copenhagen promulgated a set of labour standards based on those suggested by the International Labour Organisation (ILO). This set of labour standards is commonly referred to as "core" labour standards. Core labour standards attempt to incorporate basic human rights in scope and practice. Core labour standards include four main provisions: the prohibition of child labour; the elimination of slavery and other forms of compulsory labour; the right to establish collective bargaining organizations; and the end to any form of discrimination in the workplace. It is important to note that both the ILO and OECD omit health and safety provisions, minimum wage levels, and workday and workweek maximum from their list of core labour standards.[149]

Despite these endeavours to set a certain level of labour standards, Brittan states that developing countries should retain the prerogative to maintain relatively low wages in order to attract foreign investment.[150] Moreover, if developing countries maintain open markets, then their per capita incomes will rise due to economic prosperity. Tony S. Wirjanto declares that countries with relatively high per capita incomes generally have high labour standards. Wirjanto concludes that open economies eventually result in the development of higher labour standards through economic growth.[151] Intuitively then, labour standard-levels are coterminous to cost in the sense that it costs more to operate with higher labour standards. The converse

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149 Organisation for Economic Co-operation and Development, Trade, Employment, and Labour Standards: A Study of Core Workers' Rights and International Trade, (Paris: Organisation for Economic Co-operation and Development, 1996), pp. 25-26.

150 Brittan, Globalization vs. Sovereignty? p. 9.

151 World Trade Patterns and Contemporary Issues in International Trade Policy, International and Development Studies Working Paper, (Kingston, ON: Queen's University, October 1997), pp. 35-36. This line of reasoning ignores the role of unions and socialist-leaning political parties in raising labour standards in various countries.

also seems true: lower labour standards are equated with lower costs. Since lower costs lead to higher profits, one would naturally expect MNCs to set up subsidiaries in countries with what is considered "poor" or "lower" labour standards. Evidence suggests, however, that MNCs and are not always attracted to areas with lower labour standards. For example, studies show that the majority of FDI flows from American investors are not directed to countries or industries with lower labour standards.[152] Similarly, other data collected on this issue indicates that poor labour standards are not a significant determinant for investment in a non-OECD country by OECD investors. According to the OECD, low labour standards do not always attract investment capital because foreign investors often equate low labour standards with low productivity rates.[153]

Although globalization has coincided with a decrease in the number of less-skilled jobs, it has not necessarily caused this reduction. Similarly, it is unclear whether or not globalization has led to an increase of wage inequality between more-skilled jobs and less-skilled jobs. Matthew J. Slaughter and Phillip Swagel contend that technological change and innovation are the main catalysts behind recent changes in employment and wage levels.[154] This is particularly evident in the manufacturing industry. In the United States, manufacturing output has increased five-fold from the

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152 Drusilla K. Brown et al., "Issues of Environmental and Labor Standards in the Global Trading System," Globalization, Technological Change, and Labor Markets, Stanley W. Black (Ed.), (London: Kluwer Academic Publishers, 1998), pp. 247, 250.

153 Trade, Employment, and Labour Standards, p. 13.

154 Does Globalization Lower Wages and Export Jobs? Economic Issues No. 11, (Washington, DC: International Monetary Fund, September 1997), p. 1.

output levels recorded in 1950. Moreover, this massive increase in productivity has been achieved with significantly less workers.[155]

More-skilled jobs are those occupations that require significant levels of education. In some instances, several years of experience at one particular job allows one to move up to what may be considered as more-skilled employment. Nevertheless, more-skilled occupations are usually associated with graduates of universities, colleges, and other post-secondary institutions. Less-skilled occupations are normally filled by individuals with education levels ranging from virtually none to the completion of high school. A study conducted in the United States that compared the average income of individuals with a university-level education against individuals with only a high school diploma demonstrated a significant disparity in average wages. From 1979 to 1988, the income gap between post-secondary graduates and high school graduates grew by about 20 percent. Before 1979, the wage inequality between more-skilled and less-skilled occupations had been steadily decreasing in the United States.[156]

Increased international trade, which is one of the primary forces of globalization, affects the price of labour in those industries that experience an increase in either imports or exports. Economic theory holds that industries that face more competition through increased imports into their domestic market respond by reducing prices. This leads to wage reductions in order for the firms in that particular industry to remain profitable. Conversely, increased exports to foreign markets leads

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155 Tabb, "Globalization is *An* Issue, the Power of Capital is *The* Issue." p. 23.

156 Slaughter and Swagel, Does Globalization Lower Wages and Export Jobs? p. 3.

to growth in those exporting industries. The economic growth forces the exporting industries to hire more employees, raising both demand for workers and average wages. The aforementioned theory has been used in the analysis of international trade on industries that employ more-skilled and less-skilled workers. Virtually all research conducted on this question has shown that increased international trade has only a moderate effect on the wage gap between more-skilled and less-skilled workers.[157] The lack of robust conclusions from this research is due in part to the flawed assumption by some economists that the labour supply is fixed. The above research also ignores various domestic influences, such as product demand, immigration, and technological innovation.

Slaughter and Swagel conclude that globalization has not necessarily resulted in the growth of the income gap between more-skilled jobs and less-skilled jobs. Rather, immigration, innovation, and new technologies in communication and transportation have largely resulted in greater income inequality. This is due to the fact that higher demand exists for individuals to fill more-skilled occupations and less demand for lesser-skilled jobs. Immigration rates have also played a role in the growth of wage inequality. During the 1980s, it is estimated that approximately one-third of the total growth in the wage gap in the United States between more-skilled and lesser-skilled workers was due to increased immigration.[158]

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[157] Ibid., pp. 5-6.

[158] Ibid., p. 10. This analysis ignores the significant level of income inequality between top managers, such as a CEO, and an average worker.

The "Flexibility" Challenge to Corporations and Governments

In general, neoclassical or "mainstream" economists tend to view globalization as a qualitatively positive phenomenon that leads to greater efficiency and productivity among individuals and the allocation of resources of countries. This, it is argued, is accentuated by the unrestrained flow of capital, products, individuals, and ideas. For example, Charles Oman claims that globalization has increased competition in terms of undermining the operation of oligarchies within various domestic markets.[159] This supposedly results in both lower prices through increased competition and more selection for those consumers who have the necessary wealth to purchase such goods and services.

Oman explains that in order to reap the benefits of globalization, both corporations and governments of countries must be "flexible." This flexibility may be attained so long as the following initiatives are followed. In the case of corporations, it is of utmost importance that their production processes are flexible. Corporations may achieve this through the integration of the contemplative and planning aspects with the actual production process. This runs counter to the highly compartmentalized, mass production techniques associated with fordism and taylorism, wherein low-skilled labourers carrying out monotonous work assignments with little need for communication, and virtually no need for thought or creativity. Nevertheless, flexible production retains the benefits of fordism and taylorism, such as speed and low per unit costs.[160]

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[159] Globalisation and Regionalisation: The Challenge for Developing Countries, (Paris: Development Centre of the Organisation for Economic Co-operation and Development, 1994), p. 12.
[160] Ibid., p. 86.

