

## Chapter 5 : The Rise of the Globalization Project

### Postdevelopmentalism

- Postdevelopmentalism refers to the demise of the project in which states pursued nationally managed economic growth.
- Dismantling of public supports for populations; Support for under-privileged is being removed
- It is universal and concerns the attempt to build a global economy under global mgmt (all states are involved, even those in former 2W - China, Vietnam, NK, Cuba)
- States are exploring new ways of governing. Simultaneous processes of:
  - decentralization of power: of central state authority (e.g., US federal govt is divesting itself of certain social budgetary responsibilities, shifting these down to states and municipalities) ⇒ downsizing
  - centralization of power: groupings at the macro-regional level (e.g. RFTAs) in which member states agree to common economic rules about trade and investment
- *"In circumstances of accelerating globalization, the nation state has become too small for the big problems, and too big for the small problems of life"*
- Out of this uncertainty, the **globalization project** arises
- In the 1970s, the WB proclaimed the model postdevelopmentalist strategy for development to be "successful participation in the world economy".
- By 1980s, the definition of development was extended to include a policy of broad *liberalization*:
  - in particular, privatization of public functions and the application of market principles to the administration of wages, prices, and trade
- These principles guides the structural adjustment measures imposed on debtor nations by the debt managers in the 1980s
- However, the NICs did not actually follow these principles
  - SK: "centrally managed capitalism"
  - Malaysia, Thailand, Indonesia: combined successful export-led growth with strong import-protectionism
  - Japan helped these East Asian NICs to score enormous success without adhering to the free market ideal
- 2 trends resulted (central to the emerging globalization project):
  - Strong pressure from the US on these states to open up to foreign trade and investment
  - US led a parallel attempt to institutionalize this free market consensus globally - this led to the formation of the WTO (in 1994) designed to anchor a new "free trade regime" on a global scale. (GATT Uruguay Round : 1986 - 1994)

### The Globalization Project

- Although the globalization project replaced the development project, "development" has not lost its currency; only its frame of reference has shifted:
  - Thousands of community and regional development projects continue at the local level (by the proliferation of NGOs)
  - At the global level, the development establishment focuses on developing the global economy
- At both levels, a new conception of "sustainable development" has gained currency. It is used both the grassroots movements as well as the global managers (e.g., WB), but it does not always mean the same thing.
- The new frames of reference proliferate as the certainty of the development project's singular framework has disappeared.

### The Strategy of Liberalization

- The centerpiece of the globalization project is the belief in market liberalization that took hold under the debt regime

- Debtor govts that reduced their size and role were rewarded by the debt mgrs with credit released in staggered portions to ensure their continuing compliance with loan conditions
- Thus, national economies were opened up to global forces. This led to:
  - For example, in Chile: polarizing wealth, compromising the security of domestic populations, and threatening the sustainability of local resources
  - The pursuit of "efficiency in the global marketplace" weakened the domestic fabric of social securities and local production
  - Transformed Chile, both culturally and politically, from a country of active participatory grassroots communities, to a land of disconnected, apolitical individuals
  - Commercial exploitation of national resources to service international debt (e.g., woodlands disappear for Japanese chopsticks) (debt ⇒ high rates of deforestation)
  - Overfishing, reduction of tropical forest ⇒ no wild game ⇒ threatens food security
- Widespread export-led debt servicing:
  - Selling domestic resources to global firms that supply the global economy and delivering the revenues to multilateral lenders as debt repayment
  - Eroding the country's natural resources that provide subsistence security to the poor
- In the long run, removing domestic protections to meet short-run payment schedules threatens social and environmental sustainability
- The fallacy of the structural adjustment blueprint becomes clear when all debtor nations try to export their way out of debt
- The export-led collapse reveals the risks associated with greater participation in an unequal world market (the terms of participation are not necessarily favorable)
- In place of national priorities, global priorities such as debt service, expanded trade, and renewal of foreign investment opportunities gain the upper hand (e.g., Eastern Europe and China - enriching of officials of former 2W)
- States lack public capacity to pursue nationally coordinated development initiatives.
- The transformation of states is reflected in govts' greater dedication to market rather than social (welfare) principles in their growth strategy.

### The Comparative Advantage Axiom

- The development strategy of the globalization project depends on the world market rather than the domestic market for its stimulus.
- Based on the concept of comparative advantage: that national prosperity derives from specialization in those forms of economic activity in which a country does best
- This contradicts the development project's ideal of a series of integrated national economies; so, the structural restructuring during the 1980s were strategic in shifting the terms of development.
- As states open up and pursue global efficiency (e.g., with wage cuts), other states are compelled to follow or suffer offshoring of their capital to these cheaper zones. Comparative advantage in cheap labor determines strategy - the global labor force finds its wages trending downward.
- Earlier slogan: "Learn from, and catch up with, the West" (replication was the key to national development)
- Now, the slogan is: "Find your niche in the global marketplace" (specialization is the key to economic prosperity)
- Mechanism of specialization: Wage cuts, foreign investment concessions, privatization, and reduction of social entitlements
- Globalization project emphasizes global markets - but when these are so volatile and unevenly structured, there are no guarantees of success
- Poorer regions fall into the "expot trap" (e.g., Africa) leading to a process of economic marginalization

### The Infrastructural Dimension

- WB has shifted it emphasis from project loans to policy loans

- The IDA redirected its lending from the poorest countries to those “making the greatest efforts to restructure their economy”
- WB reversed its 1970s basic needs policy
- The priority had shifted to stabilization of global, rather than local, organization

