1 INTRODUCTION

Globalization: A Rapidly Changing Field

Globalization confronts all of us, even casual observers, with a bewildering range of observations. One does not have to go far to take notice of these events. At the time of this writing, the European Union (EU) contemplates the rescue of Greece from its budgetary troubles; Iceland, as close to sovereign bankruptcy as a country can get, is struggling with repayment of its huge external debt to the Netherlands and Great Britain; and the hugely successful private company, Google, is considering pulling out of China because of Chinese censorship and human rights violations. German and American fiscal authorities do battle with individuals who would escape the control of national taxation systems by putting money outside the reach of their own governments. In addition, riots continue between migrant workers from Africa and Italians in Calabria, and the Swiss People's Party votes in favour of a referendum to ban the building of minarets by Muslims in Switzerland. State and non-state actors are important, and motivations range from principled concerns about human rights to attention to the bottom-line profits and position in the international distribution of power.

The Italian and Swiss examples are telling. The town of Rosarno in Calabria (at the tip of the boot in Southern Italy) relies on migrant labour from the Maghreb and sub-Saharan Africa to pick its citrus fruit. The workers live in very poor conditions and receive perhaps 25 euros a day as their wages, of which they must hand over a portion to the local mafia called the 'Ndrangheta. Reports indicate that two of the workers were shot by locals while they were in their camp. Riots ensued in which many were injured. The result was that well over a thousand African workers either left voluntarily or were removed by the police (*Economist*, Jan. 19, 2010: 1). The situation was brought to a point by the fact that it appeared not profitable to pick the fruit at all, since the Italian economy had been flooded by cheap Spanish oranges and Brazilian orange juice. It seems that even the low agricultural wages of southern Italy were not low enough, in the sense that competition both inside and outside the EU could undercut local prices. While tariff protection may be an option in some countries, it is not viable within the EU owing to the free movement provisions of the Lisbon Treaty (the governing Treaty of the EU), and tariffs against Brazil are heavily discouraged by the World Trade Organization (WTO). Thus, from the standpoint of local producers, workers (domestic and migrant workers), and consumers, there are few options. The constraints implied by Thomas Friedman's 'golden straitjacket' are all too prevalent here but the gold (symbol for the economic benefits) is hard to find (Friedman, 2000 [1999]). Indeed, both Italians and African workers could ask 'what's so golden about this straitjacket?'

The situation in Switzerland is interesting because it demonstrates a significant anti-immigrant movement in an environment where the immigrant presence is not very pronounced. There are approximately 340,000 Muslim immigrants in Switzerland, about 4 per cent of the population, and most of them are from the Balkans and Turkey, two of the more liberal (non-fundamentalist) Muslim countries. Furthermore, the issue on which the Swiss referendum was held had to do with the building of minarets, of which there are only four in all of Switzerland. Yet, the xenophobic Swiss People's Party, which is one of the largest parties in Switzerland, succeeded in leading the campaign against the building of minarets. This campaign relied on a sophisticated approach focusing not on television advertisements but on the power of a fixed image. One of the two most important posters showed minarets positioned as ballistic missiles emerging out of the Swiss flag, an image which was shown in conjunction with another poster of a woman in a niqab, a full-length garment, with the word STOPP in large red letters. Underneath, at the very bottom of the poster, was a large green JA, along with 'zur Minarett-Verbots-Initiative'. In other words, stop the building of minarets. Say 'yes' to forbidding the building of minarets (*New York Times*, Jan. 17, 2010: 1).

All of these examples are culled from reading the newspapers of one week (Jan. 14–21, 2010). If one wants to extend the time frame back a bit, we can think of the French and Dutch rejection of the proposed constitutional treaty by the European Union in May 2005 (events partly motivated by anti-globalization fears); the rise of far-right political parties, which are often anti-immigrant in Europe as a whole; the recent conference on the environment and global warming in Copenhagen; enforcement of stronger controls on airplane travel motivated by fear of global terrorism; and the diffusion of regulatory and legal practices across national borders, in areas such as food labelling, criminal law, and anti-trust laws. Microsoft and Boeing must worry not only about the anti-trust division of the United States Justice Department, but also about the General Directorate for Competition in Brussels.[1]

[1]The General Directorate for Competition of the European Union is responsible for enforcing competitive practices among economic entities in the European Union.

