Discussion: Globalization, democracy, corruption

Students from the Master of Science program in International Business (MSIB) and MBA programs at CU Denver made presentations framing both sides of the issues in the ongoing controversy surrounding globalization. Their ability to put forth the views of the opponents and proponents of globalization stemmed from a graduate course called Dialogues on Globalization.

The discussions were moderated by program director Manuel G. Serapio, Jr., associate professor of international business and management.

Race to the Bottom vs. the Golden Straightjacket

**Presenters:** Daniel Barry, Michael Farrell  
**Team members:** Lan-Chun Chao, Nuttida Sonprasert, Teeaya Tantiwong

Daniel Barry began the presentation by explaining the terminology. 'Race to the bottom' is a term anti-globalists have used to portray the pernicious effects of globalization. In this view, multinational corporations play societies and governments against each other in order to create conditions - such as tax credits or lower wages - that will produce the most profits. What ends up is a downward spiral in the economic health of the country.

"The golden straightjacket" is the pro-globalization view. Proponents say that globalization has a lot of benefits for participating countries, such as an increased standard of living, decreased poverty and the technical inflows that are needed for development. But there are rules to playing the game and only fiscally responsible governments get to enjoy the benefits."

However, neither of these arguments is conclusive. "There's some gray area in there, and the objective of the team is to present both sides of the debate as objectively as possible."

Poverty and standard of living

**Pro-globalization:** Multinational corporations are providing a benefit to developing societies by creating jobs and paying higher wages. The data suggests that embracing global trade has resulted in a significant decrease in poverty. In Asia, the export-oriented countries have done well. Japan's protected domestic markets are its weak link, whereas its external markets are the ones that have brought wealth and the standard of living that Japan knows today.

**Anti-globalization:** The multinational corporations are not providing a living wage. In the developing world, labor standards are weak if they exist at all, and corporations can drive down the cost of labor because there are no competing employers.

Social spending

**Pro-globalization:** "There is a direct correlation between social spending and outwardly facing markets. Countries like Sweden, which is very outwardly focused, have a lot of international trade but they also spend a lot on reeducation and getting their population trained in high-tech areas."

**Anti-globalization:** "Western democracies in Europe are now being faced with Yankee capitalism and governments are reducing benefits to workers in order to stay globally competitive. You can't just open up markets and allow people to get displaced; there needs to be a social safety net."
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Foreign Direct Investment

Pro-globalization: "Most foreign direct investment brings the transfer of technologies and improves productivity. FDI also stimulates development in other areas such as health, education, and infrastructure," said Mike Farrell.

Anti-globalization: "Not all the technologies transferred are current. And most FDI goes to developed nations, giving corporations the ability to hold governments hostage to their demands."

There is some basis to the argument about technologies, said Farrell. "It might be true that technologies going to developing countries are not the most current. It's prohibitively expensive for global companies to maintain two levels of technology, so what we're really seeing is the newest technologies going to the developed countries that have the best potential for growth."

Labor and wages

Pro-globalization: "Multinational companies are the employer of choice; they pay up to twice the prevailing rate. Labor unions are becoming adept at growing across borders, thereby gaining power in negotiating with international companies.

Anti-globalization: "Multinationals profit from sweatshops and child labor in developing countries where the FDI is low.

Farrell refuted this argument. "Sweatshops and child labor exist in many countries that have high FDI so there's no cause-effect relationship there."

In conclusion, Farrell said, "The empirical evidence strongly supports the benefits of globalization. But the anti-globalization movement still has an influential voice in public opinion." Farrell posed a question for Forum participants: "How can we introduce global economies into undeveloped countries without causing all of this friction between the pro and anti forces?"

IMF and WTO: Washington Consensus?

Presenters: Peter Morse, Jesse Schumacher
Team members: Pattama Boonpawattana, Oles Gordeev

"'Washington Consensus' refers to the "lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989," (John Williamson 2000). "The institutions that Williams is referring to are specifically the World Bank, the International Monetary Fund, U.S. Treasury, and the Federal Reserve Board," said Peter Morse.

He summarized the 10 free market policy reforms called for in the Consensus: fiscal discipline, tax reform, trade liberalization; interest rate liberalization; privatization; deregulation; a comprehensive exchange rate; liberalization of inflows of foreign direct investment; a redirection of public expenditure priorities toward fields offering high economic returns, and the securing of property rights.
Discussion: Globalization, democracy, corruption

International Monetary Fund

"Argentina has defaulted on many of its IMF loans; its currency is on a floating scale and unemployment is extremely high. Brazil isn't doing much better except newly elected President Lula has said he's going to try not to default on its IMF loans."

