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# **GLOBALIZATION AND THE ECONOMY— What Every Citizen Should Know**

**The CQC Handbook on Globalization**

**INFORMATION THAT IS VITAL TO OUR FUTURE—CAREFULLY REVIEWED—NONPARTISAN**

*Do you know that we are all, in some ways, citizens of the world? While our allegiance belongs to our own country, our actions can seriously affect people in other countries. Also, their actions can affect us, as history and recent economic developments clearly show.*

*Globalization is not a strange concept, to be dealt with only by professors. Ever since the first airplane took to the skies and ships began sailing to other lands, what occurs in the world can impact the lives of everyone, everywhere.*

*The material that follows will provide a clear review of the basics of globalization. It will explain why you need to understand the importance of this subject for you and for people living now and in future generations.*

**From the CQC task force on globalization (the backgrounds of the participants are described in an Appendix)**

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## **I. The Economic Downturn**

Although world trade quadrupled over the past 25 years, the economic downturn that began in 2008 has slowed the rate of globalization to the degree that trade is declining faster than production. Plummeting demand for goods and services has been accompanied by falling global water and air traffic, national bailouts of financial institutions, and measures designed to protect home country workers and business firms. Many observers see only a temporary slowdown of globalization, noting movements of government funds across borders to help prop up teetering economies.

The future rate of globalization is likely to be affected by the rate national economies recover and by the degree to which nations use protectionism (high tariffs, quotas, subsidies to domestic producers) to protect their domestic economies. In early 2009, the Inspector General of the World Trade Organization (WTO) warned its members against the perils of competitive protective policies. Many nations, however, were concerned about the outsourcing of jobs to places with cheaper labor and the spread of unsound financial products into global markets.

When the downturn has finally ended, the causes and effects of globalization as described in this Handbook will require increasing attention. A focus on ways to forge closer collaboration between nations on global problems will also emerge.

## **II. Globalization Summarized**

**A. DEFINITION:** Globalization, broadly understood, is the worldwide integration of markets, finance, commerce, communications, technology and law, which transcend traditional national boundaries. It also includes the outsourcing of work in manufacturing and service industries, the increasing movement of peoples across national borders, and worldwide trends affecting the environment and natural resources.

**B. THE IMPORTANCE OF GLOBALIZATION:** Globalization increasingly affects the livelihoods of people everywhere, the use of the earth's resources, and the viability and cohesion both of nations and of international organizations. It is therefore not surprising that globalization generates controversies. The 2007 Pew Global Attitudes Survey of 47 nations reported the United States as the country in which opposition to globalization has risen the most. Opposition in the U.S. grew from 24% in 2002 to 41% in 2007. Problems associated with globalization have been simplified into sound bites, but also are discussed in hundreds of articles and scholarly books. We seek to explore the subject factually in order to provide a balanced picture.

**C. OVERVIEW: CAUSES, EFFECTS, AND OPTIONS:** Since globalization is chiefly driven by economics, technology, and trade policy, we first discuss trade, investment, transnational corporations, and international organizations. We then take a worldwide look at the effects of globalization on labor, on distribution of incomes, and on national security, sovereignty, democracy, the environment, and culture. Finally we discuss how globalization will help or harm you and your descendants, and what might be done about it.

### III. Major Globalization Issues

#### A. CAUSES OF INCREASING GLOBALIZATION: FREE TRADE, TECHNOLOGY, AND GLOBAL PROBLEMS:

**1. Basic Causes:** The spread of **free trade and multinational businesses** has been a major stimulant of globalization. Free trade means few if any barriers to trade between nations, such as quotas or tariffs. Tariffs are taxes on imported goods that increase their price. Tariffs impede imports and international trade.

During the 19<sup>th</sup> century international trade expanded until World War I halted it. At the same time, the United States used tariffs to help build its industrial facilities, standard of living, and national power. After World War I, the United States erected higher tariffs, other nations retaliated, and trade diminished. This was one of the causes of the world-wide depression in the 1930s.

At the end of World War II, the United States and other nations acted to restore and encourage international trade, largely by reducing or eliminating tariffs. This free trade policy followed the principle of “**comparative advantage**” described in the early 1800s by the economist David Ricardo. That principle says nations gain more than they lose if each nation specializes in producing and exporting what it can make best, with consumers in the importing countries benefiting from lower prices.

Today, huge retail chains that sell products made in low-cost countries exemplify the consumer part of this principle. However, “comparative advantage” no longer just reflects natural factors, like a warm climate for growing bananas, or plenty of coal to power factories. It also reflects acquired factors, such as new technology, investments of capital, often from outside sources, and especially an educated but **much cheaper work force**.

Since World War II international trade has grown rapidly. Among the factors driving trade expansion are tariff reductions by advanced and some less developed countries, cheaper transportation and communication, foreign direct investment (FDI), and outsourcing.

The **second** main stimulant of globalization has been **technology**. This means more than just cheaper transportation. It also includes new goods and services that are faster, more capable, or more attractive. Examples: containerization of shipments, jet flights for persons and cargo; electronic transfer of funds; flash freezing of seafood; medical imaging for services far from the patient’s residence; and products that are attractive in many countries (e.g., cars, cell phones).

The **third** main stimulant of globalization is the accumulation of primarily **global problems**. These include global warming, nuclear proliferation, terrorism, and depletion of ocean fisheries, fossil fuels and other resources. Such problems call for some form of international cooperation, often by creating new international organizations.

There may be other factors stimulating globalization. Thus, the increase in **transborder travel**—itself a form of globalization—may stimulate other forms of globalization. If the traveler is a tourist, student or other **visitor**, the economic effect on the country visited is similar to an **export**. If the traveler is a **migrant**, legal or illegal, the economic and other effects are

more complex. (For further information on migrations, see the April 2009 issue of Current History, listed in Appendix A.)

**2. Foreign Direct Investment (FDI):** Foreign direct investment (FDI) means that a company from one country invests its money in facilities or businesses in other countries to benefit financially. The following illustration helps to explain FDI.