Just about every imaginable aspect of modern society has been globalized. The economy gets the lion's share of attention, with trade, capital flows, technology transfer, and migrant labour occupying centre stage. However, much the same could be said for social and cultural practices and services, such as American and Indian movies, Italian fashion, hip hop culture, blues from the Mississippi delta, and so on. Food has definitely been more and more globalized: Turkish kebabs in Lucca, Italy, one of the most culinarily resistant countries in the world; northern Italian food everywhere in US cities; Korean and Ethiopian food in Washington DC; and the influences of Vietnamese food on French cuisine. It is difficult to think of many areas which are untouched by globalization. We may think that mental illness is at least a private affair, in the sense that it is rooted in individual personality structure and at most conditioned by the family or by society more broadly. Yet, in *Crazy Like Us: The Globalization of the American Psyche* (2010), Ethan Watters argues that identifying, understanding, and treating mental illnesses are processes that are shaped by global forces. The therapeutic communities and big pharmaceutical companies, along with those who control the content of the Diagnostic and Statistical Manual (DSM), are in the business of constructing categories of mental illness. Contact among these professional communities (within universities, professional meetings of psychiatric, psychological, and social work associations), along with the interest of drug companies to market pharmaceutical solutions widely (i.e. globally) and without respect to borders, accounts for the export of US understandings of mental illness. Illnesses such as anorexia nervosa, attention deficit disorder, bipolar disorder, borderline personality structure, and bulimia have been on the increase in many parts of the world. Part of the increase is no doubt due to the identification of illnesses that were in some sense objectively 'there', but part is also due to the social construction of illness and the diffusion of Western understandings of illness across borders.

Finally, no description of the importance of globalization in the modern world would be complete without mention of the contemporary global financial crisis. The ups and downs of an economy, its periodic swings in terms of output, inflation, unemployment, wages, and salaries, are of concern to all of us. Perhaps there was a time when we could think of these cycles in terms of closed national economies, ignoring the influences of trade and capital flows. In today's globalized setting, the reliance of most countries on the external sector (trade, foreign direct investment, migrant labour, outsourcing, etc.), makes closed economy analysis[2] all but impossible. Because of the multiple channels that link countries, economic activity that starts in one place is likely to be quickly transmitted elsewhere, whether for good or ill. One striking example comes from Krugman's *The Return of Depression Economics* in which he notes that in 2007, on the eve of the financial crisis, the US had overseas assets equal to 128 per cent of GDP and liabilities equal to 145 per cent

[2]The phrase 'closed economy analysis' refers to a type of economic analysis in which the national economy is assumed to be insulated from the outside world, i.e. insulated from trade flows, capital flows, and economic disturbances.

(2009 [1999]: 177 [1999]). These assets (and liabilities) make for a strong coupling of economic interests and in a sense they create a non-territorial economy. As a result of these links, a financial crisis that originates in one country can become contagious and quickly spread to other countries. Not only are business cycles not dead, or moderated; they have become synchronized and globalized. This is why the present financial crisis, far from over at the time of this writing, is a global phenomenon affecting many parts of the world, though with more severity in some places than in others.

The financial crisis of 2008–10 began as an asset bubble in the housing and banking sectors. Cheap credit (real interest rates near zero to one per cent in Europe and the US) and lax rules in banking and finance more generally led to a situation where housing in most parts of the United States was greatly overvalued. As with all bubbles the one in housing was ripe for bursting, and when it did, the consequences quickly spread. Similar bubbles in France and Spain led to regional versions of the sell-off in the United States. North America, Western Europe, the advanced capitalist world, Eastern Europe, and the less developed world were all gradually and not so gradually drawn in.

The crisis was in the housing and banking sectors only in a narrow sense. In reality, the bubble was in the financial system as a whole. At bottom, the problem was the under-pricing of risk and the highly leveraged nature of investments, often with other peoples' money. While perhaps not technically a Ponzi scheme, individuals, banks, and financial institutions were making risky bets that were 'covered' only by the hoped-for appreciation of assets, not by a stream of income from productive investments. After the price of assets fell, as in the housing market, many creditors called in their loans and wanted to be paid off, thus setting off a downward spiral. Investors, including home owners, were now in possession of assets which in many cases were worth less than the value of their loans (they were 'underwater').

Responses to the crisis may have been slow, partly because policy-makers went from denying the crisis, to asserting that it was contained to the housing market, then to admitting to a liquidity problem but not an insolvency problem, to finally recognizing its full import and severity. Once the problem was recognized, governments at many levels and in many countries and international organizations sprung into action. In the US, the Troubled Asset Relief Program (TARP) attempted to provide help to banks and financial institutions to rescue both from financial ruin. Indirectly, TARP should help home owners too by improving liquidity and encouraging banks to make loans again. In addition, the Obama administration allocated hundreds of billions to stimulate the economy to get the virtuous cycle of investment, jobs, and economic growth going again. In Europe, both the EU and national governments set up spending programmes though most of the money came from national treasuries and was allocated by national authorities to solve problems at the national level. The EU, which is weak in terms of fiscal powers, did put together a package but the biggest part of it involved the European Central Bank drawing down interest rates even lower. A spirited debate ensued in Europe regarding the strengths and limitations of *Le modèle Français*, *Modell Deutschland*, and the Anglo-Saxon model. European leaders touted the way their economies adapted because of the automatic stabilizers (state expenditures that kicked in automatically), while in the United Kingdom and the US, political authorities had to fashion economic policies out of new cloth.

