Broadening the Debate : The Pros and Cons of Globalization

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EDITORS' CHOICE

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The Pros and Cons of Globalization

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Globalization has become an increasingly controversial topic, and the growing number of protests around the world has focused more attention on the basic assumptions of globalization and its effects. The purpose of this literature review is to broaden the boundaries of the debate on globalization and increase our understanding of its influence beyond the economic sphere. The winners and losers resulting from globalization are identified along with empirical evidence of its impact on key areas: equality, labor, government, culture and community, and the environment. The literature indicates that globalization is an uneven process that has had both positive and negative effects. The article presents some of the arguments of various stakeholders in the globalization controversy.

Keywords: *globalization; environmental sustainability; equality; labor conditions; governmental sovereignty; monoculture*

The roots of globalization began to take hold in the 15th century with voyages by intrepid explorers who were funded by European monarchs seeking new trade routes. It continued throughout the years of the imperial expansion of Europe and the colonization of other lands primarily for the purpose of trade. In the mercantilist era, trading companies (such as the Hudson Bay Company and the East India Tea Company) served as surrogate colonial governments, merging trade and government. Later, trading companies were privatized, and intercontinental railways and transoceanic steamships made it possible to open previously protected markets. The global markets present in the early 20th century were disrupted by both world wars. After World War II, the World Bank and the International Monetary Fund (IMF) were founded to aid development in war-ravaged countries and lesser developed countries (LDCs). The English term *globalization* first made its appearance around 1960 (Waters, 1995). In 1995, the World Trade Organization (WTO) was created as a successor to the General Agreement on Tariffs and Trade (GATT) "to help trade flow smoothly, freely, fairly and predictably" (World, 2003, p. 3).[1] In

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recent years, many nations have liberalized their trade policies—removing trade barriers and focusing on exports—which further stimulated globalization.

The level of global trade increased 14-fold in the period from 1950 to 1997 (World, 2003, p. 2). In addition to increased volume, beginning in the 1970s and 1980s, a shift to foreign direct investment and technology characterized globalization. Recent growth in globalization has been facilitated and driven by rapid improvements in international transportation, technology, and telecommunications (Wood, 1995). The Internet opened up service markets that were previously protected by geographical distance (Valaskakis, 1998). Today, cross-border capital flows are more important than trade flows, and some multinational enterprises (MNEs) now have budgets larger than the economies of many countries. Kobrin (1997), however, argued that foreign trade and investment are less important drivers of globalization than are increasing technological scale, interfirm alliances, and information flows.

Many businesspeople and, judging by the international business literature, many business scholars accept globalization as a fait accompli whose presence and benefits are largely unquestioned. In other circles, however, globalization has become a controversial topic, as first evidenced by labor protests in Korea and France, student riots in Indonesia, and the anti-World Trade Organization demonstrations in Seattle. A small but growing number of respected economists, sociologists, and political scientists criticize globalization and warn that protesters must be taken seriously to avoid dire consequences (Press, 2002, p. 12). Antiglobalization protests have become a familiar part of the social landscape, and there is little reason to suppose they will simply disappear. Furthermore, the issue is still fairly polarized with fervent free traders on one end of the continuum and radical protesters on the other. Polarization that prohibits room for dialogue seldom leads to lasting solutions, particularly in the case of complex issues. Therefore, this article is an attempt to help business practitioners, scholars, and students better understand the complexity of the issue and to challenge readers to think about win-win solutions benefiting more stakeholders.

The globalization debate continuum is anchored by these views: Proponents generally view globalization as an opportunity for economic growth and prosperity, whereas opponents perceive it as a threat to prosperity, political sovereignty, cultural integrity, and the environment. In developed countries, the primary concerns are the potential job loss for workers and the risk to contracting industries; developing countries worry about political sovereignty and losing control of their economies (Champlin & Olson, 1999). The burgeoning literature on globalization includes so many impassioned ideological arguments for or against it that a reader's first concern is to ascertain the potential bias of the author.[2] Many of these arguments lack empirical support. To complicate matters further, some of the existing economic research findings are highly contradictory. Much of the academic literature seems to fall primarily into pro and con categories. A recent review of the social science literature on globalization categorized it in terms of Hirschman's (1982) metaphor as either civilizing (positive), destructive (negative), or feeble (having no significant impact) and concluded that the feeble category was the least compelling (Guillén, 2001).

Disagreement over the definition of globalization impedes the debate. As Champlin and Olson (1999) noted, the debate cannot be resolved, not because we lack the definitive econometric analysis but because the debate is defined or framed in different ways. Is it simply an argument about the virtues of free markets and supply and demand, or does it include the broader sociocultural and environmental impact? Robert Reich described globalization as one of those concepts "that has passed from obscurity to meaninglessness without ever having an intervening period of coherence" (Duin, 2000, p. B-1). This meaninglessness can be traced to its usage as an "all-purpose catchword in public and scholarly debate" (Lechner & Boli, 2000, p. 1) with different connotations for different parties who support or oppose globalization.

Some definitions of globalization focus solely on cross-border trade—for example, globalization as the absence of borders and barriers to trade between nations (Ohmae, 1995). The International Monetary Fund describes globalization as "the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology" (International, 1999, p. 45). Although these definitions convey a sense of dynamic change and boundarylessness, they portray the outcomes of globalization too narrowly. Brown (1992) and Renesch (1992) defined globalization as the interconnections between the overlapping interests of business and society, a definition that acknowledges the broader context in which globalization takes place. To ensure a systems view, globalization is defined here as a process leading to greater economic interdependence and networks and the economic, political, social, cultural, and environmental results of that process. There is plentiful, if sometimes contradictory, research on the financial and economic aspects of globalization; the broader impact of these phenomena, however, has received less attention by business scholars.

This article intends to make three contributions to the existing debate and literature: (a) expand the boundaries of the debate by examining the impact of globalization on other areas in the broader system; (b) provide a balanced, objective analysis of the benefits and liabilities of globalization based on scientific research rather than on rhetoric; and (c) offer a description of the more common stakeholder perspectives in the debate. The empirical data on the impact of globalization indicate that it is an uneven process yielding mixed results. Therefore, most of the findings in this article are presented in terms of tradeoffs, highlighting both the positive and negative effects of globalization in the areas most affected: equality, labor, government, culture and community, and the environment.

