The myths about globalization (1)

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Give the foes of globalization one thing. They have set off a roaring debate on one of the vital questions of the day.

Like it or hate it, globalization is changing our world. As trade barriers fall, transnational companies extend their reach around the globe, and phone, fax and Internet draw us all closer, the economies of the world are becoming entwined as never before.

The volume of world trade has grown 16-fold since the founding of the General Agreement on Tariffs and Trade half a century ago. Global exports as a share of global output have risen from 14 per cent to 24 per cent since 1970. Every day, more than $2-trillion (U.S.) changes hands on foreign-exchange markets — 100 times the average daily volume in the 1970s.

A banker in Manhattan can come back from lunch, type a few strokes on his computer and send hundreds of millions of dollars fleeing out of the Mexican peso and into Swiss bonds. A pair of Nike runners can be designed in Oregon, manufactured in Shanghai with components from six other countries and sold in a mall in Dusseldorf, all within a few weeks. A teenager in Bangkok can eat lunch at McDonald's over a copy of Sports Illustrated, take in *Gladiator* at the movies, then go home to battle villains on a PlayStation 2 game that was designed in Tokyo and assembled in Jakarta.

These are truly staggering changes. Are they for the better or the worse?

For the opponents of globalization — call them the globophobes — the answer is obvious. Next week they will gather in their thousands in Quebec City for what promises to be the most dramatic mass protest Canada has seen in many years. Their immediate goal is to block plans by 34 countries to create a free-trade zone in the Western Hemisphere, the Free Trade Area of the Americas. Their broader target is the growing integration of the world's economies through liberalized trade and investment — in short, globalization.

The way they see it, globalization is nothing less than a plot by powerful transnationals and freebooting billionaires to make the world safe for international capitalism. When they raise their banners in Quebec City, they will blame "corporate globalization" for polluting the environment, exploiting workers in poor countries, swamping local cultures, destroying national sovereignty and setting off a vicious "race to the bottom" in labour and environmental standards.

They are wrong on every point. Passionate and well-meaning as they may be, the foes of globalization have built their case on a swamp of myths and distortions. As we hope to show in this space over the next few days, globalization is in fact good for workers in poor countries, good for the environment in the long term and far less threatening to local cultures and national sovereignty than the critics say.

As for the race to the bottom, the evidence shows it does not happen. Far from being something to fear, globalization is a powerful force for good, with the potential to lift countless millions out of poverty and make the world a safer, richer, better place.

If that makes you raise a skeptical eyebrow, you are not alone. Since the first of their mass protests in Seattle in 1999, the globophobes have managed to persuade great numbers of people that globalization poses a dire threat to the future of the planet. "Corporate globalization is big business's audacious new strategy to further concentrate power and wealth," says one of their many Web sites. "This global economic system is based on exploiting people and the planet for profit, resulting in poverty, misery and ecological destruction."

Mistaken as it is, this jaundiced view of globalization has taken firm root in the public mind. If it sprouts into conventional wisdom, the consequences could be serious.

Though governments such as Canada's may sing the praises of free trade, they are in fact only half convinced. With a global economic slowdown looming, it would not take much to persuade them to retreat into protectionism again. When that happened during the 1930s, it helped bring on the Great Depression.

Rich countries such as ours would survive such a retreat, even if it caused us much pain. It would be another matter for poor countries, which desperately need the technology, capital and access to rich foreign markets that globalization offers. For them, the greatest danger is not that globalization will succeed but that it will fail.

For their sake, if not our own, the myths being put about by the foes of globalization must be confronted. On the outcome of this debate — the greatest clash of ideas since the Cold War — rests the fate of millions. It cannot, must not, be lost.

The myths about globalization (2)

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The opponents of globalization can be faulted for many things, but no one can accuse them of not caring. The legions of protesters who will descend on Quebec City for the Summit of the Americas next week care deeply about the plight of the world's poor.

As should we all. One in every six humans survives on less than a dollar a day. Millions, many of them young children, die every year from the diseases of poverty. Ending their misery is the great moral challenge of the new century.

Fortunately, there is a way. Unfortunately, that way is the very thing the Quebec protesters want to fight: globalization.