Traditionally, international trade has been primarily a matter of exports and imports. A supermarket may import fruit from another country, buying it from foreign farmers or wholesalers. If the supermarket then finds it can make more money by actually buying the fruit farms, this decision is a form of FDI.

FDI is conducted largely through **transnational corporations**, which are companies that produce goods or services in a country other than that of their origin, control and ownership. (Sometimes the term multinational corporation is used interchangeably with transnational corporation.)

Thousands of transnational corporations and many foreign affiliates are located around the world and engage in various industries. These corporations provide foreign capital and expertise to the countries where they operate for facilities, equipment, mergers, and acquisitions; their investments are often protected by **treaties that safeguard the rights of foreign investors**.

The total worldwide value of FDI has been estimated in trillions of dollars, a large amount but less than the world's investment in domestic businesses. FDI boosts production and the division of labor, primarily between advanced nations. Poorer nations receive less than 20% of the world's FDI.

For many years U.S. corporations were leaders in FDI, developing various facilities in many countries, such as oil wells in the Middle East. **However, since the U.S. has become a debtor nation**, there has been increasing FDI by foreign investors, including "sovereign investors" controlled by foreign governments, who are buying up income-producing properties in the U.S.

**3. Outsourcing.** Outsourcing is a rapidly growing trend, shifting work previously performed within businesses in advanced countries to countries with lower labor costs or other advantages, especially to countries in Asia or Latin America. Outsourcing can cut production costs by 50% or more, making possible lower prices that will increase sales and profits. **Originally used by manufacturers for making or assembling parts, outsourcing now includes such work as accounting, debt collection, data processing, personnel office work, and customer service.** In response to labor's concern that outsourcing affects U.S. jobs, government statisticians have stated that the U.S. has experienced overall economic gains. However, the statistics showing such gains are now under review.

By 2004 **China** emerged as the leading manufacturer of televisions, automobile parts, and computers. The **Indian** outsourcing sector is rapidly expanding, and is unique in the degree to which Indian businessmen have bought out Western firms. Indian companies specialize in service call centers, transcription services, tax returns, and insurance claims.

Other countries in eastern Europe, Africa and elsewhere have begun to challenge China and India with bids to outsource for them as well as for advanced western nations. Both advanced and developing countries are increasingly competing in outsourcing.

#### **4. International Organizations**

**a. Worldwide Economic Organizations Created by Treaties:** After WWII three worldwide organizations were established by treaty to encourage international trade and development. These were the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT), which in 1995 was replaced by the more powerful World Trade Organization (WTO).

The **World Bank** provided funds to help nations rebuild and to reduce poverty. The **IMF** was created to help stabilize exchange rates among various national currencies. It also lent money to poor nations for development, sometimes on the condition that the poor nation change its economic policies. The **WTO** promotes international trade and discourages discriminatory trade practices.

The WTO's rules are established by its member nations and must be agreed to by applicants for membership. The WTO also includes a tribunal to enforce its rules. **WTO requires that any advantage in trade gained by changing tariffs or quotas, which one country grants to another, must generally be extended to all member countries. But this requirement does not seem to apply to regional arrangements** such as the European Union and NAFTA (the North American Free Trade Agreement between the U.S., Canada and Mexico).

The WTO conducts "rounds" which are negotiations to reduce tariffs and other trade barriers. But these reductions sometimes do not affect farm products, because of objections by agricultural interests in wealthy nations. Those interests fear competition from poor countries such as Morocco and some West African nations. Farmers in poor countries are also disadvantaged by subsidies like those which the U.S. Congress provides to American cotton farmers. These subsidies allow U.S. cotton farmers to sell cotton at a price lower than the world market price. The WTO declared the subsidies illegal in 2005 but cannot enforce this ruling.

When trade disputes are brought to the WTO, they are referred to a panel of experts; panel decisions can only be appealed on legal grounds. **Countries are expected to either comply with the decisions or compensate the injured parties.** Most countries provide compensation in one way or another. The trade ministers from a majority of nations believe WTO's activities benefit them, but many participants and observers express dissatisfaction with the lack of openness that surround decisions and the effect of compliance on national sovereignty.

**b. Regional and Bilateral Agreements:** WTO members are free to enter bilateral trade agreements with another nation or regional agreements with several nations. The U.S. has agreements of both kinds, including NAFTA, mentioned above. For some years Congress gave American presidents "fast track" authority to help achieve these agreements. "Fast track" means that Congress agrees to suspend its authority to modify these agreements as a condition of its approval. It now appears questionable that this "fast track" authority will be renewed.

**c. Other International Organizations:** There are many kinds of international and regional organizations that affect trade and other aspects of globalization, in addition to the ones discussed above. **First**, and of greatest economic influence, are large commercial and financial corporations that are heavily engaged in international trade and investment. **Second**, there are specialized international organizations, typically created by international agreement and in some cases affiliated with the United Nations, which deal with such subjects as labor standards; postal services; health; telecommunications by satellite or other means; nuclear energy; and crime. **Third** are various privately established nonprofit groups, often called NGOs (Non-Governmental Organizations), which deal with an assortment of humanitarian and other concerns that transcend borders. **Fourth**, the United Nations itself has some effect on globalization. Although originally created to prevent wars of aggression, the UN has taken various actions of global significance, such as refugee relief, the Universal Declaration of Human Rights, and the work of UNCTAD, the UN organization for trade and development.

The **European Union** is somewhat unique. It is a regional organization established by European nations which acts as a free trade zone among its member nations. However, its scope is more than purely economic. It includes political, security and other features, such as free immigration within the union for citizens of its member nations. The European Union may still be evolving, although voters in several member nations have rejected proposals for its further development.

## **B. EFFECTS OF GLOBALIZATION:**

### **1. Effect on Labor**

**a. Trends:** There is no global labor market comparable to the increasingly unrestricted global capital market. Labor, restricted by family ties and immigration barriers, is nonetheless also affected by international trade, outsourcing, and the ease with which businesses can change locations to obtain cheaper labor or other advantages.