## Global Governance

- States face a new global order in which global institutions have assumed a different governing role (requires compliance from the states - pursuing efficiency in the world market is one such form of compliance)
- The most immediate form of governance is the leverage gained through debt. All states are now subject to universal credit ratings.
- Debt has become a powerful political leverage under the debt regime when the multilateral financial agencies strengthened their control over national policy making by assuming the lending role.
- During the 1980s, the composition of loans to the former 3W changes dramatically. (in 1981, 42% of net loans came from commercial banks; 8% from multilateral financial agencies; in 1988, banks supplied only 6%, whereas multilaterals supplied 88% of net loans)
- This recomposition of debt centralized financial power in official hands. Because this financial power extracted major political concessions from those states, it amounted to an informal practice of global governance
- National currencies and national economic policies have become thoroughly interdependent - so global financial management has become a practical necessity (e.g., Mexican peso)
- Concern with mgmt of the global economy arises from several sources, but converges as the globalization project. It has 2 essential and related aspects:
  - International financial stability has a higher priority than national development planning
  - countries are so embedded (through debt and other mechanisms) in the global system that financial stability considerations actually drive economic policy making (Global governance is embedded in state policy).

## GATT

- US wished to extend GATT liberalization measures to agri and other areas such as services (banking, insurance, telecom) (they had an advantage)
- India and Brazil opposed - but 1W pressure won
- TNCs also lobbied for GATT-style liberalization (since regulations compromise the flexibility of TNCs to use lower-priced products of their global sourcing operations as a competitive market weapon against high-priced producers.
- Global firms favor liberalization because it opens up global sourcing possibilities, especially desirable to spatially mobile TNCs. They stand to gain if they can sell farm products all over the world; they benefit from seasonal differences, from shared and different diets, and from the opportunity to seek the lower-cost producers
- Free trade v/s the less protected farmer (subsidies in the US generated larger surpluses to be dumped on the world market) (Jamaican demand that GATT distinguish between 1W subsidies that finance overproduction and dumping and 3W subsidies that promote self-reliance, rural employment, and sustainable agri)
- Free trade v/s food security
- Subordination of poorer states - some perceive globalism as a process of “recolonization”
- Freedom of enterprise under a GATT regime: IP rights (basmati patenting, etc.)

## WTO

- See mid-sem notes
- Unlike GATT, WTO's rules are binding on all members
- Decision automatically holds unless every member of the WTO votes to reverse it
- WTO has the potential to overrule state and local powers in regulating environmental, product, and food safety
- (E.g., US Marine Mammal Protection Net); 50 times the residues of DDT permitted under US laws

- WTO staff are unelected bureaucrats - who answer to no constituency other than an abstract set of free trade rules
- Their proceedings are secret - denying citizen participation
- States, the historical site of democratic politics, potentially become the instruments of abstract rules
- Global mgrs assume extraordinary powers to manage the web of economic relations lying across the states, at the expense of those state organs
- Impact is extensive
- Just as nation states were the ideal vehicle of the development project, so restructured states convey the globalization project to their populations
- Restructuring of political authority is multi-layered - it includes a macro-regional dimension between states and global managers (RFTAs)

## RFTAs

- See mid-sem notes
- NAFTA (US, Canada, Mexico); Mercosur Treaty (Latin America); South African Development Community; Northern growth triangle; APEC; EC
- Implement principles of free trade among participant states as a logical, intermediate step
- In a way, regionalism is a defensive, or preemptive strategy
- It embodies the tensions between the global and national authority that exist in the globalization project
- E.g., NAFTA changed the policies of the Mexican govt (100% ownership of fin. inst.; privatization of railroads and satellite operations)

## The Globalization Project as a Utopia

- Different opinions on the success of the development project:
  - Some say it was a confidence trick or an illusion as the world economy has always rested on an exploited base, or periphery
  - Others say it was a success because it was never intended to be absolute
- If there was a national integrating trend under the development project, there appears to be a disintegrating trend at the national level under the globalization project because of an integrating trend at the global level.
  - Not necessarily a homogeneous integration
  - more people across the world consume standardized products
  - but, people who produce these products do so under diverse labor conditions
- The world market standardizes consumption but differentiates production and disorganizes producing communities.
  - Incorporation of new labor forces across the world into commodity chains of global production
  - Child labor, casual women and men labor, sweatshops, slave labor, etc.
- The globalization project (like its predecessor) is likely an unrealizable ideal:
  - Neither nation-states nor world community is singularly composed of market-oriented individuals (some regions are more equal than others)
  - Social movements in various parts of the world that resist and / or qualify the globalization project (alternatives to globalization)
- The globalization project is the most powerful force so far.
- Fluctuation of exchange rates leads to currency speculation; this results in resource misallocation (endless financial mergers) - cultivates and uncertain business climate
- Member states must disclose confidential information such as forex reserves - IMF leverage to deepen the financial surveillance of the system at large.

**Elements of the Globalization Project**

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| <ol style="list-style-type: none"><li>1. Emerging consensus among policy makers favoring market-based rather than state-managed development strategies</li><li>2. Centralized mgmt of global market rules by the G-7 states</li><li>3. Implementation of these rules by the multilateral agencies: the WB, IMF, WTO</li></ol> | <ol style="list-style-type: none"><li>4. Concentration of market power into the hands of the TNCs and financial power into the hands of the TNBs</li><li>5. Subordination of former 2W and 3W states to these global institutional forces</li><li>6. Subordination (less severe) of 1W states to these global institutional forces (more institutional and political coherence; smaller proportion of population is marginalized)</li></ol> |
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