THE IMPACT OF GLOBALIZATION ON EQUALITY

On the positive side of the ledger, globalization has resulted in increased access to more goods for consumers in many countries (Evenett, 1999), reduced prices due to competition with local monopolies, and increased food supply due to industrial agricultural in some countries (Mander & Goldsmith, 1996). Poor people in some countries have been able to buy cheaper imported goods rather than shoddy goods produced by local monopolies (Graham & Krugman, 1991). A recent study by the London-based Center for Economic Policy Research reports that globalization increased economic growth and improved the incomes of both rich and poor people. The researchers claim that the number of people living in poverty today would be even greater without globalization (Gaunt, 2002).

A look at the statistics on equality indicates that globalization has resulted in both winners and losers, which is supported by Lee's (1996) economic analysis of income levels. According to one expert estimate,[3] 30-40% of the world population has benefited from globalization, whereas the rest has not (Valaskakis, 1998). Globalization is blamed for increasing the chasm between new groups of haves and have-nots—between the well educated and the poorly educated, between the technologically skilled and the unskilled, and between those living in countries that compete successfully in the global economy and those who do not (Frank & Cook, 1995; Pritchett, 1997; United Nations Development, 1999). Globalization has resulted in more jobs in developing countries, creating another group of winners depending on the level of wages they receive. There have been examples of spectacular development, like the Asian Tigers (Singapore, Taiwan, Hong Kong, and South Korea), as well as examples of countries that are marginalized from the global economy, such as sub-Saharan Africa. Some developing countries have suffered job losses in local industries that could not compete with foreign multinationals once formerly protected markets were opened (Lee, 1996). Some critics believe that the structure of the global economy favors developed countries over lesser developed countries.

Amidst the occasionally contradictory economic findings, one piece of incontrovertible evidence stands out. There is more inequality among and within countries today than in the past. Between 1870 and 1990, the gap in per capita income between rich and developing countries has grown fivefold (Temple, 1999). The gap between the richest and poorest 20% of the world population has widened significantly since 1960, when the income ratio of the richest to the poorest was 30:1, to 82:1 in 1995 (United Nations Development, 1996). There are 1.2 billion people living on less than $1 a day (United Nations Development, 2001), a figure that is increasing rather than diminishing. The richest 20% of the world's population receives 86% of the world's GDP, 82% of the export trade, and 68% of foreign direct investment; the lowest 20% receives only 1% of each (United Nations Development, 1999). A total of 358 people own as much wealth as 2.5 billion people own together—nearly half the world's population (United Nations Development, 1996). The global income of the poorest 20% of the world dropped from 2.3% to 1.4% of world GDP between 1989 and 1998 (Giddens, 2000). In virtually all developed countries, the gaps between skilled and unskilled workers in wages and/or unemployment rates have widened (Gottschalk & Smeeding, 1997; Murphy & Topel, 1997; Organization, 1997).

The notable exceptions—countries or commonwealths that have significantly reduced the gap since

1960—include South Korea, Taiwan, Singapore, Ireland, and Puerto Rico. In the East Asian economies, trade liberalization contributed to reduced wage inequality accompanied by rapid economic growth (Lee, 1996). In Latin America, however, wage inequality increased following liberalization, meaning that skilled workers benefited disproportionately (Berry, 1996; Robbins, 1995; see also United Nations Conference, 1997; Wood, 1997).

Given its egalitarian roots and the historic propensity of most U.S. citizens to consider themselves middle class, it is surprising to discover that nowhere is the inequality between the rich and the poor as great as in the United States (Longworth, 1999). The worth of the average hourly wage is 12% lower than it was in 1973 (Longworth, 1999), whereas the average pay for a U.S. CEO is 200 times higher, $7.4 million in 2002 (almost half the 2000 average) (Lavelle, Jespersen, Ante, & Kerstetter, 2003).The after-tax income of the richest 1% of U.S. households increased 72% from 1977 to 1994, whereas that of the poorest 20% of U.S. households decreased by 16% (Scott, Lee, & Schmidt, 1997). As in other countries, some parts of the United States have prospered from globalization, whereas other regions struggle to keep up.

The Silicon Valley, for example, benefited from globalization until the recent economic downturn; since 2001, employment has decreased 20% (Joint Venture, 2003). Previously, developed countries were concerned about losing blue-collar jobs, but the next wave of globalization is shifting white-collar jobs—highly trained knowledge workers and service jobs—offshore to less expensive labor markets in Asia, Latin America, and Eastern Europe (Engardio, Bernstein, & Kripalani, 2003).

Researchers agree that the gap between rich and poor has widened; they disagree, however, on whether globalization has caused the gap by influencing wages. Although U.S. wages rose only 5.5% between 1979 and 1993, some economists claim that this is not the fault of globalization because international trade and investment have had little impact (Lawrence, 1995; Sachs & Schatz, 1994). Estimated shifts in product market demand, including the impact of imports, account for less than 10% of the increase in wage differential (Slaughter & Swagel, 2000). Other economists attribute labor inequalities to technological changes (Lawrence & Slaughter, 1993; Organization, 1997) rather than to globalization. Another contingent of scholars, however, points to globalization as the cause of inequality (Leamer, 1998; Rodrik, 1997; Wood, 1994). More recent research by Wood (1998) indicated a causal relationship between globalization and the increased demand for skilled rather than unskilled workers in developed countries. Furthermore, Zhao's research (1998) found that foreign direct investments adversely affect union wages and employment. Baldwin and Martin (1999) summarized the empirical literature, writing that virtually all studies found some effect of trade on the labor market in both the United States and Europe; the findings ranged, however, from almost 0% to 100% with a consensus range of perhaps 10-20% (p. 21).

Although globalization may not be the only factor involved in growing social inequality, it does seem safe to conclude that it has produced winners and losers on both the individual and country levels. The increasing gap between the haves and the have-nots raises the question of fairness. Intense debates over the fairness of the competitive advantages held by various countries are fought out at World Trade Organization meetings and trade negotiations. Increasingly, there are expressions of concern about the threat to political stability, because historically large, apparently insurmountable gaps between rich and poor have been a factor in revolutions (Marquand, 1998). In the opinion of Anthony Giddens (2000), sociologist and director of the London School of Economics, "Along with ecological risk, expanding inequality is the most serious problem facing world society" (p. 34).