Corporate flexibility requires that five main features be included in the production process. First, the processes of design and manufacture must be integrated in order to reduce any unnecessary amounts of time, money, and materials that are often wasted by developing new products. Engineers, designers, and producers are to operate in a "face-to-face" fashion, thereby expediting the design and manufacturing processes. Second, every employee is to provide input on how to improve any aspect of production, from the products themselves to the actual production processes. This may be accomplished by assigning a portion of the workweek to discussions on how to improve production. As a result of this initiative, an incremental, yet perpetual level of improvement and innovation will be gained. The third measure requires the division of workers into large teams or groups. Each team, consisting of approximately fifteen members, is responsible for a particular segment of the production process. Workers are rotated through the different tasks of their team, as well as transferred between teams. Consequently, workers learn new skills and responsibilities, and are therefore more flexible. Fourth, the concept of "just-in-time" production is to be implemented, which matches production levels with the ever-changing demand of the market. To aid the matching of production with demand, production is executed in small lots, thereby serving the dual purpose of reducing the costs of operating large inventories. "Total quality control" is also employed, which entails the immediate correction of flaws at the point of production rather than at some point after the product is made. The fifth feature focuses on cooperative relations between the producer and its suppliers and retailers. Suppliers are invited to participate in the joint design of the components that they supply to the purchasing

firm. Retailers are encouraged to provide the producer with feedback on the various products, and vice-versa.[161] Under such a plan, the supply chain becomes more integrated, and therefore, more efficient. According to research conducted by MIT, if the aforementioned flexible production process is applied within the American auto industry, then productivity rates would likely double.[162]

In the case of government, its structures have traditionally consisted of hierarchical bureaucracies that provide secure and permanent employment for its employees. Some commentators, such as Peter B. Guy, contend that the static nature of traditional structures of government has debilitated the formulation process of public policy. Public policy has become excessively rigid, and is devised in accordance with the interests of the public sector rather than the interests of whom the policies are directed.[163] In order to revitalize public policy and react efficiently to the forces of globalization, the permanence of government structures must become more flexible.

According to John Shields and B. Mitchell Evans, "flexible government" entails a series of changes to the traditional structures of government organization. First, the hierarchical pyramid of government bureaucracy must be flattened and made more lateral. Second, the relatively flatter organizational structure is divided into autonomous modules or units consisting of a heterogeneous group of employees that operate as a team to work on a particular project. After the project is complete,

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161 Ibid., pp. 86-87.
162 Ibid., p. 86.
163 Peter B. Guy, The Public Service, the Changing State and Governance, (Ottawa: Canadian Centre for Management Development, 1993), p. 23.

the team is disbanded, and its members reassigned to other modules. Third, the provision of various government services should be drastically changed. This ranges from deregulation to contracting out the delivery of services to outright privatization. The successful implementation of the above measures will allegedly assist governments in view of the changes brought about by globalization.[164]

According to the OECD, governments may also be flexible by responding to globalization in a positive manner. This entails educating their citizens about the potential benefits of globalization, by primarily focusing on economic growth and increased consumer benefits. This is preferable to a reactionary-type response, such as erecting trade barriers, implementing protectionist trade policies, and cultivating a general fear of globalization. Such a negative response would probably lead MNCs to remove their subsidiary branches from these countries and move them to states with less trade restrictions. This likely response by MNCs would result in a loss of jobs in that country. Currency speculators may also attempt to punish such a country by lowering the value of its currency through the announcement of a "loss of confidence" in the potential economic growth of that country.[165] Those who favour the convergence of the market and the state maintain that governments should not

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164 John Shields and B. Mitchell Evans, Shrinking the State: Globalization and Public Administration "Reform", (Halifax: Fernwood Publishing, 1998), pp. 42-43. The authors do not explain how these measures will be successfully implemented. In addition, the authors fail to consider the resistance that these measures will encounter from unions, employees, and taxpayers.

165 Organisation for Economic Co-operation and Development, Globalisation of Industry: Overview and Sector Reports, (Paris: Organisation for Economic Co-operation and Development, 1996), pp. 9-11.

attempt to restrict the forces of globalization, particularly international trade, because it is an engine for wealth creation.

Globalization and the Environment

Although few empirical studies have been conducted on the subject, the available data seems to indicate that MNCs and the subsequent FDI flows respond favourably to relatively high labour and environmental standards. Kym Anderson bases the ensuing arguments on his literature review on the link between the open-market policies associated with globalization, such as the reduction of trade barriers and increased foreign investment, and environmental degradation. Anderson states that there is no empirical evidence to support the conclusion that increased international trade and investment result in greater environmental destruction within that country. Anderson goes on to argue that in order to stimulate economic growth, developing countries should reduce barriers to trade in order to attract FDI. Increased economic growth will lead to higher average income for the citizens of those developing countries with open economies.[166]

Anderson asserts that while it may be initially accurate that higher average income results in some environmental damage in developing countries, this does not hold once middle-income status is achieved. Once individuals attain a mid-range level of income, their attitudes and behaviour tend to become more environmentally-friendly. Moreover, as average income increases, education levels tend to rise.

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[166] Kym Anderson, "Environmental and Labor Standards: What Role for the World Trade Organization," Conference Paper, Institutional Aspects of the World Trade Organization's Effectiveness, (Stanford University, 26-28 September 1996), p. 12.

Higher education levels bring about a more skillful management of the environment through the employment of environmentally-sound production procedures, such as waste management and emission controls. Studies also show that MNCs tend to use more environmentally-friendly production technologies and processes than domestic companies in developing countries. For example, MNCs of Japanese origin must employ Japanese environmental standards in their overseas operations.[167] While Anderson's literature review may be extensive, it is doubtful that every possible academic source was consulted. Consequently, further empirical studies need to be conducted on the relationship between freer trade and investment and environmental degradation.

Werner Antweiler, Brian R. Copeland, and M. Scott Taylor shed some light on the relationship between freer trade and the environment. The authors employ data on sulphur dioxide concentrations as a representation of national pollution emissions. Their study indicates that a net reduction in sulphur dioxide concentrations takes place when freer trade is introduced into any domestic economy. This leads them to conclude that "freer trade appears to be good for the environment."[168] The authors admit that this conclusion is somewhat surprising because, intuitively, one would expect that freer international trade, especially in developing countries, would lead to an increasing amount of environmental damage. This expectation is based on the rationale that the relaxation, reduction, or removal of

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[167] Ibid., pp. 12-15.

