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Globalization and the Shape of Things to Come

Keith Griffin

We are participants in a long march to a global economy. Since the end of World War II, economic forces have been unleashed that are creating the first worldwide economic system regulated largely by market forces. Government-imposed restraints on the free flow of trade, investment, and technology have diminished sharply, and a liberal international economic order has been created that has profound implications for the future. Indeed, I contend that economic globalization is bound to affect not only the way we earn our living but also our political institutions, the natural environment, and the pace of cultural interchange.

Globalization is a consequence partly of policy changes, partly of technological changes that have reduced the costs of integration, and partly of the disintegration of the European, Japanese, and Russian empires that had fragmented the world into separate spheres of influence. These processes have transformed the world economy in a remarkably short period of time. World income and output since 1950 have grown about 3 percent a year, faster than at any time in recorded history. World trade has grown more than twice as fast as this, and individual countries have become much more receptive to external influences. Between 1950 and 1996, for example, exports increased from 7 percent of total global output to 21 percent.

Foreign direct investment grew half again as fast as foreign trade and three times as fast as world output. Global financial investment in stocks, bonds, and foreign currencies grew ten times as fast as world output. No one born before 1914 could have witnessed such a high speed of economic integration or such a high degree of integration.

Is Globalization a New Phenomenon?

Skeptics might retort that only those ignorant of history could claim that globalization is a new phenomenon. According to them, the present period of rapid integration should be seen as a return to the past, and particularly to the economic conditions that prevailed in the second half of the nineteenth century and the first thirteen years of the twentieth. Prior to World War I, international commerce was relatively free, overseas investment was commonplace, and unlike today there was widespread international migration of labor. The two world wars and the Depression of the 1930s interrupted all this. Now, at last, we are returning to the earlier trend of closer global economic integration.

While there is some truth to this skeptical view, several factors suggest that the process of globalization today is qualitatively different from the processes operating in the nineteenth century. We must not forget that a high proportion of the world's population participated only marginally in the earlier global economy. Because of the high cost of transport and communication, countries experienced high levels of "natural" protection, so the degree of economic integration was minimal. Furthermore, because most of the world's population lived under colonial regimes, trade and investment were regulated in the interest of the imperial power.

Starting in 1947, with the decolonization of India and Pakistan, this situation began to change radically. When China began to open its economy in late 1978, another billion people—roughly one fifth of the world's population—became more closely integrated into the global economy. The process continued with the disintegration of the USSR in 1991, when another 400 million people were added. Thus, the spatial dimension of globalization is much larger than in the past.

On the conceptual plane, too, globalization is much broader than ever before. Indeed, it is virtually all embracing.[1] The penetration of market forces to every corner of the globe affects everything: our social relations and politics, our culture, even our global climate. True, human activity in the past has altered microclimates, reduced biological diversity, and resulted in the extinction of certain species, but the effects usually were localized. Now, however, they often are generalized. Equally important, we lack institutions of global governance that, at least in principle, would enable us to take collective action to correct or mitigate the undesirable effects of globalization.

How did this state of affairs arise? Let's begin with policy-induced liberalization. Since 1947, there have been eight rounds of global negotiations to reduce tariffs and other restrictions on international trade. The most recent negotiations—in the so-called Uruguay round—were completed in 1993. Initially, trade liberalization concentrated on manufactured goods and on trade among the rich countries. The results have been highly successful; today, tariffs on manufactured goods imported into rich countries are only about 4 percent on average. Moreover, trade liberalization, which is now universal if not complete, has gradually been extended to cover agricultural products as well as services and to include the developing countries.

Restrictions on the international movement of capital were removed more slowly. The United States generally eschewed capital controls from the beginning, but capital controls were not abolished until 1979 in Britain, 1980 in Japan, and 1990 in France and Italy. Capital account liberalization was even more gradual in the developing countries, but after 1982, the process accelerated dramatically — in my opinion, too rapidly, particularly in Latin America and sub-Saharan Africa, where liberalization was made a condition for international assistance to stabilization and restructuring programs. There has not been a comparable liberalization of the global labor market. On the contrary, policies have become less liberal in recent years.

Technological changes have reinforced policy changes in fostering globalization. The costs of freight and passenger transport, communications, and computing have fallen dramatically. As a result, the pattern of global production is changing beyond recognition. A product may be designed in one country, its components produced in a second, its parts assembled in a third, and the final product exported to a fourth. Lower transport costs have reduced "natural" protection, and this has greatly dispersed the location of production worldwide. Indeed, labels of national origin on manufactured products are becoming meaningless.

Primary products, which are transport intensive, are of declining relative importance in world trade, whereas trade in services and in manufactured goods has grown rapidly. Some services—for example, computer software—can be "shipped" over a telephone line, and containerization has greatly reduced the cost of shipping manufactured goods. New technologies have reduced both space and time.

These new technologies also have helped render globalization irreversible. For example, electronic transfers of funds make it more diffi-

cult for governments to reimpose capital controls, and the fax and e-mail make it more difficult to restrict flows of information services. The large volume of intra-firm trade within multinational corporations and the ability of multinational corporations to shift resources readily throughout the world hinder the reimposition of trade barriers. Clearly, globalization and liberalization are with us for the foreseeable future.

Asymmetrical Liberalization

Whether we like it or not, we live in a liberal world where markets are given free rein — except for one curious asymmetry. There are free flows internationally of primary commodities, manufactured goods, and many services. There are free flows of technology and intellectual property rights. And there are free flows of capital. The flow of labor, however, is severely restricted, and the rich countries are becoming not more liberal but less so.