The positive and negative effects that globalization has on equality and wages appear in Table 1.

THE IMPACT OF GLOBALIZATION ON LABOR CONDITIONS

Closely related to equality and wages, labor conditions is another area influenced by globalization. On the positive side, some workers in lesser developed countries have received more education and training from multinational companies due to globalization. Furthermore, there is some evidence that increased competition has resulted in upgrading educational systems to produce a more highly qualified workforce (Mander & Goldsmith, 1996; Schmidheiny, 1992).

The threat of job displacement is one of the most tangible concerns that critics have regarding globalization. Workers have more employment opportunities in some countries, but they have less in others where certain industries and firms (e.g., the import sector and small farmers) have been put out of busi-

Table 1
The Impact of Globalization on Equality

Positive Effects	*Negative Effects*
Income increased globally for both rich and poor, decreasing poverty	Greater chasm between haves and have-nots on individual and country levels
Increased wages for the well educated	Some downward pressure on wages for the poorly educated
Increased wages for technologically skilled	Some downward pressure on wages for technologically unskilled
Improved economic conditions in countries and regions that successfully compete in the global economy	Worsened economic conditions in countries marginalized from the global economy and in certain regions of developed countries
Rich have become richer	Poor have become poorer
Increased access to more goods	
Reduced prices due to competition with local monopolies	
Increased food supply in some countries	

ness by global competition (Mander & Goldsmith, 1996). Daly (1996) noted that some people have less choice about how they make their living as a result of globalization. Increasing imports from low-wage countries are perceived by some as a threat to manufacturing jobs in industrialized countries, particularly in labor-intensive sectors (Wood, 1994).

The labor movement and human rights advocates argue that globalization has had a negative effect on labor standards and that it threatens hard-won improvements in labor conditions. They warn about the *race to the bottom*, which assumes that competition will drive labor standards (and also environmental standards) to the lowest common denominator. Rodrik (1997) found evidence of negative impact on labor conditions, but Drezner (2000) insisted that the race to the bottom is merely a myth used as a scare tactic by both multinational enterprises and activists. For example, Drezner (2000) cited a 1996 Organization for Economic Cooperation and Development (OECD) study that found a positive correlation between "successfully sustained trade reforms" and improved core labor standards because multinationals tend to pay higher than average wages to attract better workers in developing countries (p. 65). Furthermore, the majority of global foreign direct investment (FDI) went to developed countries, which generally boast higher labor standards, during the 1990s (68.9% in 1992, 63.4% in 1995, and 71.5% in 1998), according to the United Nations Conference on Trade and Development (UNCTAD) (1992, 1995, 1998). There is no evidence that multinational enterprises choose to locate in countries where labor and environmental standards are absent or less stringent; other factors like stability, infrastructure, and the size of potential markets play stronger roles in strategic decisions.

Globalization critics, however, worry about the dynamics that occur when firms in developed nations with high wages transfer their manufacturing or processing operations to low-cost, lesser developed countries. Such transfers can be advantageous for the lesser developed countries, the recipients of new jobs, and the firms. When LDCs compete against one another to attract foreign employers to free trade zones or export processing zones (EPZs), however, critics fear this will degrade labor conditions.[4] Multinational enterprises are wooed with the lure of tax-free status for a set number of years, with facilities and infrastructure, and, in some countries, with exemptions from adhering to the national labor code. Five of the 11 nations examined in a U.S. Department of Labor study restricted their citizens' labor rights in export processing zones by allowing foreign firms to ignore national labor laws that were enforced elsewhere in the country (Charnovitz, 1992), which supports the race to the bottom argument. According to some sources, export processing zone workers are often temporary workers who are fired and rehired as needed to avoid having to provide them with benefits or career paths. When zone workers complain about working conditions, they may be fired (Klein, 2000).

The exploitative practices most commonly cited in export processing zones and outsourced factories are child labor, hazardous and unhealthy working conditions, absence of collective bargaining, repression of labor unions (Lawrence, Rodrik, & Whalley, 1996), and forced overtime (Klein, 2000). Labor union advocates and others fear that "exploitative practices in low-wage exporting countries artificially depress labor costs, leading to unfair competitive advantage in world markets and a downward pressure on labor standards in rich countries" (Lawrence et al., 1996,

p. 12). There is some evidence that globalization has caused downward pressure on wages (Lawrence, 1995) as well as on pensions and benefits (Krishnan, 1996; Sutherland, 1998) and has diminished the power of unions (Levi, 2000). Other economists argue that globalization has had very little negative impact on labor conditions and wages (Krugman, 1994).

The form of ownership and the transitory nature of many overseas factories have resulted in a different form of social contract between employer and employee. The reliance of some multinational enterprises on local subcontractors who run their factories means that workers do not "belong" to the company. This arms-length relationship facilitates the closure of factories when labor costs rise prohibitively and another country becomes more attractive. In these cases, the social contract between employer and employee is limited to the simplest, most expedient transaction—pay for work, which is a stripped-down version of the social contract that exists in most developed countries (albeit with the exception of temporary workers). There have been instances of unscrupulous foreign factory operators in export processing zones who have closed down and fled the country without any warning or termination pay to employees.

Moving jobs offshore also affects the social contract that firms have with domestic employees. Boeing's engineers' union threatened to strike in December 2002 if the company didn't decrease the number of engineers working in the firm's Russian facility. The union's concerns were job loss and the potential danger of sharing technology; management's interests were significantly lower wages for engineers ($5,400 yearly) and entry into the Russian market (Holmes and Ostrovsky, 2003). Such disparate goals do not fit the preexisting social contract.

