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Getting Globalization Right: The Dilemmas of Inequality

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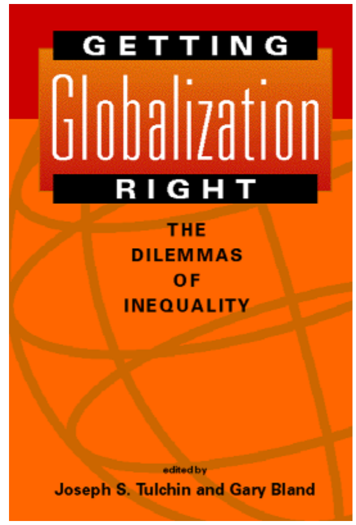

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1

Introduction: Getting Globalization Right

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When the Soviet Union collapsed suddenly, it brought to an end a period marked by a confrontation between two different systems of governance, two different systems of international and economic organization. Since one of the two systems had "won" the conflict, it seemed logical to a number of observers that the next stage in history would be dominated by the rules, values, and modes of production of that system. For a very brief period, at the beginning of the 1990s, it was assumed that the international community was about to enter a period of peaceful governance in which differences, tensions, and the like would be resolved within the framework of one or another of existing multilateral organizations. That assumption quickly proved excessively optimistic. Nationalists, especially in the United States, were unwilling to cede sovereignty or authority to international institutions. On the other hand, internationalists were reluctant to have those organizations, especially the United Nations or, in the Western Hemisphere, the Organization of American States (OAS), serve as the arbiters of global governance because certain individual nations, such as the United States, were thought to exercise too much influence over them. Both the UN and the OAS were created in response to the Cold War, and the great powers had designed them to protect their interests as the leaders of the international community. Until the end of the Cold War, there was little sense of community outside the great power competition.

Throughout the debate following the end of the Cold War, most took for granted that there was an international community and that it was being drawn together by a process known as globalization. Early on, globalization seemed to be a politically neutral phenomenon—natural and inexorable—that brought almost entirely positive outcomes in its wake, as it tied peoples and nations closer together through increasing and increasingly rapid exchange of information, capital, goods, people, and services. The only difficulty appeared to be one of attaining access to the benefits, especially consumer goods and information technologies, of a new world order. The only policy questions appeared to be how quickly nations could open their economies to trade and flows of capital within the global economy and how quickly they could open themselves to the newest modes of communication and thereby become more globalized.

Following more than a decade of scholarship on the topic and a series of events—from regional economic crises to street riots—we can see that globalization is both controversial and complex. Globalization has its critics (Stiglitz 2002a). It also has its staunch supporters.[1] What it does not yet have is a set of prescriptions for public policies to deal with the problems globalization is perceived to create or to maximize the benefits it is supposed to deliver. The antiglobalization forces remain just that, opposed to something that is hard to define and whose proponents are not always easy to identify (George 2002; Weiss 1997).

The principal dilemma provoked by globalization is inequality. There are unequal benefits from the process. There is unequal distribution of goods, services, and cultural values. Most disquieting, there is rising inequality among nations and within nations that appears to result, at least in the short term, from certain facets of the process itself, particularly market opening and the sacrifices imposed on developing countries so that they might enjoy the benefits of access to certain goods and services controlled by richer, more developed nations.[2] The Internet may be free, but only to those with telephones, fast connections, and computers—and the software to run all of them. In the question of trade and investment, there is a clear "race to the bottom" where cheaper and cheaper labor costs drive the market, where low wages do not appear to bring benefits to workers in many countries, and where increasing numbers of jobs are being lost in countries where wages are relatively high. This is true even between developing countries, so that increasing trade and investment flows by themselves may conflict with the rights of working people and create social and political tensions within developing countries. In other words, we now understand that globalization is not a process independent of politics; that market opening—whether in the richest countries or the poorest—involves political decisions and that there will be winners and losers in each case.

The backlash to globalization that has emerged over the past few years is centered on a single concept—getting globalization right, in the sense of making its benefits more available and making them more equitable between countries and within countries. This book is an inquiry into one facet of getting globalization right: how globalization is linked to inequality within emerging or relatively new democracies. We offer a series of detailed case studies of Brazil, Mexico, the Philippines, South Africa, South Korea, Spain, and Turkey in which we ask the same set of questions and that we use as the basis for a series of proposals for policies to alleviate inequality. We focus on democracies because we believe that any discussion of policy decisions cannot occur within a vacuum. That is, the state does certain things because its constituents want those things done. If the state does those things badly, someone is (or should be) accountable for those deficiencies and there are processes, such as elections, through which people can express their satisfaction or displeasure. In other words, we begin with the assumption that getting globalization right is a process, a political process, in which nations or groups of nations make decisions as to how to deal with the forces of globalization. In this volume we want to see whether nations or groups of nations are helpless in the face of globalization or whether they have some capacity to deal with these forces.