Many improvements in communication, transportation, business organization, and technology produce greater productivity (output per hour). Greater productivity, however, can create overcapacity and unemployment. The pressure to privatize government activities can also contribute to the loss of public employment. The bargaining power of labor is also diminished because of the deterioration in the right to organize, the weakening of protective labor legislation, and the immigration of cheap labor.

All of these trends, sometimes reinforced by international lending institutions and changes in national labor policies, tend to weaken labor. Recently, however, union leaders from 64 nations formed a Council of Global Unions in an effort to counteract the globalization of capital. Some U.S. unions have merged with others (e.g., the U.S. United Steelworkers with a British union). The International Trade Union Conference, headquartered in Brussels, represents several hundred union organizations worldwide.

**b. Labor in Less Developed Countries:** The condition of labor in less developed countries is important to Americans for several reasons: it affects the amount of outsourcing of U.S. jobs to other countries and it can improve the market for American exports. It may also have humanitarian or foreign relations significance.

**In less developed countries it is difficult to achieve labor standards similar to those in advanced countries.** Labor unions in advanced countries have urged that poorer countries adhere to the labor standards of the ILO (International Labor Organization). The ILO, founded in 1919 and now a United Nations affiliate, researches economic conditions and publishes desirable labor standards, including the right to bargain collectively and discouragement of gender discrimination. However, the ILO has no enforcement power.

But manufacturers in some poor countries assert that low wages offer a comparative advantage for them. They also view demands for labor standards as a form of “protectionism” by advanced countries. **In Sri Lanka, China, Thailand, Malaysia, and Guatemala workers who tried to unionize have been jailed.**

Some observers advocate worldwide labor standards. Non-governmental groups (NGOs) may be allowed to conduct factory audits or promote the boycott of goods made under substandard conditions.

The U.S. Congress has begun to insist on labor standards in trade agreements with less developed nations. But such standards are hard to enforce, as shown in Guatemala. The Washington Post reported that workers there who complained and tried to form unions often were fired or even killed. Hundreds of labor organizers were murdered in Colombia. Guatemalan managers said higher wages and standards meant higher prices. As prices rose, company owners threatened to move their operation to China.

**Agricultural workers in poor countries have also suffered.** In Mexico under NAFTA, several thousand Mexican farmers were displaced. Imports of corn from the U.S. may have aggravated their distress.

**Assembly plant laborers have other complaints.** Some assembly plants in Mexico, operated by U.S. corporations employing thousands of workers, have been termed sweat shops due to poor working conditions. NAFTA has “side agreements” pertaining to labor but these agreements lack effective enforcement codes. Another concern is that Mexican products may be unable to compete with Chinese exports. Despite such problems, a U.S. Congressional Research Service report indicates that in Mexico under NAFTA, gross domestic product has quadrupled and poverty has been reduced by 10%.

Many experts believe that globalization offers the most practical means for achieving higher wages and living standards in less developed countries. The average wage in such countries has risen over the past 30 years to 30% of the average U.S. wage. Economists believe that as poorer nations buy technology and equipment with their export earnings, the new technology will lead to better labor standards. However, some researchers believe that the key to economic growth in poor countries is better government. Others maintain that the removal of agricultural subsidies by advanced countries can be the key to economic health in poor countries.

***c. Labor in Advanced Countries:*** The effect of globalization on labor in advanced countries varies. To achieve an effective competitive price, business firms often cut back on employment and employee benefits. Some advanced countries with strong labor unions, however, have been unwilling to permit such reductions.

In the United States, globalization is estimated to be responsible for a relatively small percent of job losses. According to experts, U.S. unemployment largely results from better technology that has increased productivity, so that less labor is required. Some experts also expect these changes to create new jobs to replace those that have been lost.

The U.S. Federal Reserve Board reported that one in seven U.S. job losses result from U.S. technological growth, compared to one in fifty job losses created by foreign competition and outsourcing. United States unemployment statistics remained steady or declined during the first five years of the 21<sup>st</sup> century. **However, these statistics do not indicate the shift from jobs with good pay, security, health insurance and pensions to jobs with lesser benefits.** Also, even relatively small job losses can adversely affect thousands of workers and their families as well as entire communities in which factories shut down. The recent economic downturn has aggravated these job losses.

Recommendations to address these job losses include the availability of greater worker assistance; education and retraining; government investment in science and technology; wages and benefits for workers that compare more favorably with executive compensation and corporate profits; and modernization of major employment sectors such as health care, education, energy and infrastructure.

## **2. Effect on Incomes**

***a. Income Distribution Among Nations:*** Despite long-term gains in total global income, two factors in the distribution of global income stand out: the persistence of poverty and great inequality of income between the world's major regions. The scope of international income inequality is illustrated by vast differences in per capita GNP between high and low income countries. In 1999 average annual income per person worldwide was \$7,000; this breaks down to be \$26,000 for high income nations and \$1,900 for the poorest countries.

***b. Income Distribution in Less Developed Countries:*** The distribution of income is also unequal throughout the less developed world. Wages as a percentage of total incomes dropped in India, for example, from 35 to 20% over the past 25 years and in Mexico from 40 to 20%. The greatest degree of income inequality is in Latin America, where the top 10% of the population receives 48% of the total; the bottom 10% receives only 1.6%. Nevertheless, two research projects in 2008 found a link between globalization and the reduction of poverty but did not establish that globalization is a cause of income inequality.

***c. Income Distribution in Advanced Countries:*** In the United States, despite the growth in total U.S. income in recent years, U.S. income and wealth are also very unevenly distributed, with 94% of the estimated wealth held by 20% of the top households. Over the past 25 years, the top fifth of U.S. households received incomes worth 9.8 times those of the bottom fifth. **The United States wealth and income disparities are greater than those in European countries.** These

disparities have been accentuated by reductions in the progressivity of tax rates in the United States and worldwide, and by the decline in labor union power in the United States.