The onset of globalization served as a trigger event in some companies—a wake-up call that people must work more efficiently and more intelligently, which resulted in increased productivity (Evenett, 1999). The threat of globalization has, however, also been held over workers' heads. According to Longworth (1999),

> The rhetoric is probably a more potent force than globalization itself. An employer doesn't have to move jobs to Asia to persuade those left behind to take pay cuts. The mere possibility that, in this global age, he can do it is enough. (p. 10)

Interestingly, other aspects of globalization—worldwide telecommunications and the Internet—have contributed to calls for basic labor standards. The increased publicity and communications about poor working conditions in other countries, which is known as the *CNN effect*, has resulted in greater pressure from human rights groups and labor unions (Lawrence et al., 1996). The threat of Internet-driven international boycotts of goods made by offending multinationals exerts a counterbalancing force for better labor practices in some cases. Companies that engage in exploitative practices are subject to boycotts, negative publicity, and loss of both good will and revenue (Dohrs & Garfunkel, 1999). Widespread criticism from consumers and protesters induced some MNEs like Nike to demand that their subcontractors provide better working conditions in overseas factories. To avoid bad publicity, firms like Nike, Mattel, and Levi Strauss have established guidelines and invited monitors to inspect their operations.

In sum, there is both positive and negative evidence concerning the impact of globalization on labor conditions, as shown in Table 2.

THE IMPACT OF GLOBALIZATION ON GOVERNMENTS

The key question regarding globalization and governments is whether or not globalization threatens national sovereignty. Historically, governments played a major role in promoting their country's economic development and managing its economy, albeit in quite varied forms. Today, however, some critics argue that government matters less and less in a global economy. Nation-states are simply other actors on the global stage rather than its directors. Aggressive global production systems and capital markets now occupy the "commanding heights" of global development, forcing governments on the defensive and pressuring them to deregulate, downsize, and privatize many of the social management functions they assumed during the past century (Yergin & Stanislaw, 2000). The political boundaries that define nation-states place them at a disadvantage when confronting the unique pressures of a boundaryless global economy. There is a "jurisdictional asymmetry" between an economic system composed of centrally controlled, transnational MNEs on one hand and a political system structured into geographically defined sovereign states on the other (Kobrin, 2001b). Yergin and Stanislaw (2000) argued:

Table 2
The Impact of Globalization on Labor Conditions

Positive Effects	*Negative Effects*
Increased job opportunities in some countries	Certain industries and companies were forced out of business
Upgraded educational system and more training in some countries	Job displacement affected some individuals
Increased labor standards or no change due to globalization[a]	Decreased labor standards[a]
Increased labor productivity	Caused downward pressure on benefits and pensions
CNN effect pressures firms to correct labor abuses	Decreased power of unions
Some firms taking proactive steps to avoid labor abuses	Child labor, unhealthy work conditions, and forced overtime in export processing zones (EPZs)
	Diminished social contract between employer and employee

a. Contradictory findings.

> Information technology—through computers—is creating a "woven world" by promoting communication, coordination, integration, and contact at a pace and scale of change that far outrun the ability of any government to manage. The accelerating connections make national borders increasingly porous—and, in terms of some forms of control, increasingly irrelevant. (p. 215)

The growing power of globalized financial markets limits the scope of national policy (Lee, 1996). Because the world has become so interdependent and networked, nation-states are criticized if the "playing field" for business is not level, which limits the degree of freedom in their decision making. This brings us to the key question: "Who governs MNEs and a global economy?" "The market" is not a satisfactory answer for globalization critics and some governments, and the sense that globalization is out of control creates a feeling of powerlessness and resentment in protesters. Nation-states are not designed to govern MNEs, but the idea of yielding their power to international governing bodies is perceived by some countries as yet another threat to national sovereignty (Longworth, 1999).

On the positive side of the ledger, for some governments, globalization has resulted in expanded infrastructure, more jobs, and more economic development for their citizenry. Certain countries have benefited from the transfer of modern, more effective management techniques to their business sector. Furthermore, some observers believe that the increased interdependence of trading and investment partners will draw countries closer together and serve as a deterrent against war (Harris & Goodwin, 1995; Tyson, 1999).

On the negative side, MNEs have exerted pressure on governments in several ways. International competitiveness has influenced public policy in some countries by encouraging government officials to lower labor standards (Lee, 1997). Because governments may view themselves in competition with others in a race to the bottom to attract MNEs to their country, foreign firms can have the upper hand in negotiations unless governments have something unique to offer (such as rare natural resources, highly trained people, and a large consumer market). Singapore, for example, invested heavily in education, attracting high-tech and professional industry rather than limiting its population to employment in low-wage factories.

George Soros (2002) criticized globalization for making the provision of private goods more important than public goods such as peace, the eradication of poverty, the protection of human and labor rights, and the environment. Governments of developed countries with extensive entitlement programs—social security systems, health care programs, and unemployment pay or welfare systems—are experiencing greater pressure to decrease such expenditures because they raise the rate of corporate taxation (Longworth, 1999). Nevertheless, Lee (1996) concluded that in spite of increasing globalization, national policies still determine levels of employment and labor standards. He warned, however, that there is a worldwide trend toward smaller government, which is evident in public expenditure reductions, lower taxes, less support for redistributive measures, and greater deregulation of markets, including the labor market. Thus, governments are less likely to compensate the losers from globalization at a time when globalization increases the demand for social insurance (Sutherland, 1998). A global economy allows companies (and the wealthiest citizens) to spread their tax liability to countries with the lowest rates and thereby decrease the taxes that national governments receive from formerly "local" companies.

Capital mobility weakens the tax base, which means that there are less funds available for social insurance (Sutherland, 1998) in countries that previously received tax payments.

The blueprint for economic development promoted by the International Monetary Fund and World Bank decreased the role of government with calls for privatization, deregulation, and the reduction of corporate, trade, and capital gains taxes (United Nations Conference, 1999; United Nations Development, 1999). Not only did this make some government functions irrelevant, but it also left governments with less money in their coffers. Grunberg (1998) reported that governments have fewer funds available as a result of globalization. The proportion of corporate taxes has decreased as a percentage of the total revenues in the United States, and it has also decreased relative to the share of corporate profits in all of the Organization for Economic Cooperation and Development countries (Kobrin, 2001a).[5] Hines (1999) found complex reasons for this phenomenon but also found evidence of aggressive tax avoidance behavior by MNEs and a race to the bottom by governments who reduced corporate tax rates to attract investment. Many EPZs grant tax-free status for the first years, but some MNEs shut down operations and leave as soon as the period is over, because they can take advantage of the same tax-free status elsewhere (Klein, 2000). Furthermore, MNEs sometimes influence local government policy and threaten to leave if their demands are not met. In this way, corporations externalize their costs to others.