Once the crisis erupted, there was no shortage of explanations for why it occurred. Rapacious bankers, naïve, gullible, and disingenuous home buyers, lax (or overly zealous) regulators, and speculators interested in 'making a killing' by placing bets with their own or other people's money. Each time a financial crisis occurs, it is as if it falls out of the sky with no warning. The Mexican debt crisis of 1982, the Tequila crisis of 1994–5, the Argentine inflation crisis of the late 1980s (3,000 per cent inflation), Japan's lost decade of the 1990s, and the Thai (and Asian) currency crisis of 1997. The list could go on and on. As Kindleberger and Aliber put it (2005: 1), financial crises are 'hardy perennials'. While post-hoc explanations abound, the analytic skills of those involved in the making of financial crises seem blunted during the process. Few of these crises are predicted and part of the reason is that mania and euphoria abound in the run-up to the outbreak of the crisis. In a sense, the factors that make for crises, particularly euphoria, are the same ones that prevent us from seeing them coming. We are having too much fun, making too much money. Why not enjoy it, reap the benefits, and do the analysis later? We are not suggesting that this is an accurate description of the mental processes of the participants in the making of a crisis. What we are suggesting is that financial crises have a structure and that they originate, develop, and play themselves out in surprisingly coherent ways. The participants may or may not see this structure but their behaviour nevertheless conforms to a pattern. There are causes that operate 'behind the back' of the actors as well as those that are 'in their heads'.

Guideposts to Navigate a Complex Terrain

The preceding discussion suggests a bewildering variety of influences in today's world. We can introduce some order into this confusing picture by identifying three guideposts or clues about how to analyse global relations. We illustrate each with an extended example. The first guidepost is that globalization often takes us outside the state-centric paradigm. It forces us to view the world from multiple perspectives and institutional contexts. There are many political and cultural groups that exist outside the state and barely recognize state borders in their daily transactions. As a shorthand, think of this as the 'multiple arenas' principle. The second point has to do with the importance of private (non-state) actors, particularly economic actors. The third point has to do with the interdependence of actors (private, state, cultural) across the globe. Think of this as the interdependence principle related to the decline of economic sovereignty in our globalized world.

We analyse each of these guideposts with a telling example. The war in Afghanistan shows the futility of capturing the relevant action within a state-to-state framework. The second example, the current struggle between Google and the People's Republic of China, illustrates the importance of private actors in world politics. The third example, the 'Greek debt crisis', illustrates just how interdependent countries and private actors are in the modern global system and how difficult it is to contain economic disturbances to a limited area.

First, let us turn to the point concerning the multiple arenas in which globalization takes place. In making the case for sending additional troops to Afghanistan, President Obama, in his televised address, repeatedly mentioned Afghanistan and Pakistan as the sites of the war. But is this really accurate? And war against whom? Interestingly, the US is not at war with either Afghanistan or Pakistan. It is at war in Afghanistan and Pakistan. The enemies are the Taliban (in Afghanistan) and al-Qaeda (in Pakistan). Fighting al-Qaeda is particularly problematic since al-Qaeda is a non-state actor whose activities are not confined to any one country. Indeed, its ability to cross borders and to use the resources of the global system (telecommunications, finance, computers) makes it a formidable foe.

A *New York Times* article (Dec. 6, 2009: 1, 4) suggested that President Obama refer to the area where the war is being pursued as Pashtunistan. Of course, Pashtunistan does not exist on any geographical map. It is not a member of the United Nations, it does not enjoy diplomatic status, and it doesn't send and receive ambassadors. But it is a definite area in terms of the distinctiveness of the people (ethnic Pashtuns), their language (Pashto), and the coherent cultural and moral code which they share, as well as 'a centuries-long history of foreign interventions that ended badly for the foreigners' (*NYT*, Dec. 6, 2009: 1). Pashtunistan is fictional from the legal standpoint of the modern state system. But it is a reality in economic, cultural, social, and political terms and its importance calls attention to one of the blind spots of a state-centric approach to international politics.

The conflict between Google and China calls attention to the importance of private economic actors. In January of 2010 Google Inc. threatened to pull its business and search engine technology out of China in response to computer attacks on its operating systems as well as to efforts by the Chinese government to censor the content of searches in China. Search efforts in China directed toward 'Tiananmen Massacre' and 'Dalai Lama' will turn up no results (*NYT*, Dec. 6, 2009: 1). In making its protests, Google made clear that it was motivated by its business interests in China as well as by human rights and free speech concerns. While the outcome of this conflict is not yet known, it seems likely that companies like Google (who at present don't have a huge investment in

China) stand to lose out in a lucrative and growing market for the internet and mobile services (*NYT*, Jan. 13, 2010: 1, 3).

