

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?



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.
- .

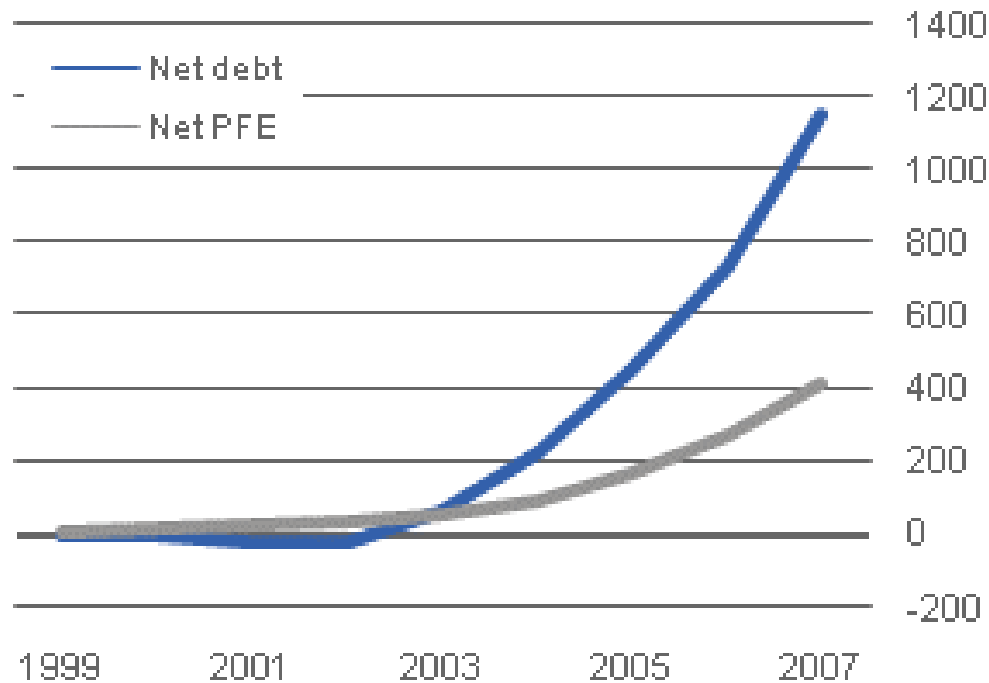
Why?

- 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

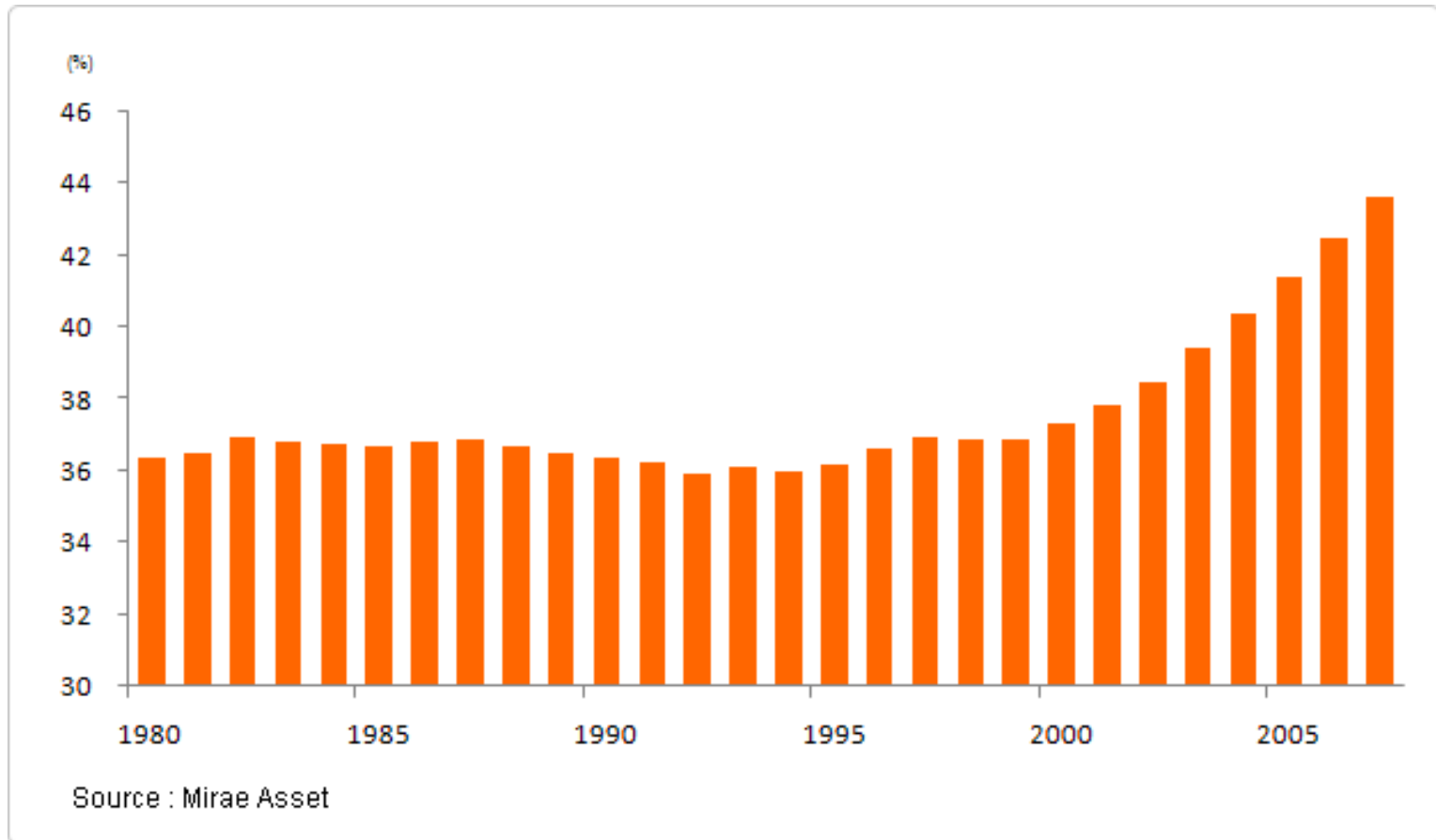
Net private capital flows to emerging markets exploded over the last decade