Although it was established more than 50 years ago, it is only in the last 10 years that the IMF has risen to prominence among the world's institutions.

Criticisms of the IMF:

- It is controlled by developed nations;
- It is only interested in getting its loans repaid;
- It rejects the cultural and societal differences among countries and maintains a one-size-fits-all policy towards its lending, often imposing austere and unfair economic policies;
- It creates aid packages and loans that are conditional upon key aspects of the Washington Consensus.

The IMF was criticized in 1998 for exacerbating the Asian financial crisis through the fund's decision to require Asian nations to raise their interest rates to record levels. Jesse Schumacher presented the other side of the debate:

- The developed nations contribute most of the money to the Fund, thus they should control it;
- Economic austerity programs are necessary for economic recovery and to ensure long-term health of the economy;
- IMF policy reforms have a much better track record of succeeding than any other type of reforms;
- There is no connection between conditionality of the IMF loans and the so-called Washington Consensus.

World Trade Organization

Schumacher discussed the issues involving the WTO, which was founded in 1995 as a successor to GATT - General Agreement on Tariffs and Trade.

"The objective of the WTO is to help trade flow smoothly, freely, fairly and predictably by administering trade agreements, settling trade disputes and reviewing trade policies.

"Anti-globalization protestors say that small countries are powerless in the WTO. The WTO's reaction, which I tend to agree with, is that the WTO gives small countries a voice among larger and more powerful countries.

"The protestors claim that the WTO is a tool of powerful lobbyists. In WTO meetings, where all 145 member countries are represented, neither lobbyists nor private businesses are allowed to participate. However, if the lobbyists have the time and money, they can try to influence the larger governments to represent their interests. But smaller countries have the advantage of transparency and can see what's going on."
“If you don't have an environment, you don't have an economy because the economy is inherently dependent upon the environment,” said Dyani Galligan. “This is the piece that is sometimes missed because the environmental debate tends to be emotional and political, moral and cultural. All industries in some way rely upon the natural capital of the earth: water, soil, forests and air. If we don't protect our natural capital, there won't be anything to sustain our economy in the long run, and the issue about the economy will be a moot point.”

The environmental discussion could and should be market-based, said Galligan. "But right now the costs of most of the natural capital companies use in manufacturing are not included in the final costs of the products they produce." For example, the cost of treating lung disease, attributed in part to air pollution caused by cars, is not included in the cost of cars.

"The problem is that the market often fails to tell the ecological truth. It regularly underprices products and services by failing to incorporate the environmental costs of providing them," said Galligan, quoting Lester R. Brown in Eco-Economy.

There are three ways to make market prices tell the truth . . .

- Remove subsidies of environmentally damaging industries. In Newfoundland and Eastern Canada, government subsidies led to overfishing in their waters. Forty thousand fisheries went bankrupt owing the government money.

"Most of the electricity that companies use to mine and harvest aluminum is subsidized by the government. So their energy bills don't tell the truth."

- Add taxes and fees to reflect true costs. "Nine countries in Europe have done this. You pay a fee to own a car, which hurts consumers. To offset this, they lowered income taxes, so consumers in the end will probably come out okay. But what the fee does is to discourage use of products that damage the environment."

- Sell a limited number of licenses. The purpose is to maintain an acceptable level of pollution that balances the needs of the economy against the needs of the environment. When licenses are sold out, people can trade among themselves. "It's an incentive to clean up your industry when you have to pay for the licenses."

Said Galligan, "When market prices tell the truth, it encourages good decisions for our environment and for our economy."

The issue comes down to social obligation vs. long-term economic planning. "We would like to have lakes, but we also would like to have a sustainable economy." In the meantime, water depletion, rising oceanic temperatures, pollution and deforestation are taking a toll on the world's natural capital.

Water depletion is a major problem in the Middle East, Africa and China, where water is being used at a much faster rate than it can be replenished. "In China, a lot of scarce water is used for industry. They are overusing the water in their aquifers and the water tables are dropping. When the water is gone, so is the industry."
Discussion: Globalization, democracy, corruption

Economic damages resulting from the loss of natural capital are staggering. Overfishing has caused the collapse of two-thirds of the world's fisheries; three of the world's major ice sheets are melting resulting in the loss of rivers and agriculture and increasing prices in products such as grain; Nigeria is losing 500 square kilometers of productive soil each year due to erosion and land degradation.