Our third example, the 'Greek debt crisis', illustrates the decline of economic sovereignty in today's world. The phrase is in quotes not because we believe there is no debt crisis in Greece; there most assuredly is one. However, despite Greece's role in the crisis, the forces which gave rise to it are global and the consequences of the crisis will extend beyond Greece. Indeed, there is a concern that the crisis will spread to other vulnerable countries such as Italy, Portugal, Spain, Ireland, and Lithuania.

The narrative is a familiar one: government overspending, a bloated state which employs a huge percentage of the population, unsustainable budget deficits, a huge public debt, and non-transparent accounting procedures which in turn mask the severity of the debt. While the core of the crisis is economic, elements of the human drama are ever present in dubious accounting procedures and the profligacy of political and economic actors who neglected to discipline themselves by adhering to the budgetary standards set by the European Union. Indeed, since membership in the Euro in 2001, Greece has never complied with the debt limits set by the Stability and Growth Pact (Bastasin, Dec. 16, 2009: 1).

While Greece has undoubtedly played a role in bringing about the debt crisis, a look at the broader picture brings into focus the importance of other factors. Since the euro was introduced, for accounting purposes in 1999 and in currency form in 2002, members of the euro area have shared a single currency. Thus the inflation experienced by Greece, Spain, Ireland, and Portugal could not be corrected by traditional means, namely by devaluing the currency. A major policy tool was lost when monetary sovereignty was transferred from national capitals to Frankfurt (the seat of the European Central Bank). In addition, with free capital mobility in all EU countries (regardless of euro membership), money could move in and out according to investor desires. In the case of Spain, capital from all over Europe fuelled a speculative boom. Spain's finances were sound; it ran no huge deficits nor engaged in suspect accounting practices. Nevertheless, the speculative mania that fuelled Spain's real estate market hit a high point and then plunged downward, causing further erosion of investor confidence. In short, the combination of capital mobility and excess credit which found an outlet in real estate markets damaged the Spanish economy and also added to Greece's woes. The true story was not exclusively one of profligacy and debt but also one of a speculative boom fuelled by the newly found capital mobility.

These three vignettes illustrate three important principles of the global system. The war against al-Qaeda in Afghanistan and Pakistan is not easily thought of as a traditional war against a country whose leadership has control over what takes place within the borders of that country. The case of Google resisting censorship of its searches in China illustrates the clash between a private company and a government over conflicting priorities – freedom of searches on the internet and the right of a government to control access to information within its territorial borders. And the Greek debt crisis illustrates just how far we are from a world where an economic crisis can be thought of solely in national terms, both in terms of the origins of the crisis and its potential consequences.

Definitions

Despite the fact that the terms 'global' and 'globalization' are widely used, the exact meanings are unclear. Moving toward greater precision with regard to definitions is a first step toward clearer and more effective analysis. Let's start with a commonsense notion of interdependence. People in different parts of the world are affected by the actions of others outside their own borders. We are affected by the range of choice of consumption items, by technology that is available from other countries, and by the pools of labour and capital that one can either directly import or access directly in a foreign country. We are also affected by undesirable things such as pollution, crime, drugs, trade in pornographic material, the tax structures and interest rates of other countries, and by the regulatory styles, political institutions, and customs of other countries. The present global financial crisis brings home the point about interdependence painfully. We are all vulnerable to the economic downturns that occur outside our own national boundaries. And while a heightened sensitivity to these troubles may cause any country to draw back within its own borders and to search for external scapegoats, long-term withdrawal from the global system is likely to be a recipe for poverty, as the histories of Burma (present-day Myanmar), Albania, and China during the Great Cultural Revolution (1966–76) suggest.

When do we think of these interdependencies as globalization rather than simple interdependence? In one sense, globalization is just interdependence (economic, cultural, or political) on a global scale. We can think of national interdependence between countries, regional interdependence within a region (e.g. East Asia, Western Europe, sub-Saharan Africa) and global interdependence beyond the regional level. Keohane and Nye define globalism as 'a state of the world involving networks of interdependence at multicontinental distances' (Keohane and Nye, 2000: 2). These networks can be filled with goods and services, capital, power, ideas and information, germs and diseases, etc. That is, globalization is not limited in its content. It applies to many different things. Globalization refers to the increase (or de-globalization the decrease) of globalism (Keohane and Nye, 2000: 2).

In comparison to interdependence, globalization has two additional characteristics, one referring to the number of actors involved and a second referring to the spatial scope of interdependence. We do not call a relationship global if it involves only two countries, or for that matter, even if it involves the set of all bilateral relations in the world (which would be almost 18,000 pairs of countries). So US–Canadian relations are not global, nor are US–South Korean relations, even though in the second example the countries are on different sides of the globe. While we do not think it is productive to set a minimum number of countries (or other actors) that must be involved, we do think it is necessary to go beyond looking at the world dyadically, that is, in terms of pairs of countries. A global orientation is more a question of outlook than a focus on an exact number of countries.