[168] Werner Antweiler et al., Is Free Trade Good for the Environment? Working Paper 6707, (Cambridge, MA: National Bureau of Economic Research, August 1998), p. 1.

environmental regulations as part the process of "opening" one's economy to international trade and investment flows, enables corporations to pollute the environment without penalty or recourse.

A closer look at the figures contained in their study of 44 countries illustrates the startling conclusion that the environment benefits from freer trade. The data tables indicate that "if trade liberalization raises GDP per person by 1%, then pollution concentrations fall by about 1%."[169] It is important to note that this calculation depends on the identification of the underlying sources of economic growth. Regular economic activity based on freer trade is referred to the "scale" effect. The scale effect is the negative impact on the environment that takes place through increased national output. The parallel increase in national income also results in the "technique" effect. The technique effect relates to the implementation of cleaner production methods, which have a positive impact on the environment.[170] According the authors' calculations, the technique effect outweighs the negative effect of pure economic growth, resulting in a net positive impact of economic growth on the environment. The calculations are as follows. A 1 percent increase in the scale effect results in an approximate 0.3 percent increase in the sulphur concentrations associated with pollution levels within the 44 countries. The subsequent economic growth of the technique effect reduces the sulphur concentrations by about 1.4 percent due to the subsequent implementation of cleaner production methods.[171] As a result, overall sulphur concentrations fall by approximately 1 percent.

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169 Ibid., p. 2.
170 Ibid., pp. 2-5.
171 Ibid., p. 3.

Globalism

Globalism is an optimistic view of the future that is based on the belief that increased economic interdependence and worldwide competition in the international system is in everyone's best interests. Through the liberalization of trade, globalism is expected to promote the values of peace, freedom, respect for human rights, and environmental protection throughout the world. Proponents of globalism hold that the reduction of state bureaucracy and interventionist policies will enable countries to freely exchange knowledge and information, share their resources, and provide each other with mutual assistance.[172]

Proponents of globalism identify the alleged convergence of the market and the state as evidence in favour of global governance. Since the traditional role of the state no longer exists, the natural evolution of governance is at the global level. The Commission on Global Governance (CGG), which consists of 26 members, is the principal force behind the promotion of global governance.[173] The CGG is a body that is linked to the United Nations, with funding drawn from several sources. Financial support for the CGG's operation was received from the European Commission, the Arab Fund for Economic and Social Development, the Carnegie and Ford Foundations, and eight countries, including Canada, India, Indonesia, and Switzerland.[174]

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172 Ritchie, "Globalization vs. Globalism," p. 1.

173 The members of the CGG are: Ali Alatas, Abdlatif Al-Hamad, Oscar Arias, Anna Balletbo, Kurt Biedenkopf, Allan Boesak, Manuel Camacho Solis, Bernard Chidzero, Barber Conable, Jacques Delors, Jiri Dienstbier, Enrique Iglesias, Frank Judd, Hongkoo Lee, Wangari Maathai, Sadako Ogata, Olara Otunnu, I. G. Patel, Celina do Amaral Peixoto, Jan Pronk, Qian Jiadong, Marie-Angélique Savanté, Adele Simmons, Maurice Strong, Brian Urquhart, and Yuri Vorontsov.

174 Lee-Anne Broadhead, "Commissioning Consent: Globalization and Global Government," International Journal, (Vol. LI, No. 4, Autumn 1996), p. 653.

The CGG published a report in book-format entitled, Our Global Neighbourhood (1995), which outlines the benefits of accepting the inevitability of economic globalization in particular, and the globalization process in general. This entails managing the forces of globalization by encouraging democracy in the evolving international system, which the CGG refers to as "global governance."[175] The CGG makes it very clear that global governance should not be confused with global government. Global government would be less democratic because it would intensify the current primacy of states and governments over the rights of individuals. The CGG contends that the conception of global governance has traditionally focused on intergovernmental relationships. Global governance is based on a flexible decision-making process that extends in scope to include NGOs, citizen movements, MNCs, and the "global" capitalist market.[176] Civil society is the means through which individuals may shape the political issues of global governance to reflect their own interests. Although global governance is cryptically defined, the CGG is overwhelmingly optimistic that it is "the" blueprint for global peace and prosperity in the near future.[177]

Despite the primacy placed on the participation of individuals in civil society, capitalist market forces and globalization are still extremely important. The CGG proceeds to state that "[global] governance will rely primarily on markets and market instruments, perhaps with some institutional oversight."[178] The market instruments

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175 Ibid., pp. 653-654.

176 The Commission on Global Governance, Our Global Neighbourhood, (Oxford: Oxford University Press, 1995), pp. 2-3.

177 Broadhead, "Commissioning Consent," pp. 658-659.

178 CGG, Our Global Neighbourhood., p. 5.

that the CGG refers to are the Bretton Woods institutions -- the International Monetary Fund (IMF) and the World Bank. The CGG claims that the Bretton Woods institutions are responsible for the international monetary stability in the post-Second World War era, which resulted in a sustained period of economic growth in the West. The IMF and World Bank are also seen as key supports in development efforts. The CGG concludes that these Bretton Woods institutions are to form an integral part of any system of global governance.

The CGG also advocates the overall process of globalization because they perceive it as a force in the consolidation of economic multilateralism. Economic multilateralism is sustained so long as the following five provisions relating to international public goods are implemented. First, financial stability will be guaranteed through the continued operations of the aforementioned Bretton Woods institutions. Only these institutions have the capacity to remedy the volatility of international financial markets. Second, the rule of law will be administered in order to guarantee unimpeded trade, investment, and technology transfers. This provision includes the operation of a dispute settlement apparatus. Third, common standards will be implemented in terms of weights, measures, and technological specifications. This will lead to the smooth interaction between the infrastructure and institutions of different regions. Fourth, the environment will be protected through the promotion of sustainable development. This will be upheld through the formulation of a formal policy framework on the environment. Fifth, economic cooperation is to be encouraged in order to attain equity and social cohesion. International development

and disaster relief funds are to be provided under this measure.[179] By upholding these five provisions, the CGG foresees an increased level of international public goods, which it equates with the world-wide achievement of economic growth. This is based on the CGG's rationale that international public goods cannot be provided by states acting in isolation.[180]

The CGG proceeds to advocate the formation of an Economic Security Council (ESC) as an additional guarantee on the achievement of economic growth. The ESC is seen by the CGG as a natural progression under the current economic climate of globalization. The ESC would be designed with four main aims in mind: the monitoring of the world economy; the coordination of the IMF, World Bank, and WTO; the promotion of sustainable development; and the facilitation of consensus-building among governments with a focus on moving towards a truly international economic system.[181] The ESC would mimic the authority and structure of the United Nations Security Council. The main differences would be the absence of veto powers and the possibility of extending membership status up to a maximum of twenty-three countries. Only the largest economies would be present on the ESC, which would calculated according to GDP and purchasing power parity (PPP). A vague system of balanced representation between regions would also be instituted, thereby enabling smaller countries to participate, such as those members of the Association of South-East Asian Nations (ASEAN).[182] One should be aware of the contradiction between

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179 Ibid., p. 150.
180 Ibid.
181 Ibid., p. 156.
182 Ibid., pp. 158-159.

the CGG's overall vision of global governance and the structure of the ESC. Global governance minimizes the role of state, however, the ESC is based on the interaction of states.