Companies that have a long-range view should add environmental planning to any business plan they have, said Galligan. "If you're thinking about FDI in China, you might want to make sure that there's going to be water there for you in 10 to 12 years. If you are thinking about building a plant in a country where there's a lot of air pollution, you might want to consider how many sick days workers are going to need because the air is affecting their health.

"And we need to help the developing countries understand that if they don't protect their environment, not only will their people be starving now, they will absolutely be starving in the future."

One World, One Culture?

**Presenters:** Sheila Prettii, Pierre Andreani
**Team Members:** Tom Atwood, Suneerat Tanaphantarar, Seth Fullerton

"Culture is a part of every other facet of globalization," said Sheila Prettii. It comes into play when negotiating contracts, hiring and managing workers, marketing and adapting to unfamiliar environments.

"If you don't understand culture, it's going to be very difficult to compete," she said.

There are four globalizing forces affecting culture, as described in the article "An Emerging Global Culture? Four Faces of Global Culture" by Peter L. Berger from the book Globalization and the Challenges of a New Century: A Reader, edited by Patrick O'Meara, Howard D. Mehlinger, and Matthew Krain. Roxana Ma Newman, Managing Editor.

Each of these forces is Western in orientation and facilitated by the use of English as a common language.

- Davos culture. Participants in this culture travel, understand currency conversions, technology and other facets of international business. They dress alike and conduct business in similar ways. These value systems permeate their personal lives. It's a culture of the elite, which causes difficulty between elites and non-elites.

- Faculty Club Culture. Primarily a western popular culture and American in nature. It's spread through the educational and legal systems and media. It is also an elite culture.

- McWorld culture. This is primarily western popular culture and, again, American in nature. It's rock music and fashion. "It also deals with value and belief systems such as freedom of speech, self-expression and those types of things."

- Evangelical Protestantism. Centered on a strong work ethic, it also addresses such issues as gender, male-female relations, child rearing and attitudes toward traditional hierarchies.

"These globalizing forces create change and influence people as they gain momentum."
Discussion: Globalization, democracy, corruption

Pierre Andreani noted that there are two views of the effects of globalization on culture. "The first one is that globalization does not negatively affect culture but fosters diversity. Cultural similarities and differences are recognized and maintained due to the common values of fundamental humanity.

"The second view is that globalization undermines cultural diversity, deconstructing societal values, destroying group identity and destroying social cohesion."

There are positive and negative effects of globalization, depending on where you stand. On the positive side, there are those who believe that globalization has resulted in a dramatic increase in the interactions between cultures, thereby promoting integration and the removal of cultural barriers as well as some of the negative dimensions of culture.

On the other hand, there are those who believe that globalization is a standardizing, commercializing force that stifles diversity and dissent and spreads western culture. The U.S. is by far the biggest exporter of movies, music, TV shows, newspapers, satellite broadcasts, fast food and clothing.

However, "these things are just superficial expressions of culture. They don't affect the deeper values and moral beliefs that lie beneath some of those outward behaviors."

It's possible that individuals may adopt certain aspects of culture to their own interests while rejecting other aspects that don't fit with their belief system.

An article in New Statesman was quoted: Watching American television does not make you an American any more than watching ER makes you a doctor.

"This brings home the point that the assimilation of culture does not necessarily equate to the obliteration of culture. But it's hard to buy that viewpoint when you're the one who is living in a non-American culture.

"The bottom line is that culture is dynamic; it is constantly changing and will continue to change," said Pretti. "Individuals will simultaneously assimilate similarities while rejecting differences and ultimately reaffirming indigenous characteristics."

Said Andreani: "It takes 100 years to affect deep change. Managers must understand that surface cultural traits change at a faster rate than the underlying values and characteristics that shape a culture."

The MSIB

The MSIB prepares students for the opportunities and challenges faced by businesses operating in the global arena. Students build an understanding of international business environments, cross-border movement of goods, people and technology, and managerial aspects of global business.

The Dialogues on Globalization course grew out of the realization that "we needed to train our students not just in the economic aspects of globalization, but also in the political, social, cultural, environmental, and institutional aspects of globalization," said Serapio.

The Dialogues course brings in experts from various disciplines to share their knowledge with students. "Our intent," said Serapio, "is to put the issues on the table and make sure students understand the complexity of this development called globalization."
Discussion: Globalization, democracy, corruption

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