Understanding the complexity of globalization begins with the recognition that there is no consensus on what it means. Generally, globalization is considered to be the emergence and thickening on a world scale of networks of connections in the realms of the economic, political, social, and cultural (Keohane 2001: 1). Globalization is viewed variously, for example, as a kind of natural occurrence resulting from relatively rapid global economic and other changes in recent years, the continuation of an historical process that began centuries ago, and/or an intense penetration of national life by all kinds of international networks (Held 1995). It surely entails networks of all kinds, from international organizations and associations, financial markets, security systems, and nongovernmental associations to new political thought, ethnic revival, religious movements, and advocacy for environmental protection. But, as has been shown, networks by themselves are not necessarily democratic or equitable (Cohen 2004).

In this volume, we seek to take on the controversial, much analyzed question of globalization and social inequality. Rather than looking to measure the impact of globalization on poverty levels, however, we more broadly examine how democracies have or have not been able to deal with the persistence or growth of inequity. Through a diverse series of case studies of new or consolidating democracies, we look to address a central dilemma: How do democratic countries successfully face the powerful combination of increasing globalization pressures, deepening problems of income distribution, and the absence of clear policy options to deal with the dilemma? Economically, globalization provides a prescription for growth and prosperity based on market competition, labor flexibility, free trade, and capital flows.[3] Politically, effective and responsive democracy is the watchword worldwide. The demand for formally representative government and accountability to the citizenry has never been more widespread than it is today. And yet, as our case studies make plain, the demands of economic and political globalization frequently place opposing pressures on new democracies. It is also important to note that, although we take a political-economy approach to global integration, other facets of globalization occasionally intrude, particularly mass communication and information technology (Castells 2002).

To Globalize or Not to Globalize?—A False Choice

Given the polemics that quickly surround a discussion of globalization, a point made by Simon Schwartzman in Chapter 6 bears repeating here. Simply stated, the globalization debate is too often presented for rhetorical purposes as a choice between two clearly definable alternatives. The reality is radically different: an array of policy choices are involved and decision-makers face pressures from all quarters to select an option that appears best given the available information. Developing countries do not have the luxury of simply opting either for international integration (which will bring new markets and growth or, depending on your perspective, raise the risk of increased poverty) or national self-sufficiency (which will either promote economic development and equity or risk stunting economic growth, again, depending on your perspective). All countries already experience some degree of integration with the world economy, and the impact of deepening or reducing such integration is not easy to determine in advance under any circumstances. Moreover, the key questions appear to be the terms under which developing nations are able to negotiate their incremental integration into the international community and the autonomy each of them might have from exogenous and endogenous forces to formulate policies that effectively mitigate the possible negative consequences for their citizens of additional integration.

There certainly is evidence that international integration, taken to mean increased participation in world trade, has benefited all parties under the appropriate circumstances, which include good social and economic policies (Dollar and Kraay 2002: 27). In Chapter 8, Oliver-Alonso and Vallés provide a consummate example of a case—Spain—in which the policies and context for global integration can have a dramatically positive impact. Yang and Moon, on the other hand, demonstrate in Chapter 4, the case of South Korea, that a poorly designed and implemented labor market reform leads to personal economic insecurity and increased inequity under conditions of increasing globalization. Other scholars have similarly argued that some poor countries have changed their policies to exploit globalization and gained the most from it, while others, especially those who were too isolated from the world, have lost the most (Lindert and Williamson 2001). Some in the media have argued that singling out globalization as the cause of inequality within nations is a difficult case to make; other factors, they note, are important as well (Henwood 2003: 3).

The starting point for this volume is that the response to globalization is a political process involving relations between nation-states and relations within nation-states. To understand how nations cope with globalization we must take into account the context in which a nation or group of nations operates, as well as the internal constituencies for national policies. Winners and losers in the globalization process are determined as much by state capacity and by the capacity of political actors within states as by economic forces. From this perspective, globalization itself is a political process. As Ulrich Beck (2000: 1) has put it, "Globalization means politicization." Having said that, however, we should recognize some of the arguments made by others in the debate over globalization, especially those arguments that may be taken to criticize globalization and acknowledge the importance of political processes.