***d. Income Protection as a Key Social Factor:*** A study conducted by the ILO based on data from 102 countries concluded that only 1 in 3 countries offer protection covering eight social risks— sickness, maternity, old age, survivors, family allowances, work injury, disability and unemployment. One in six countries cover at least one-half of these risks. Only one in two pay unemployment benefits; some of these may be sparse. With regard to eligibility for and adequacy of risk protection worldwide, only 17 of 102 countries satisfactorily met ILO criteria while 34 countries, located primarily in Africa and Latin America, met none of them.

**Retirement benefits in the U.S. have eroded as many corporations have shifted pensions from defined benefits to investment plans.** Other trends in at least 50 countries surveyed by the ILO include raising the legal retirement age and increasing the number of years to acquire eligibility for retirement benefits.

Unemployment benefits are provided primarily in industrial countries. **The ILO study found that income insecurity caused by unemployment has increased over the past 25 years.** Contributing to the insecurity are the following: lengthened qualifying periods to become eligible for benefits; a reduction in the duration of benefits; restricted conditions for initial entitlement; and declining income replacement ratios.

***e. Economic Growth:*** The World Bank and academic research institutions have published statistical evidence that poor countries which open their economies to trade achieve greater economic growth than countries with less open trade policies. Statistics also seem to demonstrate that economic growth is required as a first step toward reducing poverty. However, these statistics rarely reflect the food and shelter consumed without monetary exchanges in stable communities with subsistence economies. But whether economic growth leads to greater income equality and less poverty depends on government policies and other factors such as the removal of industrial country agricultural subsidies.

The percentage of people worldwide who live in poverty, measured as \$1.00 per day, has fallen from 17% to 6.7% over the past 30 years. The large gains in poverty reduction achieved in China and India contrast markedly with the negative or static results in Africa.

### **3. Effect on National Security, Public Health, Sovereignty, and Democracy**

**National Security and Public Health:** Increased movement of visitors, migrants, and traded goods across borders, accelerated by globalization, threatens the security of nations. Considerable inspection and enforcement measures may be required to protect against the entry of terrorists and illegal weapons into a country. The importation of toys, pet and human foods, and medication have recently presented serious health problems. In addition, the increasing movement of people across borders has put more pressure on public health authorities to develop defenses against new types of pathogens.

**National Sovereignty:** National sovereignty can be defined as the legal and political independence of a nation from outside control. Nations voluntarily surrender a degree of control when they join international organizations and agree to abide by majority decisions. Although

international trade and investment may weaken the economic viability of some nations, those nations normally do not lose their sovereign rights.

**However, regional and global trade tribunals can jeopardize a degree of sovereignty.** For example, Guatemala faces a lawsuit from a transnational mining corporation under the provisions of the Central American Free Trade Agreement (CAFTA) for trying to protect the public water supply jeopardized by the mining firm's operations.

Anti-globalization political forces in France and the Netherlands were instrumental in defeating referendums on an expanded European Union constitution in 2005. The opposition forces, led by labor unions, believed that greater success in obtaining their economic goals could be achieved within their individual nations rather than through a stronger European Union. These views were echoed in Italy and Germany.

Upholding national sovereignty has been the justification for nations that refuse to permit transnational corporate ownership of local business firms. France, for example, issued a decree protecting eleven industrial sectors from foreign purchases. Spain asserted power to prevent foreign takeovers of utility firms. The European Commission in Brussels is empowered to decide whether such takeovers are legal.

The United States has experienced an increasing share of its economic activity coming under the World Trade Organization. Since the WTO has power to issue binding rulings in trade disputes and require nations to change their laws, many critics view it as a threat to national sovereignty. Others respond that WTO membership is voluntary, since nations agree to exchange a degree of national sovereignty for a system of binding rules that should ultimately benefit all.

**Some U.S. state governments have experienced legal restraints within the current international framework.** California was told by the NAFTA tribunal to stop its effort to exclude a foreign gasoline additive that pollutes drinking water. Utah's prohibition of gambling was declared illegal by the WTO as discrimination against foreigners.

**Democracy: There is no clear relationship between a nation's degree of democratic government and its participation in globalized trade and business. However, it has been observed that democracy seldom exists in countries with such features as low per capita income, a low education level, an ethnically divided population, or a high degree of wealth obtained from oil or other natural resources.** The World Bank Governance Report of 2006 found no evidence of either positive or negative trends in the development of democratic government.

An assumption is often made that if an underdeveloped nation prospers from economic growth spawned by globalized trade, a rising middle class will demand democratic institutions. Analysts have been surprised to discover that this assumption is not correct. Political and economic elites may be able to suppress the process.

Globalization may encourage democracy by facilitating travel and education that help spread information on the benefits of democracy. But globalization may also undermine democracy if it shifts power from elected governments to international tribunals or to multinational businesses.

#### **4. Effect on Environment and Culture**

**Environment:** The growth of new and expanded industries as a result of globalization can have a pronounced impact on the environment. Industries seeking fresh sources of oil, timber, water, croplands, and other natural resources often wipe out grasslands, forests, farmlands, rivers, and lakes. Also, the ability of oceans to sustain valuable fisheries may be impaired.

Additional problems include global warming and the impact on wildlife. The buildup of carbon dioxide from vehicle tailpipes and coal burning power plants may increase the danger from disasters such as tsunamis, floods, and drought. **Although trees remove carbon dioxide from the air, forests are being cut down in Brazil and other places.** Some experts predict that one-third of all wildlife species could be extinct by the middle of the 21<sup>st</sup> century.

Nigeria is a dramatic example of the impact of globalization on the environment. An important source of oil was discovered in the Nigerian Delta in 1956. At that time, palm oil, cacao beans, and other agricultural products were Nigeria's principal exports. Today, oil accounts for 95% of its exports.

Nigeria's 130 million people, no longer self-sufficient in food supplies, must import much of the food they need. In one instance, the village of Finima lost its main source of income, fishing, because the village was relocated to make room for fuel storage tanks and a liquefied natural gas plant. A National Geographic article concluded that "From a potential model nation, Nigeria has become a dangerous country, addicted to oil money; half a century of oil extraction has failed to make the lives of people better."