In this respect, globalization is moving backwards. There was a time when international migration was massive and forced. In the seventeenth and eighteenth centuries, the Atlantic slave trade resulted in the deaths of more than 50 million Africans and the importation of some 15 million slaves into North America, the Caribbean islands, and Brazil. In the nineteenth century, between 10 and 40 million indentured workers, mostly from China and India, were transported around the world, usually to colonial territories where labor was scarce. In the second half of that century and the first decades of this one, there was massive but free migration from Europe: 60 million people left that continent for the United States, Canada, Australia, New Zealand, South Africa, and parts of Latin America.

Since the early 1970s, however, the global labor market has become less free. Controls over immigration have been tightened, the annual flows of immigrants into the rich countries have declined, and a bias against the migration of low-skilled labor has become entrenched. There is a fragmented global market for high-skilled workers, technicians, and professionals, but there is no real, legal global market for low-skilled workers. The result in the United States, for example, is that the foreign born account for a much smaller proportion of the U.S. population today (9.3%) than they did a century ago (about 15%).

Restrictions on the movement of workers make no economic sense. Greater international labor mobility, particularly of low-skilled labor,

would benefit everyone, host countries and sending countries alike. This greater mobility would raise total output and incomes in the rich host countries. It would increase efficient use of the world's resources in rich and poor countries alike. It would foster entrepreneurship, reinvigorate the economies of Western Europe and Japan, and help sustain growth in North America. It would stimulate the creation of small businesses on which the health of economies depends. It would increase savings, investment, and human-capital formation in the rich countries, while increasing the flow of remittances to poor countries. And it would accelerate the pace of innovation. The combination of all these factors would accelerate the growth of average incomes in both rich countries and poor.

Think of the growth of Western Europe in the 1960s, the growth of the Middle East in the 1970s, and the growth in the United States in the late nineteenth and early twentieth centuries. All these periods of rapid growth were fueled by large-scale immigration. Indeed, the United States could not have developed at the speed it did without the enormous contribution of foreign labor.[2]

Finally, for those of you worried about social security entitlements in your old age, immigration would alleviate the economic problems associated with the aging population in rich countries. By reducing the dependency ratio — that is, by raising the ratio of active workers to retired people — immigration permits a lower tax burden on the employed population or a higher level of state-financed pensions, or both. Hence, the elderly should be strong defenders of free labor markets.

What, then, is the problem about immigration? Why all the fuss? The advocates of restricting the mobility of labor usually posit three arguments.

First, they claim that migration increases unemployment. But this is simply not true. Most migrants enter low-wage occupations that are not attractive to the indigenous population, so they rarely compete directly with local labor. Furthermore, a high proportion of migrants create their own jobs by becoming self-employed. Most important, by stimulating growth, migration actually reduces unemployment rather than increases it. It is a fallacy to think that the number of jobs is fixed and that migrant workers deprive local workers of a livelihood. Demagogues exploit this fear, but the truth is that migrants create jobs for themselves and for others that previously did not exist.

Second, it is claimed that migration increases inequality. While it can be argued that immigration lowers the wages in the host country of some categories of low-skilled labor and accentuates inequality in the distribution of income, the quantitative effect is slight. In particular, the huge rise in recent years in economic inequality in the United States, Western Europe, and the once-socialist countries associated with the former Soviet Union has almost nothing to do with the migration of labor. To scapegoat migrants for the injustices of our societies is patently wrong. In fact, an effective way to increase equality would be to welcome measures that create a more liberal labor market internationally. From a world perspective, migration reduces global inequality rather than increases it, so the egalitarians among us should staunchly advocate open borders.

Third, it is claimed that migration increases the tax burden. Although true at some times and in some places, this proposition generally is false. Most migrants are of prime working age, neither very young nor old. Thus, they place few demands on public education, public health services, or state old-age pensions. In fact, on balance migrants tend to pay more in taxes than they receive in benefits. The fiscally prudent, therefore, should be avid supporters of free labor markets.

One of the consequences of globalization is that, whether one supports or opposes greater freedom of movement, not much can be done about it. Migration is a response to very powerful market forces. Falling costs of travel and rising incomes in the developing countries have made migration much easier, and widening income differentials between rich countries and poor have made it more attractive. The incentives to migrate are strong, and measures to nullify those incentives are costly and ineffective. Because many borders are porous, it has proved futile to erect fences, conduct lengthy checks at crossing points, floodlight illegal routes of entry, and send troops to patrol those routes. "Why waste resources trying to prevent what is good for us when we know we're bound to fail in any case?" is a reasonable question to ask, given the circumstances.

I conclude, then, that fewer restrictions on immigration would benefit everyone, that the alleged harmful effects of migration are greatly exaggerated, and that policies intended to prevent immigration, at least in this country, merely squander taxpayers' money. Perhaps good sense will eventually prevail, and if so, the migration situation will differ substantially from the one that exists today.

Globalization and Economic Space

Let's now consider the economic consequences of globalization. Has it produced prosperity? Has it reduced global inequality? Has it affected all regions of the globe similarly?

Viewed from outer space, economic prosperity has indeed increased substantially during recent decades. The world's per capita income rose about 1.2 percent a year from 1965 to 1996.[3] Seen in historical perspective, this represents a rapid growth of the world economy. Compare this with Angus Maddison's, estimate that, between 1400 and 1820, world GDP per capita increased only 0.07 percent a year.[4]

It is widely believed that globalization has been accompanied by greater inequality in the distribution of the world's income. The facts are unclear and the causal relationships are not well understood, but one way of looking at the issue is to divide the world into three groups, each classified by average income per head. The World Bank has followed this convention for several years, and it is somewhat analogous to dividing society into three classes — of low-, middle-, and upper-income groups. According to this classification, during the period 1965 – 96, average incomes in the low-income countries increased 3.1 percent a year compared to 2.2 percent a year in the high-income countries; in the middle-income countries, average income increased only 0.9 percent a year. That is, growth rates were bimodally distributed across countries classified by level of per capita income. The poorest countries grew faster than the richest, so, in this sense, global inequality diminished.[5]

But this is slightly misleading because inequality within the group of low-income countries increased dramatically. The countries of sub-Saharan Africa experienced a decline in average incomes (– 0.2% a year), whereas the two largest and poor Asian countries, China and India, enjoyed much faster growth (6.7% and 2.3% a year, respectively). This illustrates the more general point that growth has been distributed very unevenly among the major regions of the developing world. Growth rates were negative not only in sub-Saharan Africa but also in the Middle East and North Africa (–1.8% a year) and in the ex-socialist developing countries of Europe and Central Asia (– 1.3% a year). In Latin America and the Caribbean, the rate of growth was positive but rather low (1.1% a year), whereas in South Asia (2.2% a year), growth was twice as fast as in Latin America; in East Asia and the Pacific (5.5% a year), it was five times as fast.