Net cum flows since 1999, USD bn



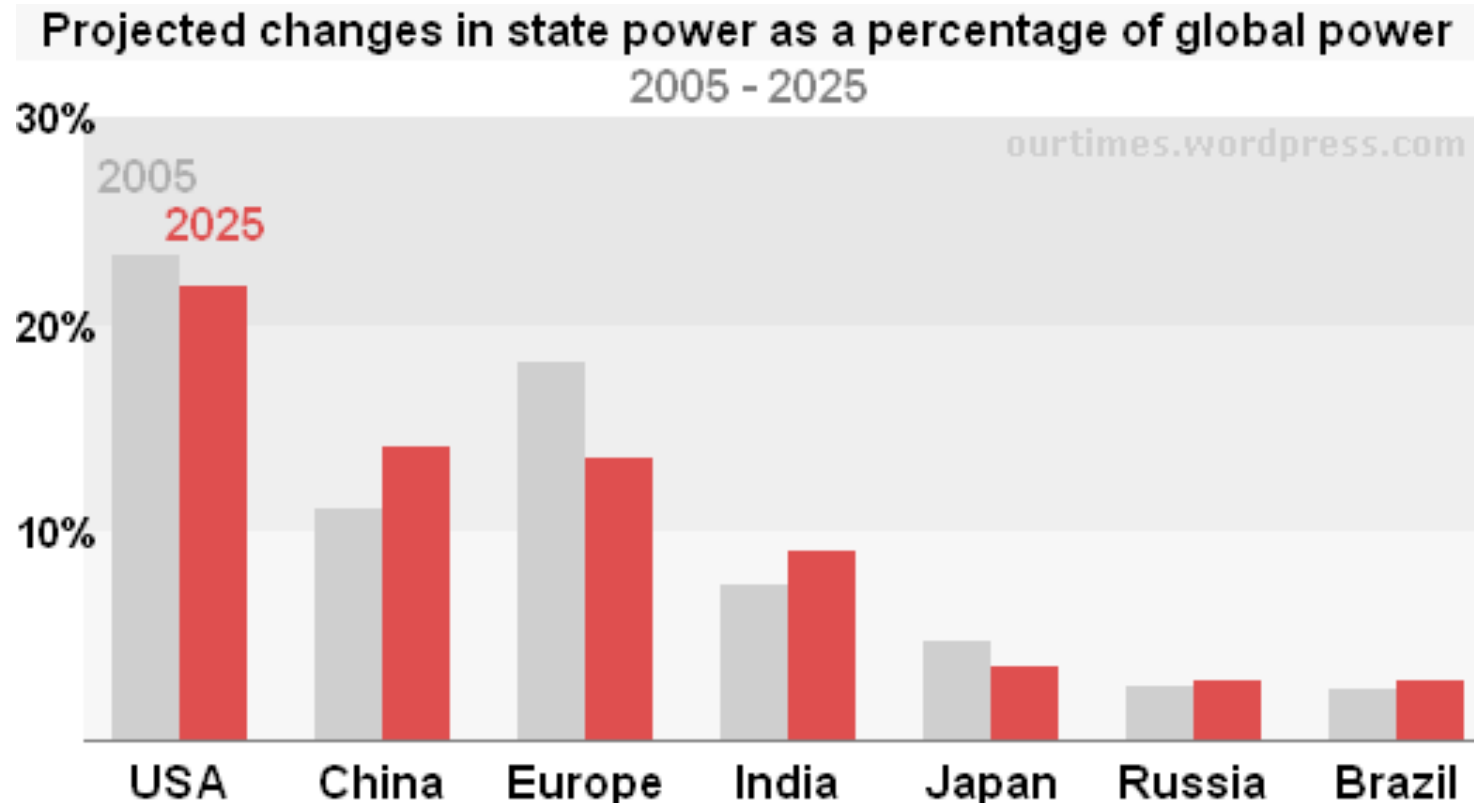
Source: World Bank

And shifting the balance of world Power: BRIC growth



Shifting World Power

The rise of New Powers and the end of American hegemony?



Source: Global Trends 2025, U.S. National Intelligence Council, 2008

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 World dismiss this question.