The second definitional requirement has to do with the scope of interactions. We do not think of something as global if it does not reach outside its immediate region. If we analyse economic relations among Canada, the US, and Mexico within NAFTA, we do not call these relations global. Similarly, if we analyse economic or political relations among the members of the European Union (EU), we do not think of this as global, though as we shall see, we might do just that if Turkey is admitted to membership. The scope of interactions requires that the interdependencies reach outside their immediate region. So relations between members of the NAFTA and MERCOSUR (Common Market of the South) can be considered global, as can transatlantic relations between the EU and the US. To some extent definitions are arbitrary. Nevertheless we have to set some boundary conditions for the terms used in this book, even if we contest these terms later.

In sum, globalization implies more than interdependence in terms of the number of actors and the scope of interactions. Globalization implies interactions between more than two actors at multi-continental distances. The focus is not just on states but on a variety of actors, such as multinational corporations and transnational pressure groups.

Actors

There is a tendency to equate globalization with internationalization. They are close to one another but not the same thing. Internationalization implies increasingly close relationships among nation-states. States are the important actors and the basic relationships are government to government. Representatives of governments meet and negotiate over an arms agreement or environmental treaty, or to coordinate economic policies, or to do more mundane things like set standards for foods and other products. These activities are indeed part of what we mean by globalization but they are not the whole story. Nation-states are only one type of actor in the globalization picture, and some say not even the most important one. In addition, there are multinational corporations, international governmental organizations such as the United Nations and the Association of South-east Asian Nations, international non-governmental organizations such as Amnesty International and Greenpeace, terrorist groups such as al-Qaeda, international movements such as the women's movement which launched the Women's Decade (Berkovitch, 2000), pirates (which do not form a recognized organization but are nevertheless important), and private individuals such as private money managers who move money from country to country looking for the best investment return.

For some analysts, the proliferation of multinational corporations and international non-governmental organizations (INGOs) signals the decline of the nation-state as the most important actor in the modern world. This viewpoint is evident in the titles of several books: *Sovereignty at Bay* (1971) by Raymond Vernon; *Le Défi Americain* or *The American Challenge* (1968) by Jean-Jacques Servan-Schreiber; and K. Ohmae's *The Borderless World* (1990). It is not usually Greenpeace and the Red Cross that are seen as the major challengers but rather MNCs and corporate interests at the global level. On the other side of the debate are the realists of international relations theory who argue that it is only where powerful states have paved the way (by providing physical security, freedom of the seas, stable property rights) for capital that capital has been able to become multinational. Reflecting on the rise of modern piracy, a realist might point out that should piracy become widespread it could significantly affect global commerce. States are the most likely organization to eradicate pirates. States have numerous tools at their disposal to affect the globalization of commerce and production, including the ability to tax subsidiaries of corporations in foreign countries or to patrol the high seas in order to secure shipping lanes. A change in either taxation or security policies could easily affect the incentives for doing business in a foreign country.

While states structure the environment of non-state actors, we should not minimize *a priori* the importance of non-state actors. True, states can make it unattractive for corporations to do business abroad, but only at considerable cost. Subsidiaries of corporations in foreign countries generate a lot of wealth and some of that wealth finds its way into both national income and the financial coffers of states. Also, while most countries are politically sensitive to export of jobs that occurs when corporations locate in different countries, people and governments are reminded that additional investment also flows into the home country through foreign direct investment. Thus, while Michigan congresspersons lobbied for a bailout of the auto industry in the US, politicians from Alabama – where Toyota plants are located – were not so enthusiastic.

In addition, corporations are not the only important non-state actors. Private advocacy groups can be important, as were environmental groups at the protests in Seattle in 1998. Particular individuals such as Jody Williams were important in getting the treaty against landmines passed in the face of resistance by powerful countries, including the US. Amnesty International has been important in raising consciousness about political prisoners and victims of torture. All of this leads Thomas Risse, a student of non-state actors, to argue for a trifocal view of global governance that includes states, firms, and advocacy groups (Risse, 2002: 268).

We don't attempt to settle the debate about which actors are most important at the start of the book, because one of the most interesting things about globalization is the debate over precisely these sorts of issues. How important are multinational corporations? Indeed, how multinational are multinational corporations? Is global capital really footloose and outside the control of governments? Has the internet given new powers to private actors in civil society or is the internet also under the thumb of governments? We attempt to explore these debates in the book.