These large variations in long-term growth rates cannot be attributed entirely to the processes of global integration and liberalization. The decline in incomes in the ex-socialist countries arises in the first instance from the political collapse of the former Soviet Union. The transition from central planning to a more market-oriented economic system and the reintegration of the Soviet bloc countries into the world economy often were handled poorly, but this has little to do with globalization. China, after all, handled the processes of transition and reintegration smoothly and experienced no fall in income; on the contrary, growth accelerated.[6] The same is true of Vietnam. Similarly, the steep decline of average incomes in the Middle East and North Africa reflects the political turmoil in the regions (civil conflict in Algeria, wars in Iraq, Iran, and Kuwait) at least as much as falling oil prices. Yet only the latter is connected directly to economic globalization.

Falling incomes in sub-Saharan Africa and the slow growth of incomes in Latin America can more plausibly be linked to globalization. The debt crisis of the 1980s hit these two regions particularly hard, and the recovery from the crisis-induced depressions was slow and difficult. And in many parts of Africa, various civil conflicts greatly aggravated the region's economic difficulties.

At the other end of the spectrum, East Asia clearly experienced the best growth performance, until 1997. Indeed, many commentators cite East Asia as evidence that globalization is a powerful force for economic progress. But just as globalization cannot be blamed entirely for one region's failure, nor can it solely be credited for another's success. There is much more to East Asia's outstanding economic performance than trade liberalization, low exchange rates, and exploitation of its comparative advantage in labor-intensive exports of manufactured goods.[7] Major land reforms were introduced in several countries in the region (China, South Korea, Taiwan), and several others (including Hong Kong and Singapore) began the development process with a reasonably equitable distribution of income. East Asia also emphasized human-capital formation — notably basic education and health services — and this contributed both to rapid growth and low inequality. Rates of physical-capital formation were high, and this investment was financed largely by domestic savings instead of foreign capital. In other words, "domestic" economic factors were at least as important as "global" factors in explaining East Asia's success.

So far, we have concentrated on the spatial distribution of the outcomes of globalization — namely, on variations in economic growth.

Now, we'll examine the global forces that affect these outcomes. The two most important are flows of international capital, particularly foreign direct investment, and international trade in goods and services.

Despite the liberalization of global capital markets, foreign investment is rather small. In rich countries, it accounts for only about 6 percent of total investment. Most investment continues to be financed by domestic savings. Despite the great scarcity of capital in developing countries and its apparent abundance in rich countries, the largest recipient of foreign direct investment is the United States. In fact, most foreign investment consists of one rich country investing in another rich country. Roughly 60 percent of all foreign direct investment circulates among the small number of rich countries; only 40 percent is directed to the large number of poor countries that account for 85 percent of the world's population.

Within this large group of developing countries, most foreign investment is directed to the middle-income countries. In 1995, for example, the low-income countries received only 43.5 percent of the foreign direct investment that was channeled to developing countries. Moreover, one country, China, received 86.4 percent of all the foreign capital invested in low-income countries. In other words, most poor countries received virtually no foreign capital.[8]

Despite the liberalization of the world's capital markets, foreign investment has not become an engine of growth in the poor countries. If anything, flows of foreign capital, because they are concentrated in the rich countries, have helped to widen global inequalities. Foreign investment does not flow to countries where capital is "scarce" in a physical sense; rather, it flows to countries where expected profits are high. Foreign direct investment is, therefore, most likely to be attracted to developing countries with rich mineral deposits (especially oil) or to those that have achieved rapid growth of exports (particularly manufacturing exports).[9] In other words, countries that already enjoy a rapid rate of growth of total output and income tend to attract foreign investments.[10] In summary, foreign direct investment, is not a *cause* of growth but a *consequence* of it.

The same is true, broadly speaking, of foreign trade. Most of the world's trade consists of exports from one rich country to another. The high-income countries currently account for more than three-quarters of total world merchandise exports. The share of the developing countries is less than 22 percent and the share of sub-Saharan Africa and South Asia combined is a paltry 2.4 percent. Because most of the very

poor countries are out of the trade loop, they are effectively delinked from the global economy.

During the first half of this decade, the volume of world trade grew 6.0 percent a year. Merchandise exports originating in the high-income countries grew somewhat less rapidly than this—specifically, 5.4 percent a year—indicating that the rest of the world was becoming more closely integrated into the global economy. This was especially true of East and South Asia, where exports increased 17.8 percent and 8.6 percent a year, respectively. In sub-Saharan Africa and in the Middle East and North Africa, however, trade increased only about 1 percent a year. Not surprisingly, these two regions are becoming increasingly marginalized.

Thus, the forces propelling globalization—trade and investment—have made a very uneven spatial impact. The rich countries have participated fully in the process, and the middle-income countries are becoming increasingly integrated into the global system. But among the low-income countries, only China has become a large recipient of foreign capital and a major trading nation. Most poor countries have benefited neither from a rapid growth of exports nor from a large inflow of foreign investment. The most important economic consequence of globalization in these countries has been the exodus of much of their human capital through the emigration of professional, technical, and managerial personnel.