Globalization makes it more difficult for governments to exercise their regulatory powers (Cox, 1996) and maintain their autonomy and independent decision making (Kobrin, 1997). In a literature review that examined whether globalization undermines the authority of nation-states, Guillén (2001) found mixed results. Some research concludes that MNEs have the upper hand with governments that now have less autonomy, whereas political scientists contend that the role of government has simply changed to include dealing with the problems of globalization. Kobrin (2001b) concluded that governments are not irrelevant, but they have been weakened as a result of globalization; they will continue to play a major role, but instead of exercising supreme authority, a nation may find that its sovereignty comes to mean simply being one of several prominent parties involved in international negotiations.

There is widespread agreement that governments are not designed or structured to deal with the problems of global business (Giddens, 2000), particularly problems like global warming and environmental degradation, that have accompanied economic development (Lechner & Boli, 2000). Partially to fill this gap, a growing number of nongovernmental organizations (NGOs) are trying to counterbalance the power of MNEs (Dohrs & Garfunkel, 1999). Nongovernmental organizations that focus on topics like human rights and environmental issues have organized themselves to exert pressure on MNEs, governments, and international organizations to ensure their agenda is heard. If one looks at globalization solely in terms of power, it has shifted from governments and organized labor to MNEs, markets, and international organizations (Kobrin, 2001a). This shift took place without a democratic vote—a silent coup that rankles protesters (Clarke, 2001). International organizations like the International Monetary Fund, World Bank, and World Trade Organization are not trusted by some factions of the antiglobalization protest movement because of the partiality these organizations show toward corporate interests and powerful governments. Stiglitz (2002), a former senior vice president and chief economist at the World Bank, claims that some of the protesters' complaints about the International Monetary Fund are based in fact—namely, that free-trade agreements primarily benefit the rich, that privatization has not proved successful in many countries, and that the IMF's vaunted structural adjustment programs have resulted in hardship for many.

UN Secretary-General Kofi Annan (1999) gave this warning at Davos:

> The spread of markets outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take. History teaches us that such an imbalance between the economic, social and political worlds can never be sustained for very long.

Table 3 summarizes the positive and negative impacts of globalization on governments.

THE IMPACT OF GLOBALIZATION ON CULTURE AND COMMUNITY

Globalization may be a positive force for greater cross-cultural understanding via more cross-cultural exposure and closer cross-border ties. As Tomlinson (1999) stated,

> A world of complex connectivity (a global marketplace, international fashion codes, an international division of labor, a shared ecosystem) thus links the myriad small everyday actions of millions with the fates of distant, unknown others and even with the possible fate of the planet. (p. 25)

Tomlinson (1999) referred to the increased connectivity of the world as a double-edged sword that provides new and wider understanding at the same time that it takes away the securities of one's local world.

Critics claim that globalization is creating a monoculture that is rapidly spreading around the world. MTV culture, for instance, offends social conservatives in many countries. By this view, weakened cultural traditions combined with the importation of foreign media, stores, and goods encourage cultural homogenization. Multinational news outlets, like CNN and Rupert Murdoch's News Corporation, provoked the complaint that the "flow of information" (a term that includes both ideas and attitudes) is dominated by multinational entities based in the most powerful nations (MacBride & Roach, 2000, p. 286). Chains like Wal-Mart, with lower prices and extensive, standardized inventory, force uniquely local small stores out of business because consumers prefer the service and prices at Wal-Mart. Monbiot (1995) claimed that the use of English as the language of business and in the media drives out and threatens minority languages. As transnational corporations grow and become more powerful, there is a concern that the culture of capitalism, which is heavily influenced by Western or U.S. culture and commoditization, will develop into a world monoculture. *Commoditization* is the process by which market capitalism transforms things that were previously not viewed as economic goods (such as human genes) into something with a price. In fact, many aspects of culture have been *commodified* as evidenced in the shopping opportunities incorporated into experiences in which they previously did not exist (Tomlinson, 1999) such as visits to natural wonders or religious ceremonies. Cultures have always influenced one another, often enriching each other in the process, but some observers conclude that cultural synchronization has been occurring at an unprecedented rate and that "never before has one particular cultural pattern been of such global dimensions and so comprehensive" (Hamelink, 1988).

Not all communication experts, however, share this opinion. Some maintain that the media have been decentralizing with the development of regional centers (e.g., Mexico for Spanish television, India for film, and Hong Kong for East Asian film and television) and indigenized programming. Thus, they argue that the homogenizing forces of the media like satellite television exist in tension with *heterogenization* (Sinclair, Jacka, & Cunningham, 1996). Tomlinson (1999) agreed with Hamelink that cultural synchronization is an unprecedented feature of global modernity but argued, "Movement between cultural/geographical areas always involves interpretation, translation, mutation, adaptation, and 'indigenisation' as the receiving culture brings its own cultural resources to bear, in dialectical fashion, upon 'cultural imports' " (p. 84). And as Howes (1996) noted,

> No imported object, Coca-Cola included, is completely immune from creolization. Indeed, one finds that Coke is often attributed with meanings and uses within particular cultures that are different from those imagined by the manufacturer. These include that it can smooth wrinkles (Russia), that it can revive a person from the dead (Haiti), indigenised through being mixed with other drinks, such as rum in the Caribbean to make Cuba Libre or aguardiente in Bolivia to produce Ponche Negro. Finally it seems that Coke is perceived as a "native product" in many different places—that you will often find people who believe the drink originated in their country not in the United States. (p. 6)

Pressures for a global monoculture are counterbalanced by greater attention and efforts to maintain ethnic identity. Karliner (2000) argued that globalization may be responsible for the increasing popularity of indigenous movements to maintain ethnic identity. Although globalization was not the only cause of the Islamic revolution in Iran, it provided a target for rebellion and also forced the Muslims to "identify" themselves and determine how they wanted to live in a global society (Lechner & Boli, 2000). Anthropologist Clifford Geertz (1998) wrote that the world is "growing both more global and more divided, more thoroughly interconnected and more intricately partitioned at the same time" (p. 107). Although few social scientists support the creation of a monoculture (Guillén, 2001), this is a common fear among protesters.