**The dangers to wildlife are not limited to impairment of their habitat or other environmental changes. They also include the commercial harvesting and depletion of valuable species, such as salmon, cod, swordfish, oysters, and whales.** Some nations have taken disputes over efforts to protect whales from commercial depletion to the WTO. Improved fishing technologies and an international market for seafood have increased these problems. Efforts to preserve threatened ocean fisheries include aquaculture, the work of environmental groups and stronger international protection of ocean resources.

**Culture:** Culture can be defined as the shared values and customs of the persons in a community or nation who have adapted to their history and environment through the sharing of a common language, traditions, norms, folkways, and livelihoods. Culture provides people with roots and a sense of belonging and security rather than monetary values. Culture also may greatly affect how people behave toward other people. Subcultures based on particular interests form within larger cultures. According to author Thomas Friedman, globalization can threaten the sense of distinctive place and community that give persons their bearings. He warns that "Institutions, habits, cherished values of social cohesion, religion, and national pride that make up our identities could also be threatened."

Family farms throughout the world are multifunctional: they provide a living, give sustenance to families, and foster child-rearing and cooperation. Agricultural practices developed over time and found to be consistent with sustainability do not depend on new technology but do protect

natural resources. Globalized agricultural industrialization disregards local practices such as using plants for medicine or developing grain from local grasses.

The introduction of cheaper foreign foods into less developed countries may displace foods that are grown on family farms and sold locally. Globalization and development bring higher production per acre, an increased size of farms, and modern technology to rural areas. In the process, however, resources may be exploited, family units broken up, and local knowledge and cultural norms lost. This may also affect village craftsmen and their families who have served nearby farmers. In addition, as has recently occurred, nations that become dependent on cheaper imported food are vulnerable when world food prices go up.

**Globalization creates a social strata of dominant people who have an advanced knowledge of economics, administration, and technology.** As their expertise begins to prevail in national and local life, treasured values of cultures and subcultures may be threatened. Concerns about the wearing of head scarves is one example of a cultural conflict. The mixed reaction in France to the spread of American fast food is another example.

Following the historic importance of the British empire in spreading western culture, the United States has grown to such economic dominance that English is the prevailing language worldwide. **U.S. standards, customs, and popular culture, transmitted by motion pictures and the Internet, are often accepted by or adapted to various other cultures. However, some features of western culture, such as freedom of expression, gender equality, and separation of church and state, are not welcomed in certain parts of the world.**

Immigration, which has increased with the advance of globalization, affects the culture of the societies into which it moves. Assimilation of immigrants may vary, depending on such factors as citizenship status, host country attitudes and policies, and the compatibility of the cultures of the places of origin and of residence. **The failure to effectively assimilate immigrants has sometimes led to severe culture clashes, terrorist-type activities, and financial burdens borne by the host country.**

One important effect of globalization on culture has been to focus attention on cultural competition and conflict. Some culture elements spread easily from nation to nation, such as technology, the use of money, and even foods (witness the U.S. adoption of pizza, sushi, tacos, etc., as well as the foreign adoption of American fast foods). But other culture elements of a more intangible nature, such as personal liberty, equality, democracy, opportunity, and openness, are not accepted or are even condemned in some societies.

**Even within advanced western countries there are significant cultural clashes.** Examples include the clashes between traditional religion and secularism, and also between the U.S. economic philosophy of growth and opportunity as opposed to the European philosophy of security, sustainability and balance. While globalization accentuates such clashes, they are not new. In fact, history can be viewed as an ongoing clash of cultures. According to New York Times columnist David Brooks, the major challenge of the future will be to understand how cultures change and how destructive cultural conflict can be turned into healthy cultural competition.

## IV. Conclusions

General Conclusion: Globalization, like international trade which drives it, produces winners and losers, benefits and detriments, and some serious problems that require adjustments. The speed and extent of globalized trade, however, make adjustments more difficult for the losers who must turn to their national governments or to non-governmental organizations to seek redress.

### A. SIGNIFICANT TRENDS:

1. Globalized trade has spurred economic growth in both rich and poor countries.
2. Globalized trade is often accompanied by an increase of inequality of incomes and wealth within nations, although direct causation has not been proved.
3. Outsourcing may resume its acceleration after the global downturn is reversed.
4. There is growing recognition of the need to develop stronger safety nets for globally displaced workers. European nations with strong labor unions and protective legislation provide greater worker security than most other nations.
5. Labor has begun to establish internationalized unions.
6. Non-governmental organizations and scholars have had some success in bringing globalization issues to public attention.
7. Long-term environmental and demographic issues have been disregarded both nationally and internationally by manufacturers and by the business community. Populations continue to increase in most countries, while resources to support good standards of living are rapidly depleted.
8. Some prosperous emerging nations are becoming less dependent on the need for aid from rich industrial nations.
9. Globalization has increased the number of economically powerful nations. Several nations may in time share economic dominance, instead of the U.S. being viewed as the single dominant power.

## B. FAVORABLE AND UNFAVORABLE EFFECTS OF GLOBALIZATION:

### **The favorable effects of globalization appear to be**

1. Citizens in all countries generally will benefit (a) if each nation does what it can do best and the results are exchanged in a mutually positive way, and (b) if companies in other nations can compete effectively with industries that lag in quality or value, e.g., the auto industry in the United States from the end of World War II and for decades thereafter.
2. Standardized practices and improved technology promote efficiency and productivity. These may best be spread by management that crosses national borders.
3. People and nations have been making progress, especially in technology, as they learn from others throughout the world.
4. Globalization has highlighted the need for better international cooperation and for global solutions to global warming and other global problems.
5. Globalization increases opportunities for healthy cultural exchanges and competition.
6. Globalization may provide a valuable additional source of supply if domestic supplies are disrupted by natural disasters or are unsatisfactory in quality.