The Squeeze on the State

The processes of globalization, positive and negative, have enormous implications for politics and for our dominant political institution, the territorial state. The state as an economic entity is being squeezed from above by the forces of globalization and from below by the forces of subnationalist and ethnic politics.[11] The creation of a unified global economic system is eroding the state's ability to manage its domestic economy—that is, to impose its will on enterprises with subsidiaries in a number of countries, on investors with access to international capital markets, and on employed people with internationally marketable skills. Increased mobility of goods and services, assets, and individuals has made it increasingly difficult for the state to impose its authority on persons and entities that, in principle, fall under its jurisdiction.

Just as the state of Minnesota, within the context of the U.S. economy, has limited freedom of action in economic affairs, so too one can

imagine a time when, say, Canada, within the context of a global economy, will have lost much of its power to regulate its own economy. The state as the locus of economic control may be slowly withering away. The French learned during the Mitterand government that Keynesian macroeconomic policy no longer is possible in one country. The Thais have recently learned that exchange-rate policy in a globally integrated economy is severely constrained. Most central bankers know that integration of world bond markets limit their ability to lower interest rates. Microeconomic policy is similarly constrained. For example, the ability of large firms to locate their fixed investment almost anywhere in the world has reduced the power of the state to regulate industry, be it through taxation, the imposition of minimum-wage legislation, environmental controls, health and safety provisions, or anything else.

In some cases, however, globalization affects not so much *what* governments do as *how* they do it. Consider taxation, for example. The relatively greater mobility of capital, as compared to labor, has shifted the burden of taxation in the rich countries from capital to labor. Within the capital category, governments have an incentive to tax fixed capital and immobile natural capital (land, real estate, mineral deposits) more highly than internationally mobile financial capital. Indeed, governments often offer subsidies to attract financial capital. And within the labor category, governments have tended to reduce the marginal rates of income taxation on high-income earners (who are internationally more mobile), while actually increasing effective tax rates on less mobile ordinary wage earners. Thus, globalization has had a discriminatory effect by weakening the state's ability to impose or increase certain types of taxation.

Even the ability of the state to police its own frontiers is being undermined. Smuggling of goods into and out of countries is commonplace and occurs on a massive scale. In some African countries, it is thought that more than half of international trade consists of smuggled goods. The most notorious example of the inability of the state to control the production and trade of commodities is, of course, narcotic drugs. In many parts of Latin America and Southeast Asia, the illegal production of drugs accounts for a significant proportion of total output, most of which is exported. Indeed, it is estimated that the retail value of trade in illegal drugs is second only to the weapons trade and actually exceeds international trade in oil.

The flow of "bads" is equally difficult to control. Pollution no longer respects international boundaries. In some cases, pollution threatens the globe as a whole (as in the rise in average global temperature caused by burning fossil fuels); in other cases, it affects numerous countries in a specific region (as in the explosion of a nuclear power plant in Chernobyl, Ukraine); and in still other cases, pollution may affect a single neighboring country (as with air pollution from power stations coming down as acid rain hundreds of miles away). Globalization, in other words, implies not only the universal dissemination of goods but also the dissemination of "bads."

Lastly, the state also is losing control over the flow of labor across its borders. Now that it is cheaper and faster than ever before for people to move from one country to another, they are doing so in the millions. Most migration, contrary to popular perception, consists of poor people moving from one low-income country to another, often as refugees or as irregular, unrecorded illegal migrants. Despite strenuous efforts, the state can do little about these flows of people; in the end, there may be no alternative but to accept the situation, declare an amnesty, and regularize the position of the irregular migrants.

In summary, slowly but surely, globalization is weakening the economic sovereignty of states. Freedom of maneuver has diminished, and policy mistakes can be severely punished by global market forces. Increased mobility of enterprises, assets, and individuals has made it easier for economic agents to escape controls or at least to mitigate them. And when attempts are made to prohibit an activity, as with trade in narcotic drugs or the immigration of labor, the outcome is rarely the end of the activity but, rather, its transfer to the underground economy.

In addition to the forces of globalization coming from above, the state is being squeezed from below by other forces that can loosely be described as subnationalism, which challenges the political legitimacy of existing states and threatens their territorial integrity. Examples include the separation of Bangladesh from Pakistan and of Eritrea from Ethiopia; the disintegration of the former Soviet Union into fifteen independent states; the continuing disintegration of the former Yugoslavia; and the growth of separatist movements in numerous states, including Indonesia, the Philippines, India, Sri Lanka, and the Sudan. Cases can also be found of nationalist movements that cut across existing state boundaries and that aspire to create a new state of their own from portions of existing states. The movements for Irish

reunification, greater Serbia, and a greater Kurdistan (potentially absorbing territory from Iran, Iraq, Syria, and Turkey) are obvious examples.

These movements can be viewed in various ways — as perhaps inspired by nationalist, ethnic, or cultural demands—but at their heart is a search for community or identity different from the community or identity offered by shared citizenship in an existing state. In some cases, subnationalist movements center on differences in language and culture, as in the Basque movement in Spain, the conflict between the Flamands and Walloons in Belgium, and the separatist movement in Quebec, Canada. In other cases, the search for community has revolved around a resurgence of religious identity; examples include the separatist movement by the Sikhs in northwestern India and the revival of Islam in many parts of the world. And in still other cases, broader "ethnic" demands have become a source of conflict, as in many parts of sub-Saharan Africa, in Central America, and in the Andean region of South America.