Questions

Globalization raises many questions, and we attempt to address the most important ones in this book. A first question has to do with how significant borders are in a globalized world. This question arises because the forces of globalization – technology, economic specialization, trade, and movement of factors – seem to seek out the most attractive opportunities regardless of location. A profit-maximizing firm with a global reach will search worldwide not only for markets in which to sell its goods, but it will also strive to find the cheapest sources of capital and labour as well as the most efficient techniques for combining the factors of production. Such a firm will not be bound by territory and will be open in principle to operating within many different political jurisdictions. Given the presence of economic actors with a global outlook, what is the role of territorially fixed borders?

A little background may help to put this issue into historical perspective. Borders – particularly national borders – took on a special relevance as nation-states emerged and developed. States wanted stable populations, both to identify individuals for purposes of taxation and conscription, as well as to target them as beneficiaries of citizenship rights (the vote, welfare benefits). The implicit political exchange was between economic benefits and political support. States taxed their populations and used the revenue to engage in redistribution. In this way, capitalism as a system of production could remain private (i.e. ownership could remain in private hands) while the benefits could be effectively socialized. The large working classes, who made up the bulk of the population, could thereby acquire a stake in a system that produced an incredible amount of wealth, thus lending a degree of stability to a situation in which there might otherwise be potential for unrest and violence.

If the development of the modern welfare state rested on the ability to tax and spend, this in turn required a stable population, one that did not move to and fro across borders, and one whose transactions were identifiable. Forum shopping for social benefits, unreported earnings, and shifting of assets within and across borders so as to hide their value were activities intensely disliked by governments (Bartolini, 2005; Ferrera, 2005). As both duties and privileges of citizenship developed, borders took on added significance, not just the physical borders on the surveyor's map, but also the economic borders so crucial to the capacity of state officials to control economic activity. Thus, we saw the development of customs officials, border police and patrols, immigration and emigration officials, food inspectors, and so on. Yet, with the rise of globalization, many have questioned whether borders are weakening, either as a result of political decisions, as in the EU's decision to allow mobility of labour across its 'internal' borders, or as a result of the inability to control movements of goods, people, and capital.

One way of approaching this issue is to pose the hypothetical question and ask what the world would look like if borders did not exist, i.e. if the only factors affecting production, prices, and trade were economic ones. Jeffrey Frankel (2000) points out a simple fact. The US accounts for 25 per cent of world production. If the US were indifferent between domestic and foreign sources for its consumption, buying only on the basis of price and quality, it would have an import to GDP ratio of 0.75, instead of the roughly 0.12 which it in fact has. To be sure, the 0.75 is based on the assumption of no borders, no political barriers, and zero transport costs. Still, the difference between what the US actually imports and its 'expected' import ratio, based on the no borders assumption, shows how far we are from a borderless world.

The economic significance of borders can also be assessed in terms of the ease or difficulty with which goods, services, people, and ideas move within versus across national boundaries. The same may be said for price movements. In a well-functioning market, prices should converge toward one another for the same goods. If prices (say for consumer goods) on one side of the border are 20 per cent higher than prices for the same goods on the other side, this is likely to reflect political distortions (tariffs, quantitative restrictions, regulatory differences). In the absence of these political distortions, market forces would result in movements of capital, labour, and resources that would in the final analysis equalize prices.

Finally, the significance of borders can be assessed by noting the difference in the productivity of labour in two countries with shared borders. A migrant worker who crosses the Rio Grande to enter the United States immediately acquires a level of productivity dramatically higher (perhaps over 50 per cent) than previously possessed, a fact that can only be attributed to the differences in capital, knowledge, infrastructure, and institutions on either side of the border (Olson, 2000: 52–3). Since this increase in marginal productivity is nearly instantaneous, it can't be caused by acquisition of human capital (training, education) or socialization to a new system of values, both of which take a considerable amount of time. We will take up this issue in Chapter 2 on theories of globalization.

A second question has to do with the possibility of pursuing national goals in a globalized world. Friedman's metaphor of the 'golden straitjacket' raises the frightening prospect that globalization has put all countries in the same economic bind. One concrete implication of globalization –the ease of movement of capital across countries – is that the freedom of national authorities to control interest rates and money supply is sharply curtailed. But if this is true, then it follows that national spending priorities, the crucial tradeoffs between inflation, growth, and employment, and a variety of national goals also cannot be independently pursued.

While it is easy to reify states, we must acknowledge that they usually rest on distinctive communities of peoples with their own social purposes. To be sure, to a significant extent, nationalism and collective identity are endogenous to state practices. However, this does not change the fact that different countries have different conceptions of their interests and purposes. To carry out these purposes requires some kind of structure and this usually implies separate political institutions, or statehood. It would seem to be impossible, with either a world state or no state at all, to formulate and realize a distinctive political project. In short, only through statehood can groups of people pursue their collective goals.

