Globalization and Shifting World Power
What is Globalization?

• Growth of networks of interdependence that transcend national and regional boundaries

• Economic networks
  – Trade
  – Capital flows
  – Labor migration

• Communication and transportation networks
  – Networks linking soldiers, criminals, terrorists
  – Advocacy networks
  – Religious organizations
  – Social networks
Globalization is about mobility and speed to stretch beyond political boundaries

• Technologies of mobility
• Ideas of mobility
• Capitalism
  – Requires efficiency for economic competition
  – Efficiency requires mobility
  – Efficiency requires speed
  – Speed and efficiency require new technology
The underlying causes of the current phase of globalization.....

- Neo liberalism + fall of communism + rise of Asian Tigers and China
- Factor mobility—growing global commodification of land, labor, and capital
- Rising competition
- Be efficient or die!
- Develop technologies of efficiency + pressure governments to lower wages, taxes, regulation
New Technologies of efficiency...

Convergence of policies around the world “Washington Consensus”

More efficiency

More productivity, more specialization, more trade

Global economic growth
  • But global income inequality..

Convergence of cultures—global liberal culture
  • Homogenizing effects of mass consumerism
Global (liberal) culture? Is it a problem?

Problems of Globalization ILLUSTRATED

(figure 1.a)
4 Effects

- Changing nature of trade—growth of services worldwide
- Growth of global finance and change in its nature
- Flow of capital to “emerging markets”
- Shifting world power
Changing Nature of Trade
What services are still yoked to one place?

- Haircuts?
- Medical care?
- Education?
- Entertainment?
- Voting?
International Finance has changed dramatically

• FDI was as large in 1914 as it is today
• Now it is just one piece of finance
• Then...Most lending for raw materials extraction
• Now.....supports the gamut of production and service activities across the world
The globalization of Finance

• Explosion of cross-border lending
• High tech and global
• growth of securitization, non-banks, and alternative markets as well as mutual funds phenomenal –

• A firm that wants to borrow money has broad range of choices
• Investors can buy re-packaged pieces of risk
  • spread their holdings across different countries,
  • different industries,
  • different time periods.
• .
Why?

• New technologies:
  – 24 hour global trading system
  – Hampers regulation

• Efficiency gains (Washington Consensus)
  – Allow the pooling of risks
  – Promotes growth in developing countries

• High costs of closure

• Global Finance disciplines governments
  – Unsound policies spark capital flight
Capital flows to emerging markets

Net private capital flows to emerging markets exploded over the last decade
Net cum flows since 1999, USD bn

Source: World Bank
And shifting the balance of world Power: BRIC growth

Source: Mirae Asset
Shifting World Power
The rise of New Powers and the end of American hegemony?

![Projected changes in state power as a percentage of global power 2005 - 2025](ourtimes.wordpress.com)

The world is changing rapidly

• The international order is obsolete
  – Shaped by US during the cold war
  – Institutions based on rules of capitalism and democracy
• Powerful, wealthy, often non-democratic countries with state-run economies are challengers
  – The BRICs
• But they have little power in international institutions like the IMF, World Bank, G-8
• And why should they care about the current international order?
Why should we care?

• The Liberal Would dismiss this question. Why?
• U.S. economic nationalists would be worried. Why?
The BRICs
Simultaneous “Take-offs”

• China and India: 1/3 of world’s population
• High growth rates
• Likely to keep growing
• And shifting the technological balance of power
• India will vault over Germany in our lifetimes
For the economic nationalist: Economic power means military power

- China has the world’s largest foreign exchange reserves
- Uses it for access to raw materials
- Large foreign aid programs
  - Nigeria
  - Sudan
  - Indonesia
- Can military power be far behind?
How China sees the world
And Russia....

• Nuclear petro-state?
• Growth without development?
• Failure to modernize +
• Global Ambitions......
There are now more non-democracies than democracies in the world

• They are powerful
  – They include two nuclear powers
  – Half the global population
  – Oil producers

• Their Economic policies have not followed western liberal model
  – They pursue “state capitalism”
  – Blurring distinction between public and private
And they are changing the game

• They are already shaping world politics
  – Russia exerts influence in areas vital to U.S. security
  – India is dethroning US high tech industry
  – India and China are settling their differences and cooperating

• They are proving to be resilient in economic crisis
  – They have amassed sovereign wealth funds
  – That buffer their economies

• And they don’t have a place at the table
Meanwhile....U.S. Hegemony is declining

• US Growth rate has fallen by ½ since the beginning of the century
  – Debt and deficit
  – Energy dependent

• China’s share of global product has grown by 144 percent

• India is growing at 5% per year

• Russia is flush is oil and gas revenues, paying off debts while the US sinks deeper into debt
And is being challenged in international institutions

• Old arrangements are relics
  – In IMF and World Bank, Benelux has a larger quota than China

• China challenges the “Washington Consensus”
  – Why should it be the premise for economic development
  – And a condition for loans?
Why is this happening?

Theories of Political Economy have an answer
Theories of Dynamic Markets

- The Business Cycle
- Product Cycle Theory
- Marxist Analysis
- All of “Development” Theory
- Weber’s “open source” theory
- “Creative Destruction”
Creative Destruction

- Joe Schumpeter
  *Capitalism, Socialism, and Democracy*
- Creative Destruction: innovators destroy established businesses
- Source of market power
- Ensures against monopoly power
- It hurts
Creative destruction historically: Schumpeter’s “waves”
Econ. Nationalist View: Nations that produce high technology are most powerful

- Britain rose to Hegemony on the invention of the steam engine
- Germany rose to power because of its revolutionary technological contribution to heavy industry
- During its hegemonic period, the United States was the most innovative
Waltz: international political economy ruled by a hegemon is unstable

• Dominant powers expand too much
  — "Imperial decay is . . . primarily a result of the misuse of power which follows inevitably from its concentration."

• And even if they don’t, others worry that they are too powerful
  • Their preferences might not be the preferences of others

• But isn’t America different?
  — Arthur Schlesinger thinks so.......
Solution? Bring these challengers into international institutions

- Elevate the G-20