How should one interpret the rise of ethnicity as a political force? First, it is evident that ethnicity can undermine state power and pose a threat from below to the legitimacy of existing states. Second, subnationalist movements can be intolerant of outsiders, narrow and exclusive, socially divisive, and sources of communal strife. At their best, however, they can be inclusive and sharing; they can encourage strong loyalties and commitment; and they can permit a high degree of participation in the life of the community. Subnationalist movements can create an opportunity for more self-determination — enabling people to choose the polity under which they wish to live — and can expand personal and group freedoms. These are, of course, welcome outcomes. But I contend that, if taken to an extreme, subnationalist politics are doomed to failure: the construction of a community around a homogeneous culture is neither possible nor desirable.

Subnationalist political movements, if they attain their objectives, are likely to lead to smaller political units—that is, loose federations in large states or an increase in the number of small states. It is indeed the reduction in scale of the polity that permits greater participatory democracy. The possibility of a trade-off between the political desirability of small states and a loss of economic efficiency forces us to consider whether small states are likely to suffer from diseconomies of scale.

There are two areas where one can plausibly argue that small states are at an economic disadvantage — namely, in providing the basic machinery of government and in supplying defense services. Every country needs a head of state, an array of ministries, a tax-collecting bureaucracy, a central bank, and so on. The costs of providing these essential services may well rise less than proportionately as the size of the state increases. Particularly in very small states, including many islands in the South Pacific and the Caribbean, the costs may be disproportionately high. In other words, there may be a range over which there are economies of scale in public administration. If so, very small states will be at an economic disadvantage.

Small states are also at a disadvantage compared to large ones when it comes to military expenditure and warfare. This does not mean that all small states are incapable of defending themselves (Switzerland suggests otherwise), or that no small state can defeat a major power (Vietnam has shown that it can be done), or that all small states need armed forces (Costa Rica has survived and prospered without an army). But if military power is an objective, large states enjoy an economic advantage in the form of lower unit costs.

In addition, economies of scale in production put small countries at an economic disadvantage to the extent that they rely on their domestic market. Here, however, globalization comes to the aid of subnationalist forces. Liberalization of economic transactions and the creation of an integrated global market make it easier for small states to exploit economies of scale in production. Globalization means that small states need not pay a penalty in the form of reduced efficiency and lower incomes. Similarly, national alliances, collective security, and international mechanisms for keeping the peace — if they are credible — provide alternative ways for small states to achieve a degree of military security.

In other words, globalization is reducing the economic disadvantages of small states. It also has made smaller states politically more attractive to many subnationalist groups. That the costs of smallness are falling and the perceived benefits are rising implies that the squeeze on existing states is likely to continue. Processes of globalization are becoming increasingly compatible with the search for identity based on smaller communities.

Global Governance

If one accepts the argument that globalization has reduced the ability of the state to manage economic affairs, then we must reconsider our institutions for global governance. It does not follow automatically that if the state is weaker, global institutions should be strengthened. It is possible to imagine an alternative response in which groups of countries come together to create strong regional institutions. Indeed, this is happening in the European Community, and it is conceivable that something similar could occur in Southeast Asia and parts of Latin America. One can also imagine a multilayered system of governance beginning with global institutions but embracing regional and state institutions, as well as institutions of provincial and local government. Great Britain, for example, has decided simultaneously to become more closely integrated into the European Community and to devolve some authority now held by the central government to newly created institutions in Scotland and Wales. In such a multilayered system, it should be possible to locate responsibility at that layer of governance where economies of scale are exhausted. In Europe, this is called the principle of subsidiarity.

Thus, we are not talking about world government but, rather, about a set of institutions at the global level that are needed to manage the forces of globalization. Our existing system of global governance emerged higgledy-piggledy in response to a series of crises and global events, foremost among which were World War I, World War II, the collapse of imperialism, and the associated dramatic increase in the number of newly independent countries. The linchpin of the present system is the United Nations Organization, headquartered in New York.

Although it was the moving spirit behind the creation of the U.N. and to this day has the dominant position within the organization, the United States in the last two decades has had an ambivalent attitude toward international multilateral cooperation. On the one hand, the United States remains committed in principle to multilateral solutions to global problems and is quick to use the U.N. when it serves its purposes to do so, as in the recent confrontation with Iraq over weapons inspection. On the other hand, the United States has so far refused to pay the $1.5 billion it owes to the U.N., and is demanding that its share of the regular budget be reduced by a fifth (from 25% to 20%). The United States has not hesitated to act unilaterally when it was conve-

nient to do so (for example, when it disregarded the dispute-resolution procedures of the World Trade Organization, and it has twice withdrawn from two major specialized agencies (the International Labour Organization and the United Nations Educational, Scientific and Cultural Organization).

This behavior has put the United States at odds with the vast majority of other member countries, undermined the cohesion of the organization, and seriously eroded the financial viability of the entire United Nations system. Precisely at a time when globalization has increased the need for an effective system of global governance, the ability of our existing institutions to undertake collective action on a global scale has been reduced. Only anarchists and nihilists can be content with this state of affairs. The combination of an enfeebled system of global governance and a growing number of states that find it increasingly difficult to manage their economies is almost certain to result in periodic crises and poor performance over the long haul. Reforms are essential. The question is: What sorts of reforms are most urgently needed?

First, our institutions of global governance should be more democratic. The present system of voting is a bizarre and indefensible mixture in which the five countries which happened to be on the winning side at the end of World War II have a veto in the Security Council; in the General Assembly, each state has the same vote and influence whether its population is less than one million people or more than one billion; and in the International Monetary Fund and World Bank, votes are weighted by a country's financial contribution. Something more closely approximating the principle of one person, one vote is needed to confer political legitimacy on our global institutions.

Second, the finances of our global institutions must be given secure foundations. Budgetary contributions should be based on agreed-upon principles, payment should be punctual and obligatory, and a mechanism for enforcement should be created that includes penalties for noncompliance. A clause in the United Nations charter deprives a country of its vote in the General Assembly if it does not adhere to the financial rules and is two years or more in arrears. But this clause has never been applied. At the very least, it should be strictly enforced.