Yet there are limits to national sovereignty and these limits become particularly acute when states themselves, or members of their societies, transact with others inside different borders. Whose rules apply? Whose national traditions are respected? Whose courts have jurisdiction in case of disputes? What if production in one country results in downwind pollution in another country? Or what if Swedish auto safety standards keep Portuguese or Italian cars from legally entering Sweden? What happens when Chinese labour policies result in cheaper goods that cause unemployment in a country which imports Chinese goods? And what happens when the universal logic of efficient production and profits runs up against aspiring standards of human rights, as currently represented by the clash between Google and government of the Peoples' Republic of China?

The preservation of distinctive national goals would be easy, or at least easier, if every country were self-sufficient. This would mean that its interactions with other countries would be minimal, and therefore conflicts would be minimal. But in a world of increasing interdependence, pure autonomy becomes next to impossible. How do governments balance the benefits of globalization with the desire for autonomy with regard to economic, political, and cultural goals? We explore these questions in greater detail in Chapter 3 on domestic institutions and globalization.

A third question concerns global governance. Two distinct questions come to mind regarding the governance of globalization. First, will there be robust global governance structures or will globalization be a show run mostly by private interests, corporations, pressure groups, consumers, workers, and employers? Globalization may involve a shift from the public platform to the private sector. Activities previously carried out within a regulatory framework provided by national states might be 'set free' to operate within a transnational framework with considerably less regulatory content. Second, assuming the answer to the first question is that there will be some form of global governance, what kind will it be?

In response to the first question, it is difficult to imagine that some form of governance will not emerge at the global level to manage the conflicts that inevitably occur. Globalization brings actors in contact with one another and creates situations where they may both profit, both lose, or one profits at the expense of the other. The latter two situations do not appear stable. If actors in different countries respond to conflict by trying to take all the winnings flowing from the relationship, they will soon enter a downward beggar-thy-neighbour spiral. Without institutions, they may not be able to manage conflicts. Institutions may provide the information, the long-term setting, and the transparency (about underlying preferences and strategies) that are required to make cooperation work.

Second, what types of governance institutions are likely to take shape? A single, centralized world government is the least likely outcome, since one size clearly does not fit all in the global system. It is more likely that global governance will be quite a bit messier, more *ad hoc*, and less globally comprehensive, both in terms of members and the number of issue areas addressed. And institutions as well as policies are likely to vary more as the preferences of members (states and other actors) diverge and as economies of scale of institutions lessen. It is more likely that, instead of comprehensive global governance, we will see different groups of countries responding to different problems: the G-8 for major problems among the eight major industrial countries; the G-20 for issues related to international financial stability; the United Nations Conference on Trade and Development (UNCTAD) on issues related to development and the Third World; the EU to manage trade, capital markets, and monetary policy for its twenty seven members, the Association of South-east Asian Nations (ASEAN) to govern trade and trade conflicts among its member states, and so on. Bilateral governance relationships are likely to retain importance as well as pluri-lateral (some countries), and multi-lateral relations. In one metaphor, the global system will be characterized by 'islands of transnational governance' (Shapiro and Stone Sweet, 2002).

Will these institutions and practices be democratic, or will they follow the lines dictated by a hegemon? If these institutions are democratic, how will we judge democracy? In the same way we judge it at the domestic level? If so, then global democratic institutions should mirror domestic ones and look pretty much like a presidential or a parliamentary system. We should find strong executives, disciplined political parties, independent judiciaries, and representative legislatures. Political processes of representation, participation, and political competition should therefore be highlighted. Some analysts (e.g. Keohane, 2001) have argued that these criteria for assessing democracy are not relevant for the international level, where it is impractical to hold elections, form coherent party positions, create representative legislatures, and mobilize people to vote. More appropriate criteria for legitimate international governance might have to do with transparency, accountability, and persuasion (Keohane, 2001: 13). We will take up the issue of global governance in Chapter 4.

A fourth question has to do with whether globalization is mostly a win–win process or one that primarily involves winners and losers. This question is part of a heated debate between those who see overall net gains from globalization (Bhagwati, 2004; Wolf, 2004) and those who see the effects of globalization as deeply divisive (Klein, 2000; Stiglitz, 2003). Not surprisingly, economists line up in favour of the view that globalization, since it is based on comparative advantage, specialization, and exchange, inevitably brings benefits to participants. The backward areas of the world are those that are left behind and ignored, not those which are densely involved in the world economy. Yet, it is easy to identify specific groups who have been harmed by globalization. In a chapter of *The Lexus and the Olive Tree* titled 'The Backlash', Friedman identifies some labour unions, environmental activists, anti sweat-shop protesters, and those concerned with the ill effects of genetically modified foods (Friedman, 2000 [1999]: 334). Along similar lines, Suzanne Berger (2002: 1–2) speaks of the attacks on globalization in *Le Monde Diplomatique*, often centring on US films and the desire to preserve cultural autonomy, as well as the wave of strikes in the late nineties, and the trashing of a McDonald's in Southern France as examples of anti-globalization in France (see also Berger, 2000). At a slightly more abstract level, we can identify those who do not share the fruits of globalization, those who oppose a widening inequality, and those concerned about loss of identity and traditional way of life. Still more abstractly, Kenneth Waltz (1999: 694), a globalization sceptic, argues that most of the resistance to globalization comes from economic nationalists who want economic autonomy, particularly where jobs are concerned, cultural traditionalists, rent-seekers (who use anti-globalization rhetoric as a cover for economic gain), and religious fundamentalists, who often see modernization as a threat to their religious traditions.