At the beginning of the 1990s, the consensus among economists was that increasing trade and investment was beneficial to all participants in the international community, just as it was assumed that sustained economic growth was the best way to reduce poverty (Morley 1995). More recently, concern for the poor and for the globalization losers in the short term, has produced a more nuanced approach. Trade liberalization can be a good way to reduce poverty, but only if it is accompanied by appropriate policies: "Certainly, the evidence suggests that with care, trade liberalization can be an important component of a 'pro-poor' development strategy" (Winters, McCulloch, and McKay 2004: 108). A number of authors have suggested that capital flows also can be harmful and might require improved modes of regulation, either by the receiving nation or by international agencies such as the International Monetary Fund (Stiglitz 2004). Ten years earlier, on December 14, 1993, David Felix of Washington University made the same suggestion in a Wilson Center seminar titled "Capital Markets in Developing Countries." A number of studies by Dani Rodrik and others have emphasized the link between effective "pro-poor" policies and domestic institutions and political processes. Rodrik also has alluded to the need for more effective international governance, a point made often in the literature on international relations by Robert Keohane and others (Rodrik 1997; Keohane 2001). Nancy Birdsall and her colleagues at the Center for Global Development have published a number of studies of the links between globalization and social policy and how to ensure that the benefits of globalization reach the poor in developing countries (Birdsall 2002).

One of the most specific proposals made to ameliorate the pernicious effects of globalization in developing countries has to do with the need to protect working people. These proposals call for better rules in the international community to protect working people, and insist on the need for international labor standards. One of the more prominent advocates of new policy is Oxfam, which—to the dismay of antiglobalists—sees world trade as a potential engine for growth and poverty reduction. The problem is the unfair rules by which the poorest nations are forced to play. Industrialized countries such as the United States and those in Europe are able to institute agricultural subsidies and other protectionist measures that are treated as taboo for serious free-market economies in the developing world. Oxfam argues not only for a series of trade measures including the removal of such barriers, but also has called for the adoption of policies that directly or indirectly serve to redistribute wealth to the poor. Economic growth by itself cannot reduce poverty. Directed social, educational, and health programs are also required if low-income populations are to contribute to the economy, develop skills, and earn higher income (Watkins 2004).[4]

Chapter Summaries

As noted, this volume brings together a group of case studies in an effort to examine globalization and its impact on inequality around the world. Indeed, the seven cases—South Africa, Turkey, South Korea, the Philippines, Brazil, Mexico, and Spain—cover four continents and readily allow for a diverse set of perspectives. Yet, in many ways the observations and arguments made are similar enough to lend support to the notion that globalization is indeed a process of interstate homogenization.

In Chapter 2, Steven Friedman of the Centre for Policy Studies in Johannesburg examines the case of South Africa. He provides a detailed review of the rise of the African National Congress (ANC) from a national liberation movement to the leader of a governing alliance based on identity politics. Emphasizing the predominance of domestic influences, Friedman adds that the South African adjustment to globalization may largely be an expression of the workings of a diversity of interests gathered under the ANC banner. Most importantly, the pro-poor elements of the ANC alliance have been out of touch with the preferences of the poor since 1994, leaving them without a voice in the policy debate on issues addressing inequality. To resolve the problem, Friedman calls for a deepening of representative democracy through a redesign of democratic institutions, improvements in international donor programs, and a commitment to opening up the debates on policy.

In Chapter 3, E. Fuat Keyman of Koç University addresses the growth of poverty and inequality in Turkey, which he sees as a direct result of globalization. The focal point of his analysis is the February 2001 financial crisis and the dramatic impact it had on Turkish national politics. The crisis forced the issue of distributive justice onto the policy agenda, notably during the November 2002 elections. It became clear to all political actors that if Turkey was to become modern and prosperous, economic stability had to be accompanied by social progress. Otherwise, any economic adjustment program would lack the legitimacy needed to survive. In other words, good governance, Keyman adds, must be replaced by democratic governance.

Jae-jin Yang and Chung-in Moon of Yonsei University assess the South Korean case in Chapter 4. Their analysis focuses largely on the labor market and the impact of globalization on the welfare of workers. During the authoritarian era, South Koreans accepted a "social contract" with the state that promised economic growth and increased income in exchange for restrictions on social policy. With the 1997 economic crisis, however, that contract was shattered, and the government's response was to combine neoliberal economic reform with a stronger social-welfare system. The new welfare system has not, however, been able to resolve the predicament of nonregular workers, whose numbers have increased dramatically. These workers, whose rates of social insurance coverage are low, are seen as the great victims of globalization.