The spread of global trade and investment is quite simply the best anti-poverty program the world has ever seen, far better than even the most generous foreign aid. Because of it, hundreds of millions of people have already climbed the ladder out of poverty. In China alone, 160 million people left the ranks of the poor as that country ended its economic isolation and joined the global economy. Average incomes quadrupled in just 20 years. Now, scores of other poor countries are lining up to follow in China's footsteps, among them the 32 nations of Latin America and the Caribbean that will be represented in Quebec City.

Yet the foes of globalization would slam the door in their face. As they see it, globalization only enriches giant transnational corporations and their billionaire owners while leaving developing countries poorer and more exploited than ever. Not so. Though transnationals undoubtedly gain from globalization, by far the biggest winners are poor countries.

A mountain of studies shows that countries that embrace trade and foreign investment grow faster than those that do not — about twice as fast on average, says one report by the Organization of Economic Co-operation and Development. A well-known paper by Harvard professors Jeffrey Sachs and Andrew Warner showed that poor countries with open economies grew by an average of 4.5 per cent in the 1970s and 80s while those with closed economies grew by just 0.7 per cent.

If studies don't convince, just look across the Pacific. The Tiger economies of East Asia — Taiwan, Hong Kong, South Korea, Singapore and before them Japan — all went from rags to riches by selling their products on the markets of the world. Just three decades ago, South Korea was as poor as Ghana. Today, it's as rich as some European countries. Singapore emerged from the Second World War a seedy tropical port with no resources and little industry. Today, thanks to trade and investment, its skyline is filled with skyscrapers and its people are as prosperous as Canadians.

Now look at India. It shunned globalization for decades, sealing off its economy behind a wall of tariffs and quotas. The result was a long winter of economic stagnation from which Indians are only now beginning to recover. The same thing happened in Latin America and Africa.

If poor countries are embracing globalization now — more than 20 want to join the World Trade Organization, and more than 130 already have — it's not because they are being coerced by the agents of international capitalism. It's because the alternative has been utterly discredited.

Of course, a richer country doesn't always mean richer workers. Foes of globalization say its benefits flow overwhelmingly to greedy local elites and corrupt governments, while exploited workers suffer. They're wrong about that, too.

Everywhere that export industries have sprung up to serve the global economy, incomes have improved. One study has shown that workers in U.S. factories abroad — those transnationals that the foes of globalization love to hate — earned eight times what workers in local factories did. The garment worker in Bangladesh may find the hours long, the factory crowded and the boss callous, but her life is still far better than it was on her father's tiny plot of land in the Ganges delta. Now, at least, she can afford to pay her children's school fees and save for her daughter's wedding.

Workers in poor countries don't need placard-waving protesters to tell them that sewing blue jeans for export is a hard way to make a living. Millions of them know it from experience. But they also know that a sweatshop job is better than no job at all, and that what they are doing is a step to something better.

Globalization is not a magic formula. It is a way to get a foot on the ladder. When poor countries join the global economy, an evolution begins. As foreign investment flows in, local industries get the capital and technology they need to make better products. They soon need workers with better skills, so they start paying better wages. As incomes and tax revenues rise, governments gain the means to pay for better schools and health care.

When all this has gone on long enough, the sweatshops start to disappear. Hong Kong started its climb to prosperity making plastic flowers and toys for export. Now it exports digital video recorders and financial services. Along the way, the gap between rich and poor starts to narrow. After 40 years of trade-driven growth, South Korea's rich-poor gap is no greater than Canada's.

The foes of globalization would stop this virtuous process in its tracks. Though they claim to speak for the poor, the restrictions they seek on trade and investment flows would kick away the ladder for scores of poor countries.

That would be a calamity. For the first time in history, the end of mass poverty is in clear sight. For the hundreds of millions who live in want, there is finally a way out. That way is globalization.

Tomorrow: The myth of environmental destruction.

The myths about globalization (3)

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When anti-globalization protesters take to the streets of Quebec City next week, environmentalists will be in the front rank. According to groups such as Greenpeace, Friends of the Earth and the Sierra Club, freer trade and a globalized world economy pose a direct threat to the health of the planet.