### **The unfavorable effects of globalization appear to be**

1. Globalization may tend to favor the rich and powerful, who may have little regard for the effects on the less advantaged.
2. Globalization often creates disruptions that impact businesses and employees whose jobs can be moved to places with cheaper labor. Such disruptions can also destabilize the local communities that lose employment.
3. Globalization encourages a degree of economic growth that threatens such vital elements of the environment as rainforests and ocean fisheries.
4. Globalization increases the consumption of fossil fuels needed to transport large volumes of bulky products over great distances.
5. Globalization may increase dependence on distant sources of supply that are subject to disruption, price increases, or lack of adequate quality controls.
6. Globalization could undermine democracy by shifting power away from voters in states and nations to international tribunals.

C. POLICY SUGGESTIONS: (These suggestions are for consideration and are not necessarily recommendations.)

1. The World Bank, IMF, and WTO should be reviewed for their current impacts and for possible changes. This should be done by an independent international commission representing all stakeholders, after public hearings. A similar review should be made of NAFTA.
2. A way should be sought to rebalance U.S. trade policies to reduce adverse effects on the U.S. economy and, as appropriate, on the economy and environment of other nations.
3. Displaced American workers and adversely affected small businesses should be assisted by retraining, research, preservation of pensions and health benefits, and new job-creating projects.
4. Emergency legislation should be developed to provide prompt assistance to American businesses and their employees facing imminent shutdown due to severe foreign economic pressure. Such assistance might include financing and expert advice on new business methods and opportunities.
5. The U.S. should analyze potential job losses or gains in advance of any future trade agreements, arrangements, or modifications.
6. After receiving full public input, Congress should enact a comprehensive, long-range program to restore and maintain American economic competitiveness, with due regard to education, health care policy, research, infrastructure, energy, and the more efficient allocation of financial, natural, and human resources. Such a long-range program should take due account of the impact of population trends both on economic vigor and on environmental sustainability.
7. New or strengthened international agencies should be developed to meet major global concerns such as environment, labor, nuclear proliferation, global warming, terrorism and conserving natural resources.
8. The responses to globalization suggested in 2, 3 and 5 above present questions of how they might be funded, particularly in a time of sizeable federal deficits and debt, plus major claims for funding several major national needs. One idea might be a modest revenue-type (i.e., not “protective”) tariff on all or most imports of perhaps 2 percent, which should raise much revenue. Another idea might be a fee or tax to cover the costs of screening imports for health hazards, terrorist weaponry, or violations of law.
9. Citizens should educate themselves on globalization’s complexity. Globalization cannot be blamed for every problem.

#### D. WHAT YOU AS A CITIZEN CAN DO

1. Review the suggestions above, plus other ideas, and express your views to elected officials, to the news media, and to business, labor, civic and community organizations.
2. Join with friends and neighbors in discussions and actions that reflect the above ideas. To facilitate this, organize informal groups and invite participation by persons with professional, business, academic, government, and other backgrounds—including both retirees and students.
3. Keep informed about developments. Consider both the short-term and the long-term effects of new developments and of proposed policies.
4. Be skeptical of over-simplified solutions.
5. For the protection of yourself and your family, explore education or training opportunities that will help cope with possible job losses by shifting into different kinds of work.

#### **YOUR NOTES**

## V. APPENDICES

### Appendix A

#### GLOBALIZATION RESOURCES (books, websites, etc.)

During the more than four years of work in creating this handbook, CQC's globalization group examined many reports and commentaries in newspapers, periodicals, books and other sources. Since it is impractical in a civic handbook to deal fully with all aspects of globalization, we encourage the use of the following additional sources.

#### **Books**

Bergsten, C. Fred and the Institute for International Economics. "United States and the World Economy: Economic Policy for the Next Decade." The Peterson Institute, Washington, D.C., 2005.

Bhagwati, Jagdish. "In Defense of Globalization." Oxford University Press, New York, 2004.

Chua, Amy. "World on Fire." Doubleday, New York, 2003.

Derber, Charles. "People Before Profit." St. Martin's Press, New York, 2002.

Dorgan, Senator Byron. "Take This Job and Ship It: How Corporate Greed and Brain Dead Politics are Selling Out America." Thomas Dunne Books, St. Martin's Press, New York, 2006.

Friedman, Thomas L. "Hot, Flat, and Crowded." Farrar, Straus and Giroux, New York, 2008.

\_\_\_\_\_ "The World is Flat: A Brief History of the Twenty-First Century." Farrar, Straus and Giroux, New York, 2005.

\_\_\_\_\_ "The Lexus and the Olive Tree." Farrar, Straus and Giroux, New York, 1999.

Halper, Stefan and Jonathan Clarke. "American Alone: Neoconservatives and the Global Order." Cambridge University Press, New York, 2004.

Harrison, Ann. "Globalization and Poverty." University of Chicago Press, Chicago, 2007.

Hufbauer, Gary. "NAFTA Revisited." Peterson Institute of International Economics, Washington, D.C. 2005.

Krugman, Paul. "The Return of Depression Economics and the Crisis of 2008." W.W. Norton & Co., New York, 2009

Larsson, Tomas. "The Race to the Top." Cato Institute, Washington, D.C. 2001.

Lynn, Barry. "End of the Line: The Rise and Coming Fall of the Global Corporation." Random House, Inc., New York, 2005.

- Mishkin, Frederic. “The Next Great Globalization.” Princeton University Press, New Jersey, 2006.
- Perkins, John. “Confessions of an Economic Hit Man.” Berrett-Koehler Publishers, Inc., San Francisco, 2004.
- Singer, Peter. “One World, the Ethics of Globalization.” Yale University Press, New Haven, CN., 2004.
- Stiglitz, Joseph E. “Globalization and Its Discontents.” W. W. Norton Company, New York, 2003.
- \_\_\_\_\_ “Making Globalization Work.” W. W. Norton Company, New York, 2006.
- Thurow, Lester. “Fortune Favors the Bold.” Harper-Collins Publishers, New York, 2003.
- Tonelson, Alan. “The Race to the Bottom.” Westview Press, Boulder, Colorado, 2002.
- Weisbrot, Mark. “Globalization: A Primer.” Center for Economic and Policy Research, Washington, D.C., 1999.
- Wolf, Martin. “Why Globalization Works.” Yale University Press, New Haven, 2004.
- Zakaria, Fareed. “The Post-American World.” W. W. Norton Company, New York, 2008.