Why?
- U.S. economic nationalists would be worried.
Why?

The BRICs



Simultaneous “Take-offs”

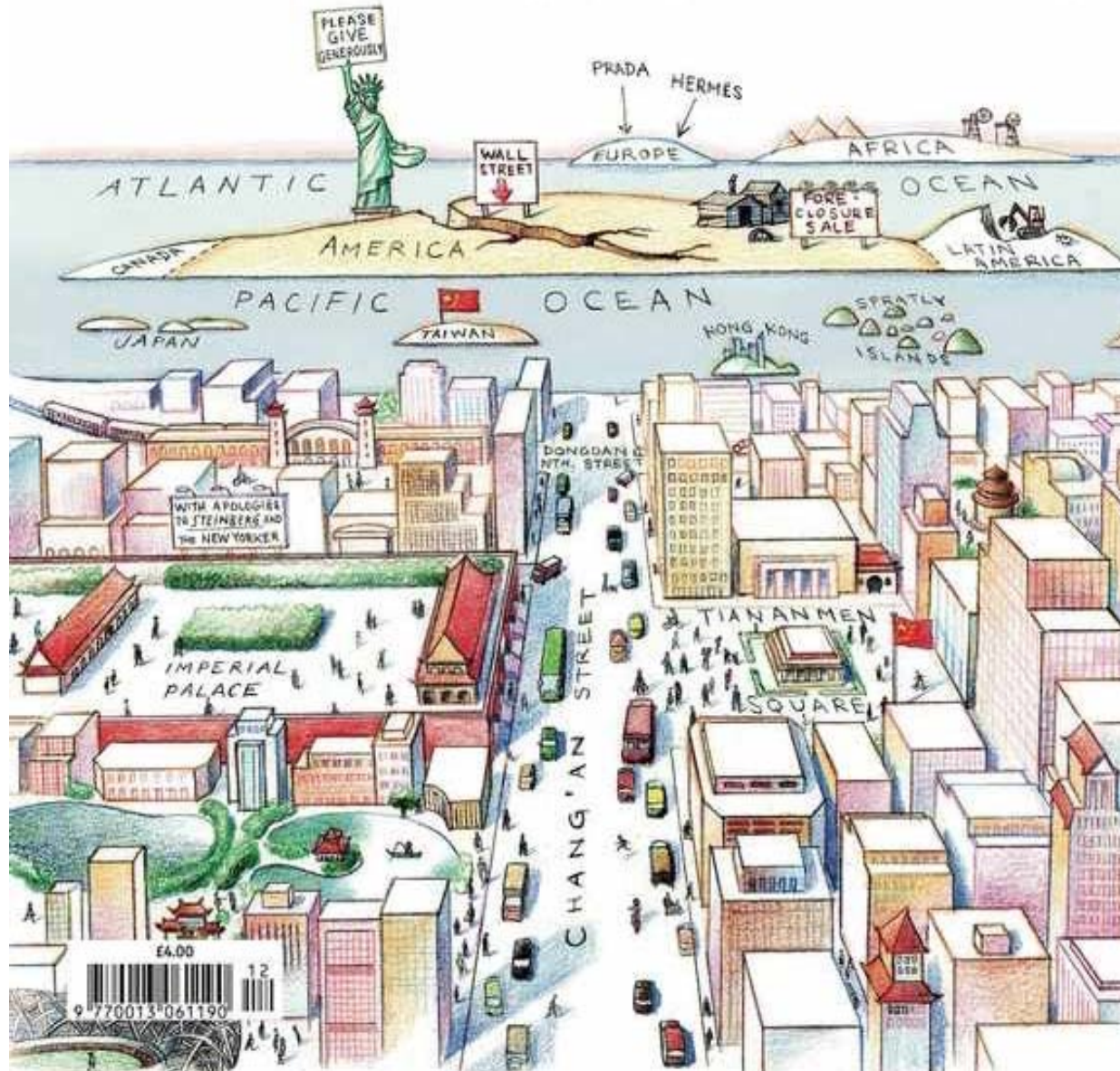
- China and India: 1/3 of world’s population
- High growth rates
- Likely to keep growing
- And shifting the technological balance of power
- India will vault over Germany in our lifetimes