Third, global governance should be based increasingly on the rule of law. States should be bound by their international commitments and should be prevented from oscillating between multilateralism and unilateralism whenever it suits them. Disputes should be settled by the International Court of Justice or by specialized tribunals created for the

purpose, and judgments should be binding on all parties. It is highly regrettable that the United States, along with a small number of other countries, recently refused to support the creation of a permanent international court of criminal justice.

Fourth, serious consideration should be given to the proposal of the previous Secretary-General to create a small but permanent United Nations peacekeeping and peacemaking force. Interventions in conflict situations have so far been on an *ad hoc* basis and have largely depended on the political interests of one or more of the major powers rather than on the intrinsic merits of the case. We need a global police force that is accountable to the global community as a whole. This is especially true today as the distinction between internal and external conflicts ceases to be meaningful: refugees from civil conflicts spill across international borders, armed bands seek temporary sanctuary in adjacent territories, neighboring countries get drawn into the conflict, one or more of the great powers intervenes, and the United Nations is then summoned to clean up the mess. Surely we can do better than this.

These issues of global governance are connected to the size of the state. The design of mechanisms that reduce the likelihood of armed conflict and increase security, the creation of more effective global organizations, and the continuation of economic liberalization all permit a small size of state, when that is what people desire.

Turning to issues of economic governance, I wish to make a few additional points.[12] First, it is evident that the International Monetary Fund is much too small to act as a world central bank and lender of last resort. The elimination of controls over international trade and capital account transactions is bound to result in periods of instability, and there is a danger that instability in one country will be transferred to another. In fact, we are witnessing this today. The demand on the resources of the IMF to finance short-term stabilization programs is certain to increase. But recent evidence from Mexico to South Korea, Indonesia, and Russia reveals that the funds available to the IMF are woefully inadequate. Increasingly the resources the IMF can lend to a country have had to be supplemented by funds from the United States and other countries. In the 1997 stabilization program in South Korea, for example, the IMF provided less than 40 percent of the total funds required—$21 billion out of a total of $55 billion; the rest was provided by the World Bank ($10 billion), the Asian Development Bank ($4 billion), and seven individual countries, led by Japan ($10 billion) and the

United States ($5 billion). This need to rely on multiple sources of financing weakens the authority and autonomy of the IMF and injects an external political element into decisions about what countries to assist, how much funding to provide, and what policy conditions to impose. None of this is desirable, and I believe a strong case can be made for a very substantial increase in the resources of the IMF. At the same time, the IMF must be reformed and become less secretive about its policies and more accountable for its actions.

Second, the World Bank and the various regional development banks may have outlived their usefulness. Foreign aid in all its forms is shrinking and has become dwarfed by international flows of private capital. The world market for long-term capital is functioning reasonably well, and profitable projects quite readily attract private capital. True, private foreign capital does not flow in large amounts to the poorest developing countries, but their needs can best be met by direct transfers of grants rather than through loans on favorable terms. The time has come to privatize the World Bank and the other intergovernmental financial-aid agencies.

If we do this, it will be necessary to create a new mechanism for providing foreign assistance to the lowest-income countries to replace the dying conventional aid programs. One possibility would be a pure international tax-and-transfer mechanism. Resources could be raised through a low and mildly progressive international income tax on the gross national product of high-income countries. These resources would then be disbursed automatically through a negative income tax. That is, foreign assistance would be distributed to low-income countries in inverse proportion to the recipients' income per head. Such a scheme would ensure that the burden of foreign assistance is equitably distributed among the rich countries, that the available funds are distributed among eligible poor countries in accordance with their need, and that foreign assistance is insulated from the political, commercial, and other interests of rich countries.

A separate mechanism is needed to facilitate mutually beneficial intergovernmental transactions when the global market mechanism works poorly. Examples include environmental programs in developing countries that are at least partially beneficial to developed countries: the management of the global commons in Antarctica, the oceans, and outer space; and public-health measures in developing countries designed to prevent the spread of the AIDS epidemic and other communicable diseases such as tuberculosis. There are numerous cases

where economic and technological globalization generate "externalities" and "free-rider" problems, particularly (but not exclusively) for the environment. Where there are cases of "market failure," alternative institutions will have to be created to facilitate the negotiation of advantageous agreements and monitor the results.[13] When an agreement includes side payments for services rendered by one party to another, provision also will have to be made for the transfer of funds.

Lastly, we need to strengthen rule-based systems governing international economic intercourse. If liberalism is to be taken seriously, countries must be discouraged from acting arbitrarily and unilaterally and harming the interests of their trading partners. An example of unilateral action is the proliferation of antidumping measures in some countries as a disguised form of protection, now that tariffs have been reduced to very low levels. In 1996, there were 311 antidumping measures in force in the United States and 153 in the European Union; at the other extreme, only three antidumping measures were in force in Japan, two in Singapore, and none in Chile. A mechanism is needed to enforce good behavior and to provide compensation for damages when one country breaks the rules of the game and inflicts economic injury on another.

In other words, the principles that govern economic intercourse within a country should be extended worldwide. Discrimination against workers on the grounds of race, for example, is illegal in many countries, but there is a legal remedy: the injured party may take the offender to court and claim substantial damages. In the international arena, however, there is no effective remedy when one country arbitrarily violates the rules of good conduct. The new World Trade Organization does contain some provision for compensation, but the coverage is narrow and the process of adjudication slow and cumbersome. Much more must be done.

Globalization, Culture, and Development: The Long View

Globalization has major implications for economics, politics, and institutional transformation. It also has implications for culture and the ways cultures interact and adapt to changing circumstances.[14] Some analysts claim to observe the emergence of a global culture and the spread of Western values, political forms of organization, and ways of life. I believe this view is too simple and deserves careful examination.