### **Publications**

- Business Week, 1222 Avenue of the Americas, New York, NY 10020
- Current History, 4225 Main Street, Philadelphia, PA 19127
- The Economist, 111 West 57<sup>th</sup> Street, New York, NY 10019
- Foreign Affairs, 58 East 68<sup>th</sup> Street, New York, NY 10065
- Foreign Policy Magazine, 1779 Massachusetts Avenue, NW, Washington, DC 20036
- National Geographic – P.O. Box 63001, Tampa, Florida 33663-3001

### **Websites and Other Information Sources**

- The American Enterprise Institute (publications, debates)—1150 17<sup>th</sup> Street NW, Washington, D.C. 20036—[www.aei.org](http://www.aei.org)
- The Brookings Institution (research and policy papers)—1775 Massachusetts Ave. NW, Washington, D.C. 20036—[www.brookings.edu](http://www.brookings.edu)

- Carnegie Endowment for International Peace (publications on such issues as web-based Globalization 101)—2008 Massachusetts Ave. NW, Washington, D.C. 20036—[www.carnegieendowment.org](http://www.carnegieendowment.org)
- The Center for Strategic and International Studies (CSIS) (recommends policy solutions for global problems)—1800 K St. NW, Washington, D.C. 20006—[www.CSIS.org](http://www.CSIS.org)
- The Council on Foreign Relations (sponsors studies and public forums on foreign policy)—1779 Massachusetts Ave. NW, Washington, D.C. 20036—[www.cfr.org](http://www.cfr.org)
- The Heritage Foundation (sponsors research promoting conservative public policies)—214 Massachusetts Ave. NW, Washington, D.C. 20002—[www.heritage.org](http://www.heritage.org)
- The Institute for Policy Studies (develops recommendations for progressive policy solutions)—1112 16<sup>th</sup> St. NW, Suite 600, Washington, D.C. 20036—[www.ips-dc.org](http://www.ips-dc.org)
- Peterson Institute of International Economics (research and publications by Director Fred Bergsten and other economists)—1750 Massachusetts Ave. NW, Washington, D.C. 20036—[www.petersoninstitute.org](http://www.petersoninstitute.org)

## Appendix B

### GLOBALIZATION ACRONYMS

AEI—American Enterprise Institute

BOP—Balance of Payments

CAFTA—Central American Free Trade Agreement

CEPR—Center for Economic Policy Research

CFR—Council on Foreign Relations

CIA—Central Intelligence Agency

CQC—Citizens for Quality Civilization

CSIS—Center for Strategic and International Studies

DHS—Department of Homeland Security

DNI—Director of National Intelligence

EHM—Economic Hit Men

EU—European Union

FAO—(UN) Food and Agriculture Organization

FISA—Foreign Intelligence Surveillance Act

FOIA—Freedom of Information Act

FPA—Foreign Policy Association

GATT—General Agreement on Tariffs and Trade (replaced by WTO)

G8—Group of Eight (United States, Great Britain, France, Germany, Russia, Canada, Japan, and Italy)

G-20—Group of Twenty (the G8 nations plus Argentina, Australia, Brazil, China, European Union, India, Indonesia, Mexico, Saudi Arabia, South Korea, Turkey). It was formed during the Asian financial crisis of the 1990s to provide a forum that would include developing countries.

GNP—Gross National Product, now sometimes replaced by GDP—Gross Domestic Product

HRW—Human Rights Watch

IAEA—International Atomic Energy Agency

IDB—Inter-American Development Bank

IBRD—International Bank for Reconstruction and Development (World Bank)

ICE— (U.S.) Immigration and Customs Enforcement (agency)

IIE—Institute for International Economics

ILO—International Labor Organization

IMF—International Monetary Fund

NAFTA—North American Free Trade Agreement

NGO—Non-Governmental Organization

OAS—Organization of American States

OPEC—Organization of Petroleum Exporting Countries (Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela)

SDR—Special Drawing Right (currency of the IMF, drawing its value from a combination of dollars, pounds, euros, and yen)

UN—United Nations

UNESCO—United Nations Educational, Scientific, and Cultural Organization

UNTAD—United Nations Organization of Trade and Development

WHO—World Health Organization

WTO—World Trade Organization (replaced GATT, General Agreement on Tariffs and Trade)

## Appendix C

### INFORMATION ABOUT CQC AND ITS GLOBALIZATION PROJECT PARTICIPANTS

Citizens for Quality Civilization, Inc. (CQC) is a volunteer civic organization under Section 501(c)(3) of the Internal Revenue Code. CQC's mission is to safeguard and improve the quality of life. CQC has a 19-year record of working in important policy areas such as U.S. education, health care, transportation and globalization. CQC operates informally and checks its drafts with outside experts.

Robert L. Saloschin, founder of CQC, is a lawyer, aviator and civic leader. He graduated Phi Beta Kappa from Columbia College with honors in economics. In World War II he served in the Navy Department and in the Pacific. In the Justice Department's Office of Legal Counsel, he worked on oil import regulation, the communications satellite program, the Cold War aspects of the Olympic Games, expatriation, overhaul of immigration laws, and in the U.S. Delegation to the 1970 Hague Conference on extraditing hijackers. He chaired the Department's Freedom of Information Committee, providing guidance to all federal agencies on secrecy issues. After retirement he consulted on national security for the American Bar Association, practiced law in Maryland, and worked on the projects of Citizens for Quality Civilization.

Dr. Ann McDonell, coordinator and editor of CQC's globalization handbook project, earned her Ph.D. in Government and Politics at the University of Maryland, writing her dissertation on U.S. Foreign Investment Policy. She received an M.A. in International Relations from the Fletcher School of Law and Diplomacy, administered by Tufts and Harvard Universities, followed by a Fulbright scholarship to the School of Oriental and African Studies at the University of London. Her professional background includes university teaching, social science textbook editing and administrative positions. She currently serves on the Board of the United Nations Association-National Capital Area and other policy groups.