Conclusion

This chapter has provided a survey of those authors who are generally in favour of globalization. These commentators encourage the increasing levels of free trade and international investment. In addition, they perceive these forces of globalization and economic liberalization as the rationale behind the convergence of the market and the state. This chapter also examines the arguments put forth by those who want to allay the fears of those who are opposed to globalization in the form of freer international trade and investment. Allegedly, these forces of globalization will result in economic growth and prosperity. Moreover, these forces are reported to be beneficial for the environment and have no real impact on income inequality. The discussion on globalism and global governance provides a decidedly neoliberal view of the future of the state. According to the CGG, the imminent convergence of the market and the state is indicative of the need for global governance based on free market mechanisms. In the next chapter, an alternate view of the relationship between the forces of globalization and the subsequent convergence of the market and the state will be examined. This will provide the reader with a richer context through which the future role of the state may be ascertained.

CHAPTER FIVE

THE ILLUSION OF CONVERGENCE

Introduction

This chapter attempts to reflect a more likely outcome in the conflict between the forces of globalization and the state. Although the state has lost a portion of its power to the forces of globalization, it remains a significant actor in both the economic and political spheres of the international system. This differs from the position of those commentators who predict the complete erosion, or "end" of the state at the hands of transnational capital, which is precisely the illusion of the convergence between the market and the state. The material presented herein begins with an examination of the partnership that exists between transnational capital and the state. In essence, transnational capital depends on this partnership in order to reproduce itself. Next, the primacy of politics over economics is reviewed in terms of the sovereignty of the state. While it is highly unlikely that the state will lose its claim to coercion and legitimacy, the state has lost a degree of *de facto* sovereignty. The chapter concludes by investigating the flexibility of the state in its ability to react to the forces of globalization. The state plays the role of a catalyst among varying consortia of economic groupings, both transnational and domestic. The state is also flexible in terms of its transformative capacity, which depends on its proximity to domestic economic actors as a function of its ability to react to external economic forces and provide prosperity for its citizens.

The Partnership between the State and Transnational Capital

Although the state may have suffered a degree of erosion to some of its functions, it has gained new powers in terms of providing the main linkage between capital, both domestic and transnational, and the global market. Robert Boyer argues that the market requires the complementary actions of the state in order to maintain the smooth functioning of modern domestic economies. In order for growth and reproduction, capital relies on the state to maintain social order and labour discipline within the domestic economy. The state is expected to incur the costs of maintaining internal order, through the provision of social programs, police services, a judicial system, and prisons. Social programs are central to the economic prosperity and growth of a state because they sustain the elements of innovation, such as the education and training of its workforce. A productive workforce must also be healthy, but only the state can adequately provide funding and access to healthcare.[183]

The state is the main instrument through which labour may be controlled. This entails both the formulation and enforcement of legislation governing the actions of unions and laws that supervise the nature and scope of strikes. Consequently, the responsibility for handling labour unrest falls under the jurisdiction of states. Another form of state control over labour is through labour standards, such as working conditions, minimum-wage levels, and work-related injury compensation.[184] The state is able to control the mobility of labour via stringent immigration policy-making and

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[183] Robert Boyer, "State and Market: A New Engagement for the Twenty-First Century?" States Against Markets: The Limits of Globalization, Robert Boyer and Daniel Drache (Eds.), (London: Routledge, 1996), p. 86.

[184] Ellen Meiksins Wood, "Labor, the State, and Class Struggle," Monthly Review, (Vol. 49, No. 3, July-August 1997), pp. 12-13.

the subsequent implementation of laws. A state is still sovereign in terms of regulating the flow of individuals entering its territorial borders. In 1930, the Hague Convention established the sovereign right of a state to grant citizenship. One must keep in mind that a universal right of entry into a state has never been promulgated. Moreover, the right to asylum is at the discretion of each state.[185]

It is a well-known fact that every form of actual economic activity transpires within state borders. A competitive domestic economy calls for a set of laws that guarantee certain freedoms. Individuals and corporations must be free to act upon entrepreneurial motivations and enter in to contracts. Legal proceedings must be free of undue bias, subjectivity, and irrationality. These measures ensure that certain expectations will be met, such as contractual obligations.[186] Therefore, the state is of strategic importance because it provides both the judicial and legislative means for the forces of globalization to transcend national boundaries. This has also resulted in bestowing a certain legality to the actions of global capital in domestic economies.[187]

MNCs depend upon the state to provide various direct and indirect economic supports.[188] Transportation infrastructure is the most common form of direct economic support. Roads are crucially important to the smooth functioning of virtually every firm. Roads provide the means through which materials, components, and finished products are shipped in, out, and around countries. The majority of

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185 Saskia Sassen, Globalization and Its Discontents, (New York: The New Press, 1998), p. 7.

186 Randall White, Global Spin: Probing the Globalization Debate, (Toronto: Dundurn Press, 1995), pp. 106-107.

187 Sassen, Globalization and Its Discontents, p. xxvii.

188 Gill and Law, The Global Political Economy, p. 220.

roads are built and maintained through public funding. Airports, railways, and seaports are also very important gateways for the inflow and outflow of goods. Much of this type of transportation infrastructure is constructed with public funds, although some of them are privatized at some point after their completion. Other forms of infrastructure include the provision of electricity, natural gas, water, and sewer services. MNCs are free to provide their own infrastructure requirements, such as building and operating their own electricity generators. This course of action is unlikely, however, because it adds to the overall capital costs of maintaining factories and corporate offices. Indirect economic supports range from the provision of regular mail service to intellectual property rights to law enforcement.