In Chapter 5, Aprodicio Laquian of the University of British Columbia describes how a longstanding and unwavering Filipino commitment to liberal democracy may be limiting the country's economic and social progress in a globalizing world. More than any of the authors, he details the historical roots of globalization, and he traces the evolution there of liberal democracy and elaborates on its key characteristics—compulsory education, a strong civil society, and a free media. Laquian points out that the Philippines needs to overcome a number of structural and institutional factors, especially the problem of corruption, if it is to achieve greater growth and equality within its liberal democratic system. Selective interventions in the market must also be instituted, however, including environmental and labor regulations, protection of the welfare and rights of indigenous populations, and effective social safety nets for the benefit of the poor.

In Chapter 6, Simon Schwartzman, now an independent researcher in Brazil, begins with an examination of the conceptual linkage between the dependency theory of the past and globalization, then takes a historical view of Brazil's reentry into the global world. He provides a thorough examination of the social question, which has long been recognized as a severe problem in the country. Equity, the education system, employment, and traditionally marginalized sectors (minority races, children) are all given detailed treatment. Brazil now recognizes, Schwartzman writes, that the reduction of poverty and inequity are not a limitation on economic growth but, rather, an important instrument in bringing the Brazilian economy to new levels of economic performance. Ultimately, he concludes, the battle for economic progress and social equity will be won on the domestic front.

Chapter 7, authored by Ilán Bizberg of the Colegio de México, addresses the case of Mexico. Bizberg takes a close look at the politics of the new economic model in his country. This model was imposed by an authoritarian regime, he argues, absent any kind of societal consensus. So the model lacks the "regulatory mechanisms that ensure social cohesion";

instead, minimal social cohesion is being provided through social assistance to the poorest sectors. Moreover, Bizberg argues that since most of the nonrepresentative institutions that adopted this economic model remain in place today, even with the election of Vicente Fox, Mexico will therefore find it difficult to overcome its economic limitations, especially low salary levels and a failure to promote indigenous technological development.

In Chapter 8, Josep Oliver-Alonso and Josep Vallés, both professors at the Autonomous University of Barcelona, examine the lessons of the Spanish experience with globalization over the last twenty-five years of the twentieth century. In contrast with the other cases in this volume, that experience proved to be highly favorable. The authors view globalization and the social and political transformations that constitute democratization as part of the same process. Globalization began at the end of the 1950s and has been strongly related to the country's entry into the European Union in 1986. A democratic system was a prerequisite for achieving EU membership. Meanwhile, a strong public-sector role in reducing inequality provided for the legitimization of the system. In essence, Spanish workers accepted a social contract in which they moderated their wage claims, thus helping ensure global economic competitiveness, in exchange for extensive social investments in education, health, and other sectors. Social and political instability was replaced by a "virtuous circle" of stable democracy, economic growth, and a reduction in inequality.

Are there lessons to be learned about globalization? Certainly. But they vary across cases and through time. What the experiences of all of these countries suggest, however, is that to mitigate the potential damages globalization might cause, particularly increasing poverty and inequality, it is necessary to have a government sensitive to the needs of its people and that the government must have at its disposal effective institutions that allow for the effective, efficient execution of public policies. It helps, as in the Spanish case, to have a supportive and nurturing external environment and a propitious moment in time. However, even in the best of times and the best of circumstances, it is necessary to face the effects of globalization deliberately and in a manner that enhances the democratic qualities of society. Access and inclusion are the keys to successful public policy in softening the negative effects of globalization. This is probably what economists mean when they say, "this rule is true, all other things being equal."

Notes

1. For example, Stiglitz's own colleague, Jagdish N. Bhagwati (2003), and Thomas Friedman (2000). The A.T. Kearney Company produces an annual index that measures how "globalized" nations are and concludes that the most globalized benefit the most. See *Foreign Policy* (2004).

2. For a critical viewpoint of the globalization process and its impact on inequality, see Castels (2001).

3. The World Bank maintains a website devoted to studies of how to get globalization right: http://www1.worldbank.org/economicpolicy/globalization. It is a wealth of information that focuses mainly on economic issues and takes a positive position, although many of the papers posted on the site criticize the process and provide evidence of failures of the globalization process.

4. See also Tonelson (2002). Rodrik (2002a) has proposed better labor rules also; and Barbara Stallings (forthcoming) is engaged in a comparative study of labor standards and globalization in different developing nations.