Defining culture broadly as "ways of life" helps to highlight several notable features of the contemporary world. First, there are, of course, many ways of life that one can observe. Some are geographically restricted whereas some cultures span vast areas. Indeed, there are more ways of life, or more cultures, than there are states. One obvious implication of this is that cultures and states do not coincide; the jurisdiction of territorial states does not "map" the space occupied by distinct cultures. This lack of coincidence creates the possibility of conflicting allegiances, divided loyalties, and contested claims for primacy of affection. It is also a source of pressure from below on the state.

Second, the cultures one observes today are almost always older than any existing state. In fact, the contemporary state is a relatively recent institutional innovation, dating roughly from the eighteenth century in Europe, and most actual states were created in the twentieth century after the disintegration of the worldwide imperial system. Most cultures antedate the emergence of the state system and the nationalism and patriotism associated with it. This does not imply that cultures are necessarily ancient, traditional, or static, much less that they are timeless. On the contrary, cultures should be seen as changing, dynamic, fluid. Paradoxically, they are simultaneously young and old; they represent distinctive ways of life, yet they are influenced by other cultures with which they come into contact.

Third, cultures often are transnational phenomena. Geographically, they frequently transcend the boundaries of territorial states. This obviously is true of Arab culture in the Middle East, of many African cultures divided by arbitrary boundaries during the colonial period, of Western culture, of Chinese culture in East and Southeast Asia, and so on. Cultures thus pose, or are perceived to pose, both an external challenge to some states and a risk, perhaps only a latent risk, of internal subversion.

Fourth, virtually all states include within their boundaries a multiplicity of cultures. Indeed, the term "nation-state" is a misnomer. Modern states include a large number of national groups, ethnicities, "tribes," languages, and religions — in other words, ways of life. The modern state is irreversibly a multicultural institution. Pluralism is a fact of life of the contemporary world, a fact that has yet to be properly digested by analysts and policy-makers alike. Some states (Israel, Pakistan, Iran) behave as if they contained a homogenous population of uniform religious belief; few states (Switzerland is an obvious excep-

tion) have constructed institutions that explicitly take into account the linguistic, religious, and ethnic diversity of their citizens.

There are, of course, conflicting views of the role of multiculturalism within states. At one end of the spectrum are those who consider pluralism a disadvantage. They deem diversity a source of conflict that often leads to violence and bloodshed, results in political instability, and makes it difficult for people to get along together in their daily life. Multiculturalism is something that must be contained or managed, preferably by making "them" as much like "us" as possible. Far from contributing to economic growth and human development, cultural diversity is an obstacle to overcome or circumvent.

At the other end of the spectrum are those who regard cultural diversity not as a liability but as an asset. Different ways of life, of looking at the world, of thinking are indeed challenging and a source of dissonance and tension that can lead to conflict and violence. But those challenges and tensions are also a source of creativity, and creativity is the fountainhead of economic growth and human development. New knowledge, new technology, and new institutional arrangements are the ultimate sources of growth and human betterment, and cultural diversity acts as a stimulus to innovative activities of all sorts. That is, one can view cultures as "experiments" that are sources of knowledge. The more experiments humanity conducts — that is, the greater the cultural diversity — the more knowledgeable and innovative we are likely to be.

It has long been recognized that minorities often are highly innovative in business, and account for a disproportionate number of entrepreneurs. Think of the Chinese in Southeast Asia, the Lebanese in West Africa, the Indians in East Africa, and the Quakers in the United Kingdom. The claim being made here, however, is more general — that pluralism contributes to creativity in *all* fields of endeavor. If this is true, then multicultural states ultimately have more potential than states with a relatively homogeneous population. A potential for material and human progress does not, of course, imply that this potential inevitably will be realized; the translation of potential into actual achievement depends on whether, in a particular time and place, the advantages of pluralism can be exploited positively and the disadvantages minimized. At any given moment, some culturally homogeneous societies (e.g., Japan, South Korea) may appear on balance to be less divisive and more dynamic than some pluralist societies, but eventually pluralism probably will be more advantageous than homogeneity.

Cultural diversity is, of course, much greater at the global than at the state level. It might have been possible at one time to imagine cultures as being separated from one another—with room to breathe and to develop independently—but technological change in transport and communications has, for centuries, been dissolving time and space, breaking down the barriers that surround even the most isolated cultures. This process has accelerated dramatically in the last fifty years and is part of a wider tendency toward globalization. One consequence of globalization is that cultures are coming into closer contact with one another. The Chinese culture rubs against the Indian culture, the Indian culture rubs against the European culture, and so on. This "rubbing" of cultures is not a question of physical proximity; strictly speaking, cultures do not have fixed boundaries. It is, rather, particular cultural *attributes* that rub against one another, creating heterogeneous cultures, hybrids.

Admittedly, closer cultural contact has historically been a mixed blessing. Whether one considers the explosive conquests of Islam beginning in the seventh century, which from the epicenter in Arabia covered the whole of the Middle East, all of North Africa, and the Iberian peninsula in Europe, or the westward migration of the Mongol "hordes" of the thirteenth century, which ended at the Danube River and the outskirts of Budapest, or the unrelenting expansion of Western Europe from the fifteenth century onward to virtually every corner of the globe, cultural interchange often seems more like a one-way street than a two-lane highway. Cultural contact, frequently a by-product of military encounters, has been associated with violence, conquest, and imperialism. It has introduced alien diseases to those who had no natural resistance to them. It has helped spread racism. Occasionally, it has resulted in genocide. More often, it has led to the destruction of pre-existing social structures and the system of beliefs that sustained them. Historically, globalization often has had a fatal impact.