State governments also facilitate the flow of transnational capital by permitting foreign ownership of bonds and equities. Governments allow MNCs to either lease or purchase property for factories and offices. In addition, governments allow foreign banks and securities companies to be established in order to complement the financial operations of MNCs and other forms of transnational capital.[189] A rather extreme example of the accommodation of transnational capital by the state is the operation of export processing zones (EPZs). An EPZ is a small section of a country's territory that is dedicated to the sole purpose of producing, manufacturing, or assembling goods for export. Governments attract transnational capital to these EPZs by offering industrial buildings at inexpensive rental rates, extensive tax reductions, no customs duties, low labour costs, minimal administrative

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[189] Jan Aart Scholte, "Global Capitalism and the State," International Affairs, (Vol. 73, No. 3, July 1997), pp. 439-440.

red tape, and confidentiality agreements.[190] The operations within EPZs are tightly controlled by the state, with factories being surrounded by barbed-wire fencing and monitored by guards to ensure that the products being manufactured are not smuggled into the domestic economy. In return for these provisions, the state earns foreign exchange and creates jobs for its people.

The relationship between the state and transnational capital may be conceived in terms of trade liberalization and the size of government. Dani Rodrik argues that a positive correlation exists between the openness of domestic economies and the size of government: a higher level of government intervention in the domestic economy results in a higher level of openness within that economy. This is quite surprising in the sense that one would expect a lesser degree of government intervention in economies that are more open to flows of transnational capital. This expectation is based on the premise that government policies have less effect in an open economy because transnational capital flows tend to undermine the purpose of such policies. The assertion that a state with a more open economy tends to provide more comprehensive and better-funded social programmes is based on the following factors. It is virtually impossible for a government to tax transnational capital because of its mobile nature in an open economy. Consequently, a government must look to immobile sectors of the economy in which to impose taxes.[191] This forces governments to increasingly rely on labour for taxation purposes because of its relatively immobile character.

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190 Ibid., pp. 444-445.

191 Dani Rodrik, Trade, Social Insurance, and the Limits to Globalization, Working Paper 5905, (Cambridge, MA: National Bureau of Economic Research, January 1997), pp. 2-4.

Labour will expect, however, to receive more generous social programmes in return for being subject to the risks in an open economy. Economic theory holds that price and wage levels are closely linked within both the domestic and international economy. This economic law is the foundation of Rodrik's assertion that domestic capital is more sensitive to international prices under an open economy than a more closed economy. As a result, the effects on wages under this increased sensitivity to international price fluctuations are magnified.[192] Correspondingly, labour is subject to greater risk under an open economy in terms of the potential for severe decreases in wages. Job security is also subject to more uncertainty as international price fluctuations may force corporations to cut costs through layoffs.

Rodrik extrapolates the above argument in order to come to the conclusion that as the current world trend of freer trade continues to grow, so too will labour's demands for protection against the pressures of the international economy. A state government, however, will not be able to provide the corresponding level of social programmes. The amount of taxes that may be extracted from the labour force will reach a finite level because workers will not give up most of their income to the state, regardless of the level of social provisions. The finite nature of the tax base will compel states to reintroduce protectionist measures in order to reduce the requisite level of social infrastructure to a more affordable cost.[193] To avoid this sort of

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192 Ibid., p. 6.
193 Ibid., p. 4.

backlash. Rodrik encourages states to balance the openness of their economies with domestic needs. States must therefore provide unemployment compensation and the training necessary for employment in new industries.[194]

The Primacy of Politics over Economics

Some observers have suggested that globalization has redefined the significance of the state as the paramount actor in the political arena. In accordance with the oft-cited maxim referring to the "primacy of politics over economics," the state retains the claim to the legitimate use of force.[195] States rely on the argument that it is their sovereign right to act in accordance with their own interests. It is highly unlikely that states will relinquish the core elements of their sovereignty: coercion and legitimacy. The Weberian conception of coercion identifies the state as the ultimate authority that may use physical force. The use of force is not unique to states. Nevertheless, government officials employ the national legal system as a technique through which to claim authority in case coercive order needs to be imposed.[196]

Force must be qualified by its legitimate use in maintaining political order. According to Herbert L. A. Hart, a "sufficient" number of citizens must voluntarily accept the state's coercive action as legitimate, thereby also accepting of the authoritative role of the state. Without this voluntary affirmation of the legitimacy

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194 Rodrik, Has Globalization Gone Too Far? p. 77.
195 White, Global Spin, p. 109.
196 Leslie Green, The Authority of the State. (New York: Oxford University Press, 1988), pp. 71-75.

and authority of the state by its citizens. "the coercive power of law and government cannot be established."[197] Legitimacy also refers to the claim by governments that they represent the will of their citizens. whether they are democratically elected or not. Other states or intergovernmental organizations (IGOs) may attempt to force a particular state into a certain course of action. Despite their best efforts. there is no true mechanism through which to enforce compliance. It is up to the particular state whether or not to cede to the wishes of other states or IGOs. including UN declarations or the decisions made by the International Court of Justice (ICJ). Hernando Gómez Buendía notes that it is impossible for a state to be prosecuted "in the courts of another [s]tate for acts performed in its sovereign capacity."[198]

There has been some discussion that the current effect of globalization has resulted in the allocation of some state powers to IGOs. Out of the more than 100 IGOs now in existence. the best known include the United Nations. the IMF. the World Bank. and the WTO. These four IGOs claim to have quasi-coercive political and economic means through which they are able to "persuade" governments to follow their directives.[199] In any event. as previously stated. an IGO cannot force a reluctant state to act. This is evident in three main regulatory areas. First. recalling the earlier section on the Rio Declaration. there is no global mechanism to ensure that the environmental protection regulations will be upheld by signatory states. Second. despite the negotiations conducted during the Uruguay Round of the GATT and the

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197 Herbert L. A. Hart. The Concept of Law. (Oxford: Clarendon Press. 1961). p. 196.
198 The Limits of the Global Village. p. 40.
199 Ibid., p. 37.

subsequent formation of the WTO, international trade still faces many significant restrictions. For example, agricultural tariffs and subsidies persist in Japan, the EU, and the United States. Agricultural tariffs and subsidies in Japan allow Japanese farmers to sell their products at prices that are 144 percent higher than prices in an unprotected domestic market. Agricultural tariffs and subsidies result in 54 percent and 16 percent higher prices for farmers in the EU and the United States respectively.[200] Third, there is no overarching document that regulates the actions of MNCs and transnational capital flows. MNCs must still abide by individual national regulations and laws that govern foreign investment. This has resulted in a neomercantilist form of state activism wherein governments have focused on microeconomic policies in their dealings with transnational capital. Governments often announce their intentions to be competitive in the world economy through the implementation of manpower training and workforce education programmes. Various governments have also selectively concentrated on promoting certain export industries through disguised subsidies in the form of tax incentives, technological assistance, and anti-dumping policies.[201] The postponement of the MAI is indicative of the difficulty in producing a single document that would oversee the actions of MNCs and transnational capital flows.