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.....

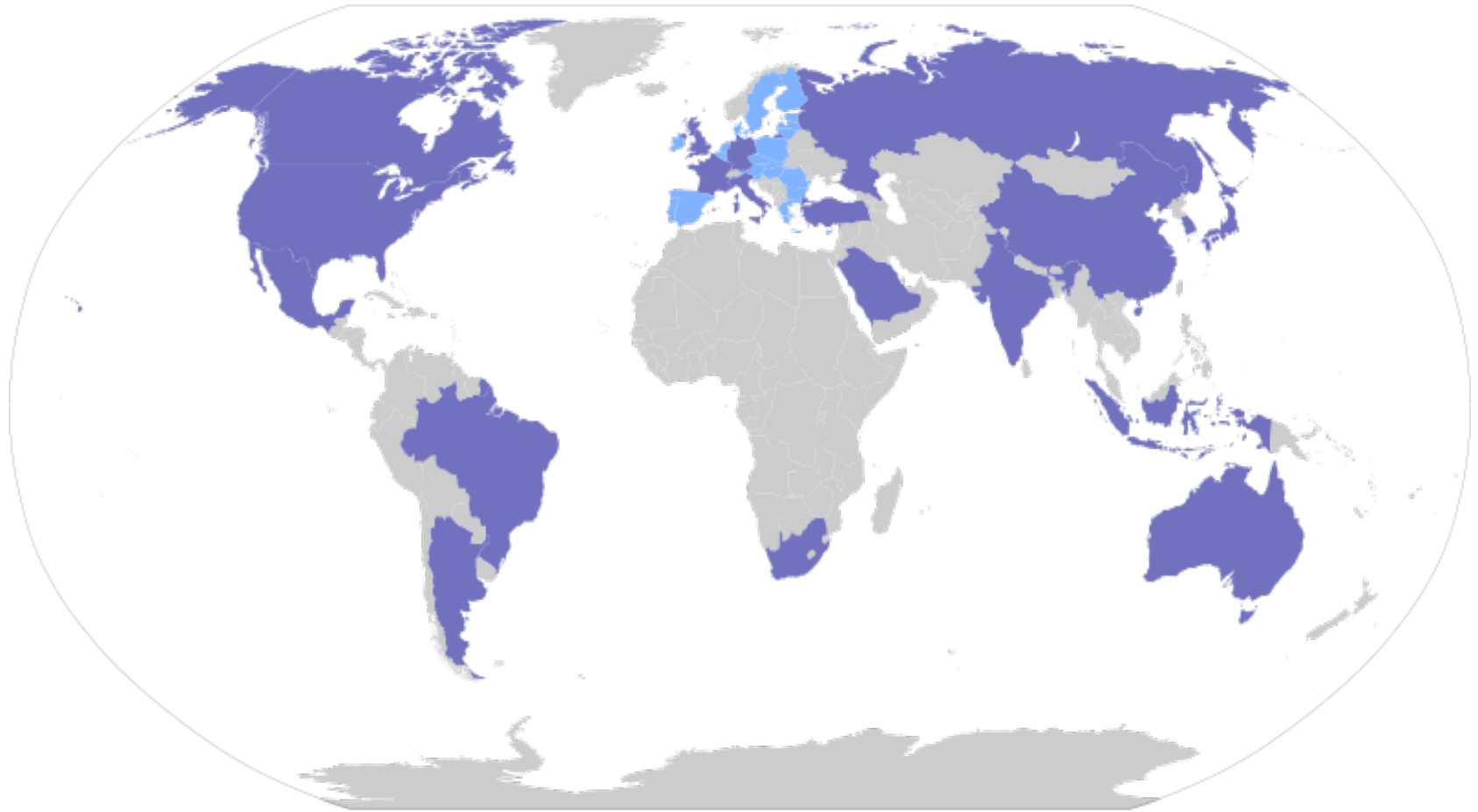
There are now more non-democracies than democracies in the world