Developing explanations for opposition to globalization is a more difficult task than identifying the anti-globalization groups. While we discuss these explanations in the chapter on winners and losers in globalization, it is worth pointing out some of the theories that might help in this effort. The Stolper–Samuelson theorem (1941) predicts that groups in society which are endowed with relatively abundant factors (such as labour in a labour-rich economy) will benefit from economic openness while groups with relatively scarce factors will lose. Thus, if trade between two countries is expected to increase, owing say to the initiation of a free trade area, we expect the country relatively well endowed with capital to benefit the capitalist class while the country relatively well endowed with labour will benefit the working class. One country may have an absolutely larger supply of both labour and capital but that is not what counts. It is the relative supply of labour and capital that counts. The United States may have a larger labour supply than Mexico but an even larger supply of capital by comparison. So when the two countries trade, the US will specialize in capital-intensive goods and Mexico in labour-intensive goods.

Other theories are pitched at the sectoral rather than the class level. Jeffry Frieden (1991), for example, argues that who gains and who loses from trade has more to do with the properties of specific economic sectors (automobiles, metallurgy, insurance, textiles) rather than the overall factoral composition of the economy. He expects those sectors to gain which have assets that are mobile and not specific to particular kinds of production. Thus, if international trade or capital mobility increases, we expect the sectors which are most mobile to do better. Finally, we should at least entertain the proposition that it is not necessarily those countries or groups most exposed to globalization that are the most resistant. Perhaps those left out will protest against a global order that does not include them. Countries in Eastern Europe and the Balkans enthusiastically applied for membership in the EU, an organization that is a regional engine for economic integration, thus casting their votes for a regional form of globalization. Countries in sub-Saharan Africa, by contrast, often have few choices in terms of entering the global economy.

Particular groups in all countries may have lost out because of globalization. However, countries from the global South (i.e. LDCs) argue that there are entire parts of the world which have suffered. This is particularly true of sub-Saharan African countries where many of the world's poorest countries are located (Chad, Benin, Burkina Faso, Niger, Republic of Congo) though the recent earthquake in Haiti demonstrates that extreme poverty exists in the Western hemisphere not too distant from the United States. Given the improvements in productivity and standards of living in many parts of the world, as well as the opportunity to purchase many mid- to low-level technologies, it is interesting to ask why there are still numerous countries that are miserably poor, living on a few dollars a day, with a low life expectancy, and without access to the simple requirements for human existence such as clean drinking water and access to basic medical services. Are these countries ignored, exploited, victims of poor governance, or cursed with unfavourable natural endowments (poor land, unskilled labour, lack of capital)? Any discussion of problems of the global political economy must take these countries into account. We take up the issues of who wins and who loses from globalization in Chapter 6.

The preceding introduction suggests how the rest of the book will be organized. Chapter 2 will provide an overview of different theoretical approaches to globalization. Theories pose certain questions and make them central while relegating other possible questions to the background. They are like a searchlight which focuses a beam on certain aspects of the terrain while leaving other parts of the terrain in the dark. We attempt to develop the most important of our globalization theories so as to clarify the relationship between each approach and our subject matter. Chapter 3 moves to a discussion of domestic institutions. Here the central issue is how different countries can shape, adapt, and control processes of globalization. Central to our approach is the notion that states are not just passive in the face of impersonal global forces. Indeed, they shape these forces and are very active in responding to these forces once they are in operation. Chapter 4 deals with questions of global governance at an abstract level where governance and government institutions are treated as separate. It is the first of two chapters on global governance. Chapter 5 sets out to finish what Chapter 4 initiates, but here we describe and explain specific global institutions such as the World Bank and International Monetary Fund. Finally, in Chapter 6 we turn our attention to some of the more divisive issues in globalization. Who wins, who loses in this complex process? This is where the debate over globalization becomes most heated, as one would expect, since it is here that we assess the gains and losses of globalization and the groups that reap the profits and shoulder the burdens. The spirit of our analysis here is not so different from the one initiated at the domestic level by Harold Lasswell some years ago in his classic book, *Politics: Who Gets What, When, and How*? (1971 [1958]).