Stephen D. Krasner argues that on the surface, it appears that states have suffered a certain degree of erosion in terms of *de facto* sovereignty. *De facto* sovereignty refers to "the ability of States to exercise effective control over issues

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200 Ibid., pp. 38-39, 42.
201 Ibid., pp. 39, 41.

where they claim to possess authority."[202] In 1992, private capital markets were able to force Italy to devalue the lira. Even in the United States, policy-makers must consider the reaction of international capital flows in terms of domestic monetary policy initiatives. However, in comparison to the past and with developing countries, the level of *de facto* sovereignty has actually increased in developed countries.[203] At present, the governments of developed countries have greater economic resources at their disposal. This enables them to have a relatively tight grip on areas of governance within their borders. Developed countries draw resources from a wider and wealthier tax base than in the past. Taxation also proceeds in a more efficient manner through various electronic controls and a more competent bureaucracy. Developed countries tend to have several different types of industry in their domestic markets, resulting in a more stable foundation for the economy. In the event that a government needs to borrow, lenders provide loans at lower rates than in the past because they are more certain of repayment.[204]

Conversely, the *de facto* sovereignty of developing countries has receded. The governments of developing countries encounter more difficulty in raising funds. The bureaucracies tend to be less efficient and more corrupt in developing countries. Developing countries also have a poorer tax base through which to raise money. Developing countries tend to place more reliance on direct taxation through export levies and import duties.[205] This greater dependence on international trade for tax

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202 Krasner, "Economic Interdependence and Independent Statehood," p. 302.
203 Ibid., p. 318.
204 Ibid., p. 306.
205 Ibid., pp. 314-316.

funds results in greater susceptibility to international economic shocks and pressures for governments of developing countries. If international trade levels are reduced within a developing country, then its tax income suffers a significant blow. Also, the economies of developing countries tend to be less diversified. The reliance on a particular industry or commodity is risky because if either falls in demand or price, then the whole economy suffers a serious blow.

States have, however, retained juridical sovereignty despite the forces of globalization. In addition to being able to uphold their domestic laws, the subsidiaries of MNCs fall under the domestic jurisdiction, laws, and supervision of national governments. Consequently, governments of states can still take action on the domestic affiliates of MNCs in accordance with their sovereign rights.[206] Two exceptions to this rule exist: EU law and the (proposed) MAI. In the 1980s, members of the EU began to revise their national laws in order to match them to EU law, which is referred to as "secondary law." EU law is subject to interpretation by the European Court of Justice (ECJ). The rulings of the ECJ are usually respected by member-states, although, this commitment is voluntary.[207] As explained in detail in chapter two of the thesis, the proposed MAI assigns wide-ranging powers to foreign investors and corporations. The MAI enables foreign capital to undermine the labour and environmental laws of a signatory state. In addition, foreign investors and corporations are able to sue the governments of states. Although the MAI is on hold

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206 Buendia, The Limits of the Global Village, pp. 26-27.

207 Michael Mann, "Nation-States in Europe and Other Continents: Diversifying, Developing, Not Dying," Daedalus, (Vol. 122, No. 1, Winter 1993), p. 122.

for the time being, an attempt to revive the document will be made during the WTO meetings in Seattle, USA, in late November 1999.

In the case of market failure, the state is an indispensable tool in revitalizing and instigating economic growth. Keynesians reiterate this argument in their defense of some form of government interventionism in times of economic crisis. The primary example of market failure is the Great Depression of the 1930s. Arguably, Keynesian policies helped many domestic economies out of this extended period of extreme economic sluggishness. Within this context, Tabb argues that the state has the technical ability to regulate transnational capital. The operation of offshore banking centres enables funds to be transferred there from banks in developed countries, thereby allowing depositors to avoid taxation. Tabb contends that the governments of the developed countries have the technology to impose taxes on capital transfers. The reason why these countries have not imposed some form of taxation system is not the allegedly overwhelming power of transnational capital. Rather, it has been a political choice by the governments of the developed countries to allow these capital flows to proceed without regulation or taxation.[208]

There is no workable alternative for the state structures of authority and power that are necessary in order to contend with competing interests and demands within a particular society. Even as it stands now, many are wary of excessive state power, which is a positive societal quality so long as it is not taken to extremes. Although states require the power of authority and coercion, citizens must be mindful of the

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[208] Tabb, Globalization is *An* Issue, the Power of Capital is *The* Issue, p. 28.

potential for tyranny.[209] The forces of globalization, including rapid communication technologies, provide a potential restriction of tyrannical tendencies of state governments due to the general "openness" that they provide.

The State's Versatility and Transformative Capacity

The state should not be conceived of as a static phenomenon. Rather, the state should be viewed as an actor because it has the ability to respond to change. As an example of its flexibility and adaptability to the pressures of economic globalization, the state has become "catalytic" in its behaviour. A catalytic state pursues its policy objectives by becoming a dominant actor in various coalitions. These coalitions consist of fellow states, MNCs, domestic firms, and foreign and domestic groups.[210] This coalition-building tendency is indicative of a strong state capacity. Moreover, regional agreements, such as the EU, APEC, and NAFTA, are examples of how states become catalytic in order to reassert themselves in response to transnational capital flows. These coalitions and regional agreements should be not be perceived as a form of devolution of power. Rather, these agreements should be viewed as a deliberate attempt by states to retain their traditional position as the locus of economic activity.[211]

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209 Oscar Schachter, "Is the State Withering Away?" Globalism and Regionalism: Options for the 21st Century, Proceedings of the Twenty-Fourth Annual Conference of the Canadian Council on International Law, Diane Hiscox and Yves Le Bouthillier (Eds.), Ottawa: Canadian Council on International Law, 1995, p. 189.

210 Michael Lind, "The Catalytic State," The National Interest, (No. 27, Spring 1992), p. 3.

211 Linda Weiss, "Globalization and the Myth of the Powerless State," New Left Review, (No. 225, September/October 1997), pp. 24-26.

Linda Weiss presents the thesis that globalization has not resulted in the powerlessness of the state. Rather, the state remains a very important actor in the global market economy. The importance of each state, and therefore its perceived power, varies in accordance with its transformative capacity. The concept of transformative capacity is useful because it provides the reader with an explicit understanding of state capacity. Transformative capacity is not to be confused with state intervention. Transformative capacity relates to the state's competence in reacting to outside pressures and effecting internal change.