Their concern is understandable. Globalization means more trade, more trade means making more things to sell, and making more things to sell usually means consuming more resources and creating more pollution. Globalization also means drawing up trading rules that can sometimes conflict with national and local environmental regulations. So globalization must necessarily be bad for the planet, musn't it?

Well, no. In fact, there is good reason to think that, in time, globalization will lead to a cleaner world for us all.

How? To begin with, by making poor countries richer. Countries that welcome foreign investment and trade with the rest of the world tend to grow faster than those that huddle behind protective walls. When people grow richer, they demand a cleaner environment. And because they are richer, they have the resources to pay for it.

Consider what has happened right here in Canada. This country relies on trade more than almost any other, and our volume of trade has leapt from 42 per cent of gross domestic product in 1970 to 83 per cent today. Yet our environment has been getting steadily cleaner. In the average Canadian city, lead levels in the air are down 88 per cent and carbon monoxide 74 per cent since 1974. In the Great Lakes, levels of phosphorous, PCBs and other pollutants are also down sharply. That's partly because more prosperous, better-educated citizens have demanded action from governments. It's also because Canadian consumers and companies can afford expensive anti-pollution gadgets like catalytic converters (to make car exhaust cleaner) and smokestack scrubbers (to reduce sulphur-dioxide emissions).

The same thing is sure to happen in other countries as they grow richer. A renowned 1994 study by two U.S. researchers, Alan Krueger and Gene Grossman, showed that pollution levels in developing countries start to fall when they reach income levels of about $8,000 (U.S.) a head. It's happening right now in newly rich Hong Kong, where a well-heeled and increasingly vocal middle-class is putting pressure on the government to clean up the smoggy air and foul water — and a government flush with cash is responding. Of course, Hong Kongs don't happen overnight. Industrialization takes time, and it's a dirty business. Every industrializing country in history has had its dark, satanic mills. But that's not globalization's fault.

Places that industrialize without much trade or foreign investment are every bit as dirty as those that don't — often more so. Look at the Soviet Union, which took almost no part in the global economy but left an environmental mess in its wake. Or look at India. The smog that is eating away at the Taj Mahal is not caused by greedy transnational corporations, all but banned in India until recently. It comes from scores of ancient iron foundries producing for the protected and thoroughly unglobalized local market.

Places that welcome trade and investment, on the other hand, tend to move through the dirty phase of industrialization more quickly and do less damage on the way. One reason is the pressure of competition. If a rubber-tire company in Malaysia wants to compete against all the other tire makers in the global market, it will have to adopt the leanest production methods possible — methods that use the smallest possible amount of energy and resources. Another reason is that the multinational companies that proliferate like mushrooms in a globalized economy tend to run cleaner than their local counterparts. More and more multinationals are using the same environmentally friendly production methods abroad that they use at home, in part because standardization is cheaper.

But what of regulation? Environmentalists insist that trade bodies like the World Trade Organization and trade deals like the North American Free Trade Agreement (NAFTA) rob governments of their ability to enforce local laws that protect the environment.

Here again, they are mistaken. The basic charter of the WTO says clearly that member states are free to impose trade restrictions "necessary to protect human, animal or plant health." Its only condition is that the restrictions should be based on sound scientific evidence, a proviso designed to prevent governments from using phony environmental scares to keep out imports. Even with that condition, countries are free to defy the WTO if they wish. The European Union did just that when it banned the sale of beef from cattle raised with growth hormones. The WTO ruled against the ban, but the Europeans kept it anyway, and there is nothing the WTO can do about it.

Like the EU, Canada has seen some of its environmental measures clash with international trade rules. The federal government had to revoke an import ban on the gasoline additive MMT when its U.S. maker challenged the ban under NAFTA, but only because Ottawa had no scientific evidence whatever to justify the ban. Regulations aimed at provable environmental threats face no such danger, and even silly, groundless rules can stand as long as governments don't use them to penalize trading partners.