Suzanne Buckler graduated from Miami University in Ohio, and gained a wide reputation as a social activist on human rights and affordable housing. She was also active in urging a nuclear freeze, sanctuary movements, and providing shelter for Central American refugees. In 1996, the Unitarian Church and the United Nations Association honored her for her work on human rights issues. Suzanne Buckler died in October 2007.

Horst Brand is an economist, formerly with the United States Department of Labor's Statistics Office. He has written for the Monthly Labor Review and other publications on problems of labor and productivity.

Donald Cleary was awarded a Bachelor of Arts degree in Economics from the University of Massachusetts and a Master of Arts degree in Economics from the University of Florida. He also completed a graduate study program in Natural Resource Economics at the University of Michigan. He was employed as an engineer with the United States Marine Fishery Service and the Nuclear Regulatory Commission. After retirement, Mr. Cleary served as a consultant in the fields of Energy Economics and Environmental Policy.

Emanuel Karbeling, an editor and information consultant, graduated from Kent State University in Ohio with a Bachelor of Arts in Journalism and Public Relations. As an editor and information specialist with Department of the Army and various civilian publications, he developed and edited materials for military and civilian audiences on subjects including East Germany, Africa, outer space, Turkey, Syria, China, technology transfer, and the Civil War. He also worked with the Army's Freedom of Information Program and for the Army Materiel Command, and served as a White House volunteer from 1993 to 2000.

Other important contributors during the drafting of this handbook have been Herbert Stone, a civilian engineer retired from the Department of the Navy, and John Aitchley, a retired Foreign Service Officer.

Outside Reviewers: It is CQC's practice, before finalizing a handbook on a major area of public policy, to invite comments from a broad variety of knowledgeable outside reviewers. We seek comments on readability, objectivity, and constructiveness, plus any other comments the reviewer may offer. These comments are carefully considered for possible changes in our draft.

We received comments on this draft from 11 reviewers, whom we now wish to thank, as follows:

James Bean, Foreign Service Officer, U.S. State Department

Joan Bunning, author and Cornell Bachelor of Arts in Psychology

Dale M. Hill, economist and consultant, Global Partnership Programs, formerly with the World Bank

John R. Hubbard, retired banker, organizer of program donating schoolbooks to a developing African nation

Timothy Mack, President, World Future Society

Louis Ricciardi, Senior V.P., the Ricciardi Group, Chair, Board of Trustees, Bridgewater State College

James Weaver, Professor Emeritus of Economics, American University.

We also thank the remaining four reviewers, who provided us with incisive and helpful comments, but requested they not be named. One was with the World Bank, the second is a retired executive in a national labor union and a volunteer leader on international human rights, and the last two serve in a federal agency involved in international economics.

## Appendix D

### A SHORT HISTORY OF AMERICAN FOREIGN POLICY (Diplomatic, Military, Economic)

1. 1776 to 1783: Obtained foreign help against England.
2. 1783 to Presidency of Theodore Roosevelt: Avoided foreign entanglements, fortified by the Monroe Doctrine, high tariffs after the Civil War. Welcomed foreign investments to help in building railroads.
3. President Theodore Roosevelt to President Woodrow Wilson: Acted like a major world power as United States interests were perceived.
4. 1919 to Pearl Harbor: Isolationist; high tariffs; weak military forces. Development of aviation which facilitated the movement of peoples.
5. Pearl Harbor to the end of the Cold War (about 1990): Acted like a major world power; protected the United States and the free world against Nazi and Soviet threats; ended high tariffs; increased immigration. (The failure to cite the Vietnam Conflict and reaction to it does not change the overall characterization of this half-century period. From Pearl Harbor to the end of WW II the policy was to defeat Fascist aggressor nations; after WW II the policy was to contain Soviet expansion but without another world war.)
6. 1990 to 2001: Foreign policy on the back burner because of general prosperity and the absence of perceived major foreign threats.
7. 2001 to date: Outlook unclear. So far, our foreign relations have largely been related to the “war on terrorism” and to Iraq. Growing problems in the fields of migration; international trade; transition of the United States from a creditor to a debtor nation; dependence on imported oil; various kinds of global cultural diffusion and polarization. United States still has a strong military force, asserts a mission to spread democracy, freedom, and market economies around the world. The present and future of U.S. foreign policy may also be affected in some ways by the economic downturn in the U.S. and elsewhere.

## Appendix E

### THE MAJOR PLAYERS IN GLOBALIZATION

1. Nations seeking to increase their exports in order to increase their wealth and/or power.
2. International organizations with treaty authority to overcome trade restrictions by signatory nations (WTO, NAFTA, etc.).
3. International organizations supporting the above but without treaty authority (G8, etc).
4. Regional organizations such as the European Union (EU).
5. Groups within nations seeking to protect their market positions against cheaper imports (French and Japanese farmers; U. S sugar beet growers, etc.).
6. Labor union members and non-union employees concerned about outsourcing jobs – or reducing compensation or employment levels when industries outsource to obtain cheap foreign labor.
7. Business and agricultural organizations that seek cheap foreign labor and marketing advantage by either outsourcing or encouraging the influx of “guest workers” or illegal immigrants.
8. Religious and other organizations that favor opportunities for poverty-stricken workers regardless of nationality.
9. Corporate and financial leaders whose first concern is growth and gain.
10. Economists, academics, and media pundits who promote the benefits of globalization as sufficient to outweigh its problems, who stress the problems as outweighing its benefits, or see it as an inevitable process that needs to be monitored. (People with strongly opposing views sometimes call their opponents elitists or populists or protectionists, etc.)
11. Scientists and environmentalists. They emphasize subjects such as global warming and they warn of the depletion of natural resources unless public policies balance growth with sustainability.
12. Politicians, diplomats, military leaders, and citizens in various nations who view globalization as either tending to undermine national cohesion and national security – or as an improvement over narrowly focused national concerns which they deem unsatisfactory or obsolescent.
13. Other groups with specific interests, including those concerned with national or international tourism; language education and media; and financial service businesses that benefit or suffer from currency exchange transactions and other international economic activity.