Critics claim that globalization has irrevocably changed the social landscape of communities and con-

Table 3
The Impact of Globalization on Government

Positive Effects	*Negative Effects*
Increased economic development benefits some governments	Power of multinational enterprises (MNEs) increased at the expense of government power, sovereignty, and ability to regulate business
Increased jobs and expanded infrastructure benefit some countries	MNEs externalize some of their costs to countries
Transfer of modern management techniques into business sector	Competition for factories and foreign direct investment (FDI) result in too many concessions to MNEs by some governments
Greater interdependence among trading and investment partners may deter war	Some MNEs influence local government policy and threaten to leave if their demands are not met
Proliferation of nongovernmental organizations (NGOs) to counterbalance decreased governmental power	MNEs pay fewer taxes to governments and incorporate where the tax rate is lowest, depriving their own country of revenue
	Governments are pressured to reduce tax rates and decrease social benefits that may affect stability

stitutes a threat to national culture in various ways. For example, transnational agribusiness has replaced family farms in some areas, and cutting down forests inhabited by indigenous people makes it difficult if not impossible for them to maintain their traditional way of life (Brown, Renner, & Flavin, 1998; Keck & Sikkink, 2000). The spread of newer cultures and technologies may result in the loss of knowledge about traditional practices and arts more compatible with natural systems. EPZs draw people from rural areas, moving them out of reach of their traditional safety nets. It is difficult to pinpoint how much of this migration from their traditional communities and ways of life can be attributed directly to globalization versus traditional economic development and a desire to better one's life. People, particularly men, have been forced to migrate to find work throughout history. In the case of the Mexican maquiladoras (a type of EPZ) along the U.S. border, however, the primary employees are young women, which has had a marked impact on the social structure.

Table 4 summarizes the positive and negative impacts of globalization on culture and community.

THE IMPACT OF GLOBALIZATION ON ENVIRONMENTAL SUSTAINABILITY

Sustainability is defined as meeting the needs of present generations without compromising the ability of future generations to meet their own needs. The moral basis for sustainability is the ethical position that destroying Earth's future capacity to support life is wrong. Global environmental issues such as global warming, deforestation, ozone depletion, reduction of biodiversity, degradation of ocean habitats (Lawrence et al., 1996), and pollution are the key areas affected by globalization.[6] Most of the empirical studies found in a literature review on globalization's impact on the environment, which are summarized below, focused on small pieces of the puzzle—they are "local" in nature due to the difficulty of studying the environment as a whole (Osland, Dhanda, & Yuthas, 2002).

On the positive side of the ledger, globalization has caused some countries to make a narrower range of products more efficiently; in other words, it has given them a comparative advantage. It has been responsible for creating and exporting technologies that use fewer natural resources and result in less waste and pollution.[7] Globalization has facilitated the dissemination of practices like improved energy efficiency, lowered carbon combustion, dematerialization (reducing overall use of materials), substitution of resources with reduced environmental impact, and metal recovery technologies (Allenby & Richards, 1994; Graedel & Allenby, 1995; Socolow, Andrews, Berkhout, & Thomas, 1994). The industrial ecology movement has sought to improve environmental responsiveness at the same time that it reduces the global cost of production for corporations.

On the negative side, because of globalization, harmful technologies and activities have also been exported. Although better technology is available, companies do not always use it because it can be highly capital intensive (Socolow et al., 1994).

Globalization is blamed as a source of pollution. For instance, industrial toxic effluents and pesticide runoffs from agribusiness have destroyed river fish (Khor, 1996). A recent study overseen by the UN Environment Program warns of the danger of the *Asian cloud,* which may be causing premature death, flooding, and drought. Not all of the two-mile-thick cloud is

Table 4
The Impact of Globalization on Culture and Community

Positive Effects	*Negative Effects*
Increased cultural exposure, understanding, and cross-border ties	More mobility and disruption of rural life away from traditional safety nets
Encouraged proliferation of indigenous organizations and movements to preserve ethnic identity	Increased exposure to cultural homogenization
	Disintegration of some local communities

a direct result of increased industrialization and globalization; traditional practices and forest clearing are also responsible in addition to auto emission, factories, and waste incineration.[8] Since prevailing winds can carry pollution clouds around the world in a short period, they are becoming a global environmental problem (United Nations Environment, 2002).

The spread of factories around the world has made more infrastructure necessary, which requires extracted substances from the earth. Globalization promotes the transportation of raw materials and goods using nonrenewable resources. Increased travel by workers seeking jobs (Brown, Renner, & Flavin, 1998) and by MNE employees uses fossil fuel and contributes to global warming. Additionally, because MNEs have moved their operations to countries where environmental laws are absent or not enforced, greater environmental degradation has occurred. Some MNEs have taken advantage of lowered environmental protection to sell harmful products abroad that are banned in more developed countries.

Critics claim that countries are more likely to export more commodities that increase the exploitation of natural resources as a result of globalization (French, 1993). There are numerous examples of environmental degradation such as deforestation, threats to biodiversity, and depletion of fish stocks (French, 1993; Goldsmith, 1997; Wilkes, 1995). Some of these problems stem from inappropriate use or overuse, whereas others involve inappropriate modern technologies such as modern trawl fishing that scrapes the bottom of the seabed and disturbs breeding grounds (Khor, 1996). Deforestation and technological innovations in agriculture have also resulted in habitat damage and extinction of species (Rackham, 1986).

Wackernagel and Rees (1996) popularized the concept of the *environmental footprint*. They demonstrated that developed countries require greater per capita material and energy flows, and therefore greater land surface, than do developing countries. The per capita effect on the earth's crust is greatest in the wealthiest countries that extract resources at a far greater rate than they can be replaced. The globalization of materially affluent lifestyles promulgated by the media and increased travel intensifies the demand for extracted materials (Duchin, 1996).

A conflict has arisen over the view of many developing countries that it is their turn to develop, as the more advanced developed countries did, without the constraints of environmental regulations. This dilemma pits the principle of equal capacity for economic development against the competing value of environmental sustainability.

The 1992 GATT annual report laid out the argument that increased trade will produce increased incomes, which will then result in more concern about the environment (Lawrence et al., 1996). Environmentalists, however, worry that globalization will encourage greater consumption as more goods are marketed to more people, creating artificial needs and using more natural resources (Mander & Goldsmith, 1996). Although globalization theoretically should result in greater efficiency in production, it has caused more surplus and scarcity (Brown, Renner, & Flavin, 1998), which points to a less than perfect use of resources.