A state's transformative capacity is based on its performance in three main measures. The first and foremost measure is the perceived proximity between the state and the major economic groupings in the domestic economy. If the arrangements between the domestic institutions and economic actors are tight, then a country exhibits what is referred to as a constellation of "governed interdependence." Governed interdependence is defined as "a negotiated relationship, in which public and private participants maintain their autonomy, yet which is nevertheless governed by broader goals set and monitored by the state."[212] Under a relationship of governed interdependence, the state does not unilaterally impose decisions on corporate interests, nor does it maintain a relatively disconnected-level of mutual dependence. Rather, the state fulfils a proactive role by including domestic corporations in a close negotiating relationship.[213] In the post-Second World War period, Japan, Germany, and Taiwan have operated according to governed interdependence. The second

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212 Weiss, The Myth of the Powerless State, p. 38.
213 Ibid., pp. 38-39.

measure relates to the ability of a state to react to economic change, ranging from sudden swings to long-term trends, in both domestic and global markets. The third measure refers to the proficiency in which the state makes the necessary changes within the domestic economy, such as the diffusion of technology, educating the workforce, and promoting new industries. A high rating in each of these three measures means that the state is still able to promote economic prosperity and social well-being within its borders.[214]

Weiss states that many commentators lump East Asian countries together as a homogeneous group with roughly the same level of transformative capacity. This is erroneous because there are significant differences between those countries located in the South Asia and those in North East Asia. Consequently, Thailand, Indonesia, and Malaysia should be analyzed separately from Japan, South Korea, and Taiwan. The countries of South Asia generally have weaker domestic institutions for two main reasons. First, investment is not sufficiently coordinated by the state. Second, a significant portion of this investment was diverted to highly speculative programs, such as real estate development. In case of an economic downturn, the negative effects to the economy are likely to be longer in length and more chaotic in nature since the guiding connection between the domestic institutions and the economic actors is relatively loose. If Japan or Taiwan encounters an economic crisis, then the robust transformative capacity of the state will likely be able to guide the economy in such a way as to counterbalance the effects of the crisis.[215]

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214 Ibid., pp. 4-5.
215 Ibid., pp. x-xii.

States are in a better position than individual corporations to both adapt to and effect change because they can absorb, then dissipate the impact of taking risks, such as large-scale investments in interdependent industries. Examples of interdependent industries that require a significant amount of capital infusion range from the production of petrochemicals for synthetic fibers to robotics technology for robot-using industrial applications. Individual corporations may find the risks associated with developing a new technology for interdependent industries far too imposing. If the gamble does not pay off, a single firm may be severely weakened financially, possibly to the point of bankruptcy. Because of its ability to readily absorb the financial risks of investing within and coordinating interdependent industries, the state may respond more quickly to the requirements of modern technological transformation and change.[216]

Conclusion

In previous chapters, rather impressive statistics have been cited to demonstrate the level of international trade that takes place. The ensuing numbers, however, indicate the actual level and significance of international trade. In 1991, only 16 percent of all goods and services were traded between countries. This figure is reinforced by the report that, excluding members of the EU, only seven countries out of 146 had exports that exceeded 25 percent of their GDP.[217] Statistics aside, the convergence of the market and the state is largely an illusion. The state still possesses

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216 Ibid., p. 6.

217 Buendía, The Limits of the Global Village, p. 33.

a significant amount of clout in relation to the forces of globalization. Global capital and its movement across national borders still depend on both the permission and the supportive infrastructure of the state. The state has also retained the core elements of sovereignty, such as coercion and legitimacy, as well as juridical sovereignty. The most compelling argument in favour of the continued relevance and power of the state lies in its flexibility and ability to transform the pressures of the international economy into prosperity for its citizens. States that work in close cooperation with domestic economic groupings are more likely to be able to corral the forces of globalization and translate these economic flows into economic growth, thereby improving the well-being of its populace.

CHAPTER SIX

CONCLUSION

Over the past ten years, globalization has become one of the most vigourously researched and debated topics in political science. Globalization seems to have caught the imagination of individuals from all sectors of society. A likely reason for the captivating nature of globalization lies in the sense of powerlessness that some individuals experience when contemplating its effects, both potential and actual. It is this sense of impotence that leads to the fear that the protective membrane of the state is being invaded by transnational capital.

This feeling of powerlessness is compounded by commentators, such as Niall Fitzgerald and Sir Leon Brittan, who contend that globalization is the logical extension and inevitable outcome of capitalism. Their position advocates the convergence of the market and the state because the ensuing trade liberalization will allegedly create more wealth and prosperity for humanity as a whole. This argument seems particularly tedious because there is no concrete evidence that freer trade results in increased prosperity for everyone. As indicated in chapter three, the recent trend of trade liberalization has not reduced the gap between the rich developed countries of the North and the developing countries of the South. Over the past 30 years, the richest 20 percent of the world's population have increased their ownership of the world's wealth by 15 percentage points. The claims made by Fitzgerald and

Brittan appear particularly hollow in view of the aforementioned evidence that freer trade will bring increased prosperity primarily to those who are already wealthy.

Throughout this thesis, I have examined the power of globalization, particularly in terms of the flows of transnational capital. The proliferation of MNCs, the increasing levels of FDI flows, and the general trend towards economic liberalization are all impressive indicators that the state is irrelevant. According to Kenichi Ohmae and Robert B. Reich, the "end" of the state is allegedly very near; therefore, its role as the principal actor in the international economy has ended. Moreover, the dangers of globalization that are described in chapter three, such as environmental degradation, low working standards, income inequality, and the proposed MAI, are legitimate concerns regarding the power of the state. In other words, it seems that the total convergence between the market and the state is taking place. This conclusion, based on the assertions of Ohmae, Reich, and others, is proven illusionary in the fifth chapter of the thesis.

The arguments put forward by those who foresee the total convergence of the market and the state are weak on several fronts. First, the state is an actor; therefore, it has the ability to act and be flexible in relation to the forces of globalization. Michael Lind and Linda Weiss lucidly explain that the state has the capacity to exploit the positive elements of globalization for the benefit of domestic economic groups and the prosperity of its citizens. Lind describes the catalytic characteristics of the state as it pursues its objectives by becoming a dominant member of various coalitions with fellow states, transnational capital, and domestic economic groupings. Weiss reminds the reader that this capacity is qualified, however, by the fact that

some states are more adept at transforming the beneficial economic effects of globalization than others, depending on their "proximity" with domestic corporate interests. Second, current levels of international trade and FDI flows are not significantly different in comparison to the levels recorded from 1870 to 1913. By linking these statistics to the assertions presented in chapter four, the market and the state should have converged roughly 100 years ago. Third, Stephen D. Krasner convincingly argues that the state is unlikely to surrender its claim to coercion and legitimacy, despite some loss of *de facto* sovereignty. This point is supported by the conclusion that global governance, especially under the format proposed by the CGG, is unworkable in practice.