There is simply no evidence that free-trade agreements undermine environmental standards. To the contrary, some agreements, such as NAFTA, include pledges to raise such standards. Even when they aren't written in, countries that trade with each other often make separate agreements on the environment. Governments around the world have signed more than 200 such accords, another sign that globalization means a better, more co-operative — and, yes, cleaner — world.

Monday: The myth of threatened sovereignty.

The myths about globalization (4)

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You don't often see people marching through the streets in defence of government power. The demonstrators converging on Quebec City for this week's Summit of the Americas are protesting in part because they believe the power of governments is under threat. They way they see it, globalization is stripping elected governments such as Canada's of their power to control the economy, protect the environment, support culture and even to provide decent public services — in short, their power to govern. The result, they fear, will be a dog-eat-dog world in which transnational corporations are king and governments little more than court jester.

Like the fear that globalization will wreck the environment or hurt the poor, this is a myth. Even in a globalizing world, governments still have immense power to tax, to spend, to protect and to regulate. And despite the growing influence of international bodies such as the World Trade Organization (WTO), governments remain by far the most important player on the international stage — far more powerful than even the mightiest transnational.

Consider the truest gauge of a government's power: the power to tax and spend. If globalization were indeed undermining governments, you would expect their spending power to fall. Exactly the opposite has happened. In Canada, government spending rose from 28.6 per cent of national output in 1960 to 38.8 per cent in 1980 to 44.7 per cent in 1996. In that same period, trade more than doubled as a share of national output and Ottawa signed three major trade treaties: with the United States (the FTA), with the United States and Mexico (NAFTA), and with the world (the latest round of the WTO). If globalization is meant to cripple government power, it's doing a pretty poor job of it.

Canada's ability to set its own environmental, cultural and social policies has also survived the era of trade and globalization. Despite all the scare-mongering in the 1988 free-trade debate about the end of medicare, the end of unemployment insurance, the end of cultural protection — the end of Canada as we know it — all of these things remain intact. No one is making us sell our water to the Americans or carry guns like they do, either.

But what of the future? Won't powerful international organizations like the WTO chip away our governments' powers over time?

It's hard to see how. Despite its image as a powerful and secretive world government in waiting, the WTO's power over national governments is surprisingly limited. The WTO has no enforcement powers of its own. It can't levy fines, remove import tariffs, impose sanctions or change domestic laws. If one of its members breaks the rules — rules which, by the way, they voluntarily agreed to observe — the most the WTO can do is allow another member to impose trade sanctions against the rule-breaker. When the European Union defied a ruling on banana imports from former European colonies, all the WTO could do was allow Washington to slap sanctions on European imports to the United States. That is something any country could do well before the WTO came along.

For members that consider even these powers too great, the WTO has a whole series of outs. Under its charter, members can limit imports for reasons of public health and safety, national security, resource conservation, or because products were made with prison labour. No other member can challenge them if they do. And remember: the WTO can only change its rules when every one of its 140 members agrees. Decisions are by concensus.

None of this is to say that globalization has no effect on the powers of government. When governments join a trade organization such as the WTO or NAFTA, they agree to accept certain limits on their behaviour. They can't always support favourite companies or industries if the favouritism amounts to trade discrimination. They can't lash out with trade sanctions if they think a trading partner is playing foul; they have to take the complaint to a trade panel first.

Governments in the global economy also face the discipline of the market. If a government runs deficits for too long and builds up a crushing debt, investors may pull their money out. Governments in our globalized world face heavy pressure to control spending, maintain a stable rate of inflation and limit controls on foreign ownership and investment.

Even if these are mostly good things in themselves — New York Times columnist Thomas Friedman calls globalization "the Golden Straightjacket" — it still means that governments today are not quite as free to do what they like.

But no one makes governments accept these limits. Membership in the WTO and its sister organizations is entirely voluntary, and anyone can pull out or decline to join in the first place. Governments choose to take part in the global economy because they judge that the benefits of a stable, open, rule-based trading system outweigh the accompanying loss of power.

Nothing comes for free. When a country signs an arms treaty, it does so because it decides that the security it gains from peace with its rival is greater than the security it lost by giving up some of its weapons.

It's a trade-off. For most countries, the trade-off of globalization is well worth making.

Tomorrow: The myth of the race to the bottom.