It would be impossible to calculate the total impact of globalization on the environment, but there is a growing body of evidence documenting its harmful effects (Osland et al., 2002). Table 5 summarizes the positive and negative impacts of globalization on environmental sustainability.

CONCLUSIONS

The current debate raging on globalization and the explosion of publications on this topic reflect the importance this phenomenon has gained in recent

Table 5
The Impact of Globalization on Environmental Sustainability

Positive Effects	*Negative Effects*
Countries make a narrower range of products more efficiently	Caused surplus and scarcity
Relative efficiency of energy use is improving	Development and increased affluence lead to larger demands for materials and energy as well as increased waste and energy-related pollution
More systematic dematerialization through manufacturing changes	Export of damaging extraction technologies continues despite existence of alternative technologies
Substitution of harmful materials by resources with reduced environmental impact	Spread of factories requires increased infrastructure that uses more extracted materials
Some firms do environmental impact studies of product's entire lifecycle	Increased travel of workers and multinational enterprise employees uses fossil fuel and contributes to global warming
Transfer of efficient technologies to assist developing countries to increase production	Some developing nations are exposed to toxic or dangerous products and technologies
Creation and transfer of more efficient technologies to some countries	Increased consumption uses more natural resources
Use of alternative energy sources decreased carbon combustion	Increased advertising creates artificial needs
Increased income may lead to concern for environmental protection	Increasing fossil fuel combustion emits gases and particles into the atmosphere
	Increased transportation of raw materials uses nonrenewable resources
	Increased environmental degradation from factories in countries without enforced environmental protection laws
Modern trawl fishing maximizes the catch for maximum immediate revenue	Degradation due to agribusiness, logging, commercial fishing, and industrial waste
	Deforestation threatens species survival

years. When we expand the boundaries of the debate beyond the merits of free trade, a picture emerges of globalization as an uneven process that has resulted in both positive and negative consequences, both winners and losers. Thus, the quick answer to the question "What is the impact of globalization?" is "It's mixed." Globalization is neither a panacea nor an unmitigated plague. Given the complexity and scope of the topic, it is difficult to determine with precision whether some of the problems linked to globalization would exist independently and to what degree. We can conclude, however, that globalization in its current state often involves serious tradeoffs such as economic development and jobs at the cost of environmental degradation and weakened labor protection. One important lesson is to include these tradeoffs in the debate and in calculating the total cost of global business.

Where people stand with regard to these tradeoffs often depends on their values and mindsets—in particular their beliefs regarding free markets, government intervention, the importance of local versus global concerns, and individualist versus communitarian views about the common good (Gladwin, 2002). Understanding these differences in basic assumptions is the first step in creating a civil discourse on the topic. Although businesspeople may disagree with antiglobalization protesters' rhetoric or tactics, another key lesson is that some of their criticisms are valid and should be taken into consideration. In Kobrin's (2001a) description of the antiglobalization protest movement, he concluded that their protests may be "the canary in the mine"—the warning signal about globalization and the role of MNEs.

A third lesson is that businesspeople (and academics) should take a systems approach to globalization to avoid problems. Customers and protesters often see more linkages than some firms seem to consider, and many consumers do care about where their purchases come from. For example, the employees of a major company warned top executives about problems in overseas factories that could result in bad publicity. The person in charge ignored the warning, insisting, "These are just contract workers—they aren't really a part of our company." Years later, the company is still dealing with the PR fallout and targeting by protest groups. To the public, the distinction about whose employees they were was both legalistic and irrelevant. To avoid such problems, some MNEs are now entering into dialogue with all their various stakeholders, including nongovernmental organizations.

The accounting systems used by governments and businesses discourage a systems perspective. As long as accounting systems fail to take into consideration the environmental and social costs of doing business, firms can "look good" while doing a fair amount of harm to the larger society. Social accounting is admittedly difficult, but its advantages may now outweigh its disadvantages (Sherman, Steingard, & Fitzgibbons, 2002).

As teachers, we need to make sure our students learn about the whole picture of globalization, including its unintended consequences. Yet my examination of international business textbooks yielded virtually no mention of the impact of globalization on the environment. Globalization is one of the most challenging and complex issues humans have ever faced. The way we teach it should reflect its requisite variety—a multidisciplinary focus including all stakeholders, understanding both the abstract as well as the human and environmental impact, teaching a thorough understanding of the pros and cons, and examining the solutions offered to counteract its problems.

Globalization is driven in large part by a mindset—the belief in the sanctity of markets, which Soros (1998) called "market fundamentalism." Some obvious caveats come to mind, however. First, some economists question whether markets are really "free" (see Stiglitz, 2002, for an alternative view).

Second, once we broaden the globalization debate to include more than economic arguments, it seems obvious that free trade without any regulations or constraints has not been wholly successful (Giddens, 2000). The nations that have prospered under free trade have done so in part because they have laws and institutions that serve as checks and balances. In Giddens's (2000) view,

> Trade always needs a framework of institutions, as do other forms of economic development. Markets cannot be created by purely economic means, and how far a given economy should be exposed to the world market-place must depend upon a range of criteria. . . . Opening up a country or regions within it to free trade can undermine a local subsistence economy. An area that becomes dependent upon a few products sold on world markets is very vulnerable to shifts in prices as well as to technological change. (p. 35)

Business scholars could help identify the criteria that Giddens mentioned and conceptualize globalization as occurring with a broader systemic context. Cookie-cutter approaches to economic development seldom work. Strategies have to fit the local context of each country with its unique institutions and historical, political, and social context.

Third, in addition to a framework of institutions, trade has to be embedded in a broader framework of shared social values that include at least some degree of concern for social justice and the common good.[9] Privatization has been successful in some countries but not where government officials or their cronies bought undervalued state assets and established monopolies. Either the rule of law or shared values is needed to prevent a winner-takes-all mentality. In their absence, perhaps MNEs have to accept that they too have social responsibilities and a broader role to play in society than maximizing shareholder wealth.[10] Concentration solely on economic growth no doubt made sense in an earlier time, but given what is known today about globalization and its impact, our focus should broaden to include a more balanced, integrated approach to economic development (United Nations Development, 2002).