The type of global governance espoused by the CGG states that democracy represents more than simply electing political candidates to office. The UN is widely recognized as the leading candidate for world government, although, as stated in chapter four, proponents of global governance are not advocating world government *per se*. Nevertheless, any form of world government would have to operate under a diluted form of democracy. The logistics of a functioning world democratic system of government would require the representation of nearly 200 states. Questions of representation by population would legitimately clash with the probable structure of giving each state one equal "vote," which is the current practice in the UN General Assembly. In addition, it is highly likely that the considerable distance between representatives and their constituents would be subject to a great deal of criticism.

Globalists cite the significant increase in both the sophistication of communication technologies and the number of NGOs as proof of the existence of a

"global" civil society. Admittedly, the overall advance in communication technologies has enabled individuals to more readily interact with one another over great geographical distances. Only 176 NGOs existed in 1909, whereas in 1993, approximately 28,900 NGOs were in operation.[218] Globalists also cite the public-spiritedness of NGOs that a give participants a sense of "global" community. It is unclear, however, how these aspects of an alleged global civil society will allow democratic principles to be successfully upheld under global governance. Civil society, which is at best a fairly nebulous concept, refers to those social relations that develop autonomously from the state. These social relations include interest groups, professional organizations, social movements, and youth groups.[219] Although NGOs attend various UN-sponsored conferences, such as the 1992 Conference on the Environment and Development, delegates are only accountable to their respective members.

Global governance lacks a credible political base through which to respond to the needs and desires of the population, as well as numerous external events and pressures. The federal systems of government that are currently in place, particularly in countries with populations that are spread over a relatively vast geographical area, are often criticized because the central government does not respond adequately to the needs of the individual regions. Consequently, under a system of global governance, individuals would have legitimate concerns about their interests and needs not being met. This is a crucial flaw in the argument in favour of global governance. The state

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218 White, Global Spin, p. 102.
219 Sorensen, Democracy and Democratization, p. 157.

is the best arena through which democratic principles are upheld. The aforementioned claim to the legitimate use of force holds only so long as the state is made accountable through democratic structures of governance. The traditional method of ensuring this accountability is through a democratic electoral system wherein politicians are elected to representative positions of government. Proponents of democracy will likely agree with the conclusion put forward by Randall White that "the national state remains the only viable real-world framework for the democratic political system."[220]

Those who favour the convergence between the market and the state seem to gloss over several important considerations on democracy. First, the market is not democratic in its actions. In the capitalist market, economic power tends to become concentrated in the hands of the few. Under a scheme of convergence, economic power would be translated into political power for the few. Second, corporations are neither democratic in their management structures, nor their general operations. If governance was to mimic this structure, then it would be a highly authoritarian form of government. Each level in the hierarchy reports to the level above. Decision-making is top-down with little if any recourse for the top levels.

In addition to being devoid of democratic principles, the market requires some state intervention because it is not a panacea of efficiency and rationality. Markets are subject to huge swings, both positive and negative, because individuals and corporations are not completely rational in their actions. Moreover, individuals and corporations usually act in their own self-interests, which may damage the interests of

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220 Global Spin, p. 113.

others. Admittedly, a great deal of economic growth takes place during a boom or upswing, however, the ensuing "bust," recession, or downswing has appalling consequences. During an economic recession, many individuals lose their jobs. If individuals cannot earn enough to feed themselves or their families, then depression and desperation are likely to set in. State intervention has been instrumental in helping to reduce the effects of such economic swings. State intervention does not always produce the desired results, but it is preferable to the uncertainty and instability of the boom and bust economic cycles of unrestrained capitalist markets.

States still have the power to stop the forces of globalization. States can impose trade barriers, such as tariffs and duties. Financial markets, particularly in the area of currency speculation, will likely attempt to punish states that erect trade barriers. Admittedly, such a state will have to shoulder some of the impact, however, the state can return to promoting national industries. If subsidies are made available by the state, then domestic industries will be established and begin to grow, thereby revitalizing the domestic economy. It is important to note that these protectionist measures do not have to last forever. Foreign investors and corporations will continue to attempt to gain access to protected domestic economies. China is a prime example of this assertion. China's domestic market is highly protected, yet countless foreign investors and corporations continue to negotiate with the Chinese government for access. This example proves that even if it is cut off from a particular market, transnational capital will be more than willing to return, regardless of the conditions or restrictions. Capital requires new markets to reproduce itself and to accumulate.

Despite the lack of total convergence between the market and the state, globalization has several implications regarding the state. The main implication is that in order to consolidate its power against the corrosive effects of globalization, the state must become more competent in its reaction to these forces. This obligates the governments of states, which comprise government leaders and civil servants, to each formulate a plan of action by employing a global vision. According to Nancy J. Adler, a veritable global vision requires that governments continually search for new ideas and new ways to solve problems. Under the guidance of a distinct global vision, government actors are able to transcend the regular standards of what is normally expected.

Adler argues that governments tend to confine themselves to what is considered standard or adequate. This leads to a certain degree of stagnation, which leads to little in the way of motivation to explore new possibilities. Similarly, governments often attempt to simply match a certain level that is set by other countries. The challenge is to exceed the standards that are set by others. This goal may be attained through the implementation of constant education and innovation within the government. This requires that governments learn from other governments, both from their successes and failures. This endeavour also requires that governments do not become arrogant or complacent if they are fortunate to be ranked among the best countries in the world in a particular area, such as education, health care provision, or a certain industry.[221]

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[221] Nancy J. Adler, Globalization, Government and Competitiveness, (Ottawa: Canadian Centre for Management Development, 1994), pp. 12-14.

On the surface, it may seem that states with similar political systems have similar governing techniques to approach problems and challenges. This line of thinking, however, conceals the different approaches that may prove useful in terms of applying new ideas to a problem of governance. Adler encourages government actors to concentrate on the differences between governments rather than assuming similarity. This leads to the identification of the different approaches to governance, which in turn, leads to the identification of new ideas.[222] Adler's proposal is optimistic; however, it provides government policy-makers with an informal framework through which they may prepare themselves for the challenges of globalization.

While some of the arguments explored in the thesis seem to be more rational or parsimonious than others, none of the arguments is flawless. The complexity and relative newness of the study of globalization requires that more research be conducted on the subject and its related issues. Moreover, the study of globalization from the perspective of developing countries is severely lacking. Much of the current literature on globalization that I am aware of is published by English-speaking scholars in developed countries. In addition, nearly all the statistics contained within the various studies on globalization are based on research conducted by the OECD or other research institutes located in the North.

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[222] Ibid., pp. 14-15.

To reiterate the main argument of the thesis, globalization has not resulted in the convergence of the market with the state. Despite some erosion to the overall power of the state at the hands of transnational capital, the state is still very much an important actor in the "globalized" economy. The market and the state will continue to exist in an interrelated, yet distinctive fashion, for many years to come.

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