- 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

The G-20



Meanwhile....U.S. Hegemony is declining

- US Growth rate has fallen by $\frac{1}{2}$ since the beginning of the century
 - Debt and deficit
 - Energy dependent
- China's share of global product has grown by 144 per cent
- India is growing at 5% per year
- Russia is flush with 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

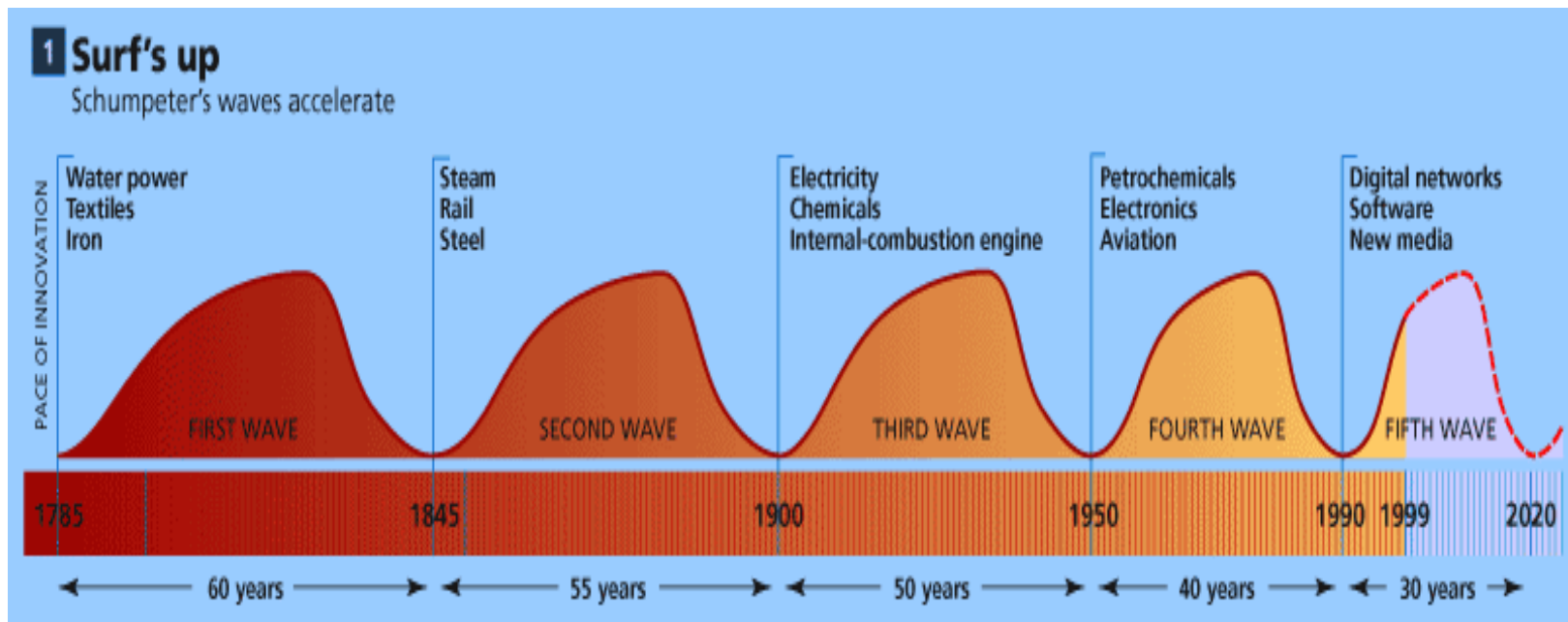
- The Business Cycle
- Product Cycle Theory
- Marxist Analysis
- All of “Development” Theory
- Weber’s “open source” theory
- “Creative Destruction”

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