If we needed further convincing that globalization demands a systems view, we might be persuaded by the backlash and counterbalancing forces it has provoked. The protest movements,[11] the growth of nongovernmental organizations, and the movements affirming ethnic identity are all reactions in part to globalization or perhaps an inherent part of globalization. It is more difficult to forecast how the nature of globalization might change in response to these forces. Some observers assume that the current state of globalization is akin to the robber baron era in the United States—a period of excess and abuse that eventually sparked a backlash resulting in policies and laws. Kell and Levin (2002) described globalization as an incomplete experiment in human history with systemic deficiencies that cause instability and social injustice. A consensus of sorts seems to be building around the need to somehow "tame" globalization, but there is no clarity yet about how this will occur, what form it will take, and who has the requisite authority to pull it off.[12]

One interesting response to globalization is the United Nations' Global Compact. This initiative, led by Secretary-General Kofi Annan, consists of a global network of companies, nongovernmental organizations, major international labor federations, and several UN agencies. Its objective is to "create a more stable, equitable and inclusive global market by making its nine principles an integral part of business activities everywhere" (United Nations, 2002). These principles, which involve human rights, labor standards, and environmental practices, are an attempt to establish a universal standard.

> Principle 1: Support and respect the protection of international human rights within their sphere of influence.
> Principle 2: Make sure their own corporations are not complicit in human rights abuses.
> Principle 3: Uphold freedom of association and the effective recognition of the right to collective bargaining.
> Principle 4: Uphold the elimination of all forms of forced and compulsory labor.
> Principle 5: Uphold the effective abolition of child labor.
> Principle 6: Uphold the elimination of discrimination in respect of employment and occupation.
> Principle 7: Support a precautionary approach to environmental challenges.
> Principle 8: Undertake initiatives to promote greater environmental responsibility.
> Principle 9: Encourage the development and diffusion of environmentally friendly technologies (United Nations, 2002).

The Global Compact is attempting to build shared values and create a forum for dialogue and institutional learning that will result in social change. In addition to recruiting companies who agree to integrate the nine principles into their business operations, the program's goals are to establish a learning bank that shares lessons on applying the principles, conducts issues dialogues, and generates partnership projects among the different stakeholders. Such partnerships could theoretically decrease the polarization among various groups. The architects of the Global Compact hope that it will be part of the solution to globalization's problems but do not view it as the definitive solution. To date, 700 companies have voluntarily joined the compact.

As stated in the introduction, much of the globalization literature has an ideological bent, which means there is a need for objective research on globalization's impact and for more questioning about the basic assumption of globalization itself. The U.S. acceptance of globalization as the status quo may reflect cultural and historical influences. In his Pulitzer Prize–winning book, *The Global Squeeze*, journalist Richard Longworth (1999) concluded:

> The global economy is not an act of God, like a virus or a volcano, but the result of economic actions taken by human beings and thus responsive to human control. There is no need to say, as many American economists and businesspeople do, that the market knows best and must be obeyed. This cultural capitalism is confined mostly to the United States and the other English-speaking nations. Other nations, in Europe and in Asia, see the market as the source of both bountiful benefits and lethal damage, and are determined to temper this force to their own priorities. (pp. 4-5)

Given the ever-evolving history of economic development, trade, and international relations, there is little reason for scholars to assume that globalization as we know it today is the final version. Such an assumption is dangerous if it prevents us from seeing other possibilities and the systemic consequences of the current system. Business scholars have made good progress in describing this system and documenting what it takes to be profitable. Now it's time for us to consider what else we can contribute to the debate on globalization and whether we can take a stronger leadership role in influencing the way people think about and practice global business in the future.

NOTES

1. The World Trade Organization's major functions are to administer trade agreements, serve as a forum for trade negotiations, settle trade disputes, review national trade policies, and assist developing nations in trade policy issues.

2. Having warned you about the potential biases of globalization writers, it's only fair to explain my own stance and my impetus for writing this article. At the behest of the Northwest Earth Institute, I joined a discussion group on the impact of globalization on the environment and commenced reading. I began with few preconceived notions and with no strong inclination either for or against globalization. If anything, I was positively disposed to creating jobs in lesser developed countries, since I had learned during a previous career in international development that providing employment goes a long way toward solving a variety of social ills for poor people. In the conclusion, I will explain the position my reading led me to.

3. Simon Valaskakis is Canada's ambassador to the Organization for Economic Cooperation and Development (OECD) in Paris and a professor of economics at the University of Montreal.

4. As of 2002, there were more than 850 export processing zones in the world employing 27 million workers (Drezner, 2000). See International Labour Organization, *Labour and Social Issues Relating to Export Processing Zones* (1998), for information on conditions.

5. The Organization for Economic Cooperation and Development is an international organization that consists of 30 industrialized, market-economy countries. Their representatives meet "to exchange information and harmonize policy with a view to maximizing economic growth within

Member countries and assisting non-Member countries develop more rapidly" (Organization, 2003). For more information, see http://www.oecdwash.org/ABOUT/aboutmain.htm.

6. Bioengineering is another controversial topic. Genetic engineering can preserve existing species and create new varieties, but the impact of the latter on biological systems is still unknown. There are also ethical concerns about the ability to patent genetically engineered species and human tissues, cells, and organs.

7. See the United Nations Conference on Environment and Development (1992) for information on the successful transfer of technological innovations. For a more complete analysis of the environmental impact of globalization, see J. Osland, K. Dhanda, and K. Yuthas (2002).

8. The Asian cloud is the result of traditional practices such as wood- and dung-burning stoves, cooking fires, and forest clearing as well as auto emissions, factories, and waste incineration.

9. See John Ruggie's (1982) description of embedded liberalism, which was originally conceptualized as a compromise of multilateral trade and domestic stability.

10. *BusinessWeek* devoted its cover story to "Global Capitalism: Can It Be Made to Work Better?" in its November 6, 2000, issue (Engardio & Belton, 2000). Its conclusions are similar to those found here and acknowledge the need for more social responsibility on the part of multinationals and a more realistic view of economic policy that has driven globalization.

11. For an interesting account of this movement, see Kobrin (2001a).

12. Articulating the suggested solutions lies outside the scope of this article, but one starting point is to look at the lessons learned from 50 years of tackling various global problems in Simmons and Oudraat (2001).

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