The other side of the story, however, is more positive. Contacts between cultures led to myriad exchanges and adaptations that benefited all parties. Consider foodstuffs and primary commodities. Latin America gave us maize, potatoes, the tomato, and natural rubber; Ethiopia and Yemen gave us coffee; India gave us sugar; China gave us tea and noodles (which the Italians transformed into pasta); and so on. The world's pharmacopoeia similarly draws on botanical products from many different regions. The same is true of our domesticated animals. Early Chinese science led the world in the field of technology,

and China gave us paper, porcelain (or fine "china"), the compass, gunpowder, and much else. The Arabs gave us our system of numerals. The Central Asians gave us algebra and taught us how to measure the motions of the heavens. India gave us Buddhism; the Arabian Peninsula, Islam; and Palestine, Christianity. Mutual influences in art and architecture, music and dance, crafts and household technology are too numerous to recount. All of the world's cultures have been immeasurably enriched by contact with others.

Similar processes can be observed today. The difference between now and then is that globalization has made cultural interchange more frequent than in the past, deeper, and more rapid. Some have speculated that the emerging "global culture" will submerge local cultures under an irresistible tide of Western influence. Culture worldwide is becoming more homogeneous: Coca-Cola, blue jeans, and North American popular music dominate. Local dialects and even entire languages are disappearing, local cuisines are being replaced by Western-style fast foods, and traditional ways of life are being abandoned in favor of ersatz American ways. Although there is some truth to this speculation, cultural interchange in the modern world is a two-way exchange. As we have seen, capital, technology, and even labor circulate globally. Science is more universal and widely accessible than ever before. Ideas, information, and knowledge are transmitted much more rapidly and over a greater area than in the past. The result is an increase in diversity: greater heterogeneity, not greater homogeneity. This evidently is true at any given location, as more and more ways of life learn to coexist, and it is also true globally, as cultural interpenetration multiplies the number of permutations and, in the process, creates new ways of life, new cultures. This increased diversity has, in turn, led to an acceleration in creativity and innovation. The explosive growth of knowledge and technology in the last fifty years has greatly contributed to significant advances in human development and to the rapid pace of economic growth worldwide.

The cultural aspect of globalization ultimately may be more significant than other features of the process that receive so much attention, namely, the rapid growth of international trade, the investments by transnational corporations, the huge flows of financial capital, the migration of labor, and the political and institutional transformations occurring at supranational levels. Cultural interpenetration is especially critical because it implies cultural exchange, which, in turn, implies diversity, heterogeneity, and a shattering of mental and con-

ceptual boundaries. This results in cultural vitality for all concerned; in aesthetic, scientific, and technological creativity; and in economic expansion. Indeed, it is quite possible that cultural exchange is one of the roots, perhaps the principal root, of global dynamism and is, therefore, the ultimate source of human creativity and development, as well as economic growth. ◉

Notes

1. Dharam Ghai emphasizes this point in his "Globalization and Competitiveness: Implications for Human Security and Development Thinking," Louis Emmerij, ed., *Economic and Social Development into the XXI Century* (Washington, D.C.: Johns Hopkins University Press for the Inter-American Development Bank, 1997), 168.

2. Susan B. Carter and Richard Sutch, "Historical Perspectives on the Economic Consequences of Immigration into the United States," Joshua DeWind, Charles Hirschman, and Philip Kasinitz, eds., *Becoming American/America Becoming: International Migration to the United States*, forthcoming.

3. The growth estimates were compiled from data in World Bank, *World Development Indicators 1998* (Washington, D.C.: World Bank, 1998).

4. Angus Maddison, "Economic Policy and Performance in Capitalist Europe," Louis Emmerij, ed., Op. Cit., Table 3.12, p. 295.

5. The UNDP comes to the opposite conclusion in a study covering the period 1960 to 1989. See UNDP, *Human Development Report 1992* (New York: Oxford University Press, 1992), ch. 3.

6. The contrast between the Chinese and Soviet experiences is highlighted in Keith Griffin and Azizur Rahman Khan, "The Transition to Market Guided Economies: Lessons for Russia and Eastern Europe from the Chinese Experience," Bernd Magnus and Stephen Cullenberg, eds., *Whither Marxism? Global Crises in International Perspective* (New York and London: Routledge, 1995).

7. For a short statement of how East Asia's development strategy differed from the liberalization strategy of the "Washington consensus," see Frances Stewart, "John Williamson and the Washington Consensus Revisited," Louis Emmerij, ed., Op. Cit., 64–7.

8. See Overseas Development Institute, *Foreign Direct Investment Flows to Low-Income Countries: A Review of the Evidence*, Briefing Paper, Table 1 (September 1997), 2.

9. H. Singh and K.W. Jun, *Some New Evidence on Determinants of Foreign Direct Investment in Developing Countries*, Policy Research Working Paper No. 1531 (Washington, D.C.: World Bank, 1995).

10. See, for example, A. Bhattacharya, P.J. Montiel and S. Sharma, *Private Capital Flows to Sub-Saharan Africa: An Overview of Trends and Determinants*, unpublished paper, (Washington, D.C.: World Bank, 1996).

11. The argument that follows was first presented in Keith Griffin and Azizur Rahman Khan, *Globalization and the Developing World* (Geneva: UNRISD, 1992), ch. 8.

12. These points are discussed at greater length in Keith Griffin, “Globalization and Development Cooperation: A Reformer’s Agenda,” Albert Berry, Roy Culpeper and Frances Stewart, eds., *Global Governance and Development Fifty Years After Bretton Woods* (London: Macmillan, 1997).

13. Graciela Chichilnisky has suggested creating an International Bank for Environmental Settlements that would be responsible for creating a global market in emissions permits (including loans of emissions permits and derivative instruments associated with them) and monitoring the results. See her *Development and Global Finance: The Case for an International Bank for Environmental Settlements*, UNDP, Office of Development Studies, Discussion Paper no. 10 (1997).

14. The argument that follows is developed at greater length in Keith Griffin, *Culture, Human Development and Economic Growth* (UNRISD/UNESCO Occasional papers, Series on Culture and Development, no. 3, 1997).