

Lecture 12
5 November 2009
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- I. Hunger game simulation
- II. Introduction
 - A. Champagne chart
 - B. Bill Gates statement: "I mean, do people have a clear view of what it means to live on \$1 a day?" the speaker, William H. Gates, asked. "There's no electricity in that house. None." When a moderator brought up solar power, Mr. Gates shot back, "No! You can't afford a solar power system for less than \$1 a day." And, "You're just buying food, you're trying to stay alive."
 - C. The situation of the world's poorest people is actually getting worse in absolute as well as relative terms.
 - 1. According to report released by UN Development Programme in 1996, 89 countries per capita income levels that were actually lower than they were 10 or more years ago.
 - 2. The implications of this trend are even more sobering if we consider not numbers of countries, but numbers of people.
 - 3. According to the UN, 1.6 billion people—that is, about 30% of the world's population—are worse off in absolute terms than they were 15 years ago.
 - D. Which country has the higher child mortality rate? <http://www.gapminder.org/videos/ted-talks/hans-rosling-ted-2006-debunking-myths-about-the-third-world/> Minutes 2:48 thru about 6:00
- III. Developing states' situation and its causes: "It would be an extraordinary world in which asymmetries in military and economic power were not reflected in asymmetries in economic relations."
 - A. Situation:
 - 1. GNP/capita: North = \$19,000, South = \$800/year;
 - 2. Lifespan: North = 76 years, South = 63 years;
 - 3. Calories: North = 4 times South;
 - 4. Infant mortality: North = 8/1000, South = 65/1000;
 - 5. Major economic problems in many developing states that are absent or far less common in developed countries, e.g., hyperinflation, extreme unemployment, etc.
 - 6. Kofi Annan's facts page
 - B. General sources of problems
 - 1. State foreign policy used by domestic political elites of dominant states to further own economic interests.
 - a) Outlet for surplus capital;
 - b) Search for new markets;
 - c) Search for raw materials
 - 2. Not policy errors on part of developing countries but structure of world economy.
 - 3. Not interdependence, but dependence in which South is vulnerable and sensitive to North but not vice versa.
 - 4. Marxist view: domestically, owners of capital exploit workers; internationally, core exploits periphery.
 - C. Specific sources:
 - 1. Monopsonistic purchasers of exports: single product economies in which 50% to 80% of economy based on one export (sugar, cocoa, copper, tea, bananas) with many other developing country suppliers competing to provide good but few other developed countries willing to compete in buying (especially during colonial era). Essentially a "buyer's market" for many of these economies.
 - a) Consider why oil is not like this – largely because of OPEC coordination, however imperfect.
 - b) Similar attempts at developing country coordination to limit supply and thereby boost price have fallen victim to standard collective action problems
 - c) Declining terms of trade: a particular quantity of southern exports buys less and less of Northern imports that LDC citizens are inculturated to want.
 - (1) 1955: 6 bags of coffee or 8 tons of tea equal to 100 tons of steel
 - (2) 1972: 12 bags of coffee or 14 tons of tea equal to 100 tons of steel
 - 2. Monopolistic MNC suppliers of imports:
 - a) Markets too small to support competition and so higher prices in each country.

- b) Penetration of domestic political and economic structure by foreign capitalists: Penetration by foreign capitalists => economic distortion and uneven development => non-democratic domestic political structure => powerful central government => deprivation of human rights and economic rights to decent living conditions and political rights to representation and protest (Russett & Starr, 419).
 - c) This is what Keohane in Hegemony article discusses as gaining power by "holding comparative advantages in goods with high value added" (297).
 - 3. "Clientele" elite in LDCs are holdovers from colonial period with vested interest in maintaining position of power domestically and therefore fostering MNC agenda.
 - 4. Debt burden: dynamics of creation of import demand in these countries lead to borrowing and spending rather than borrowing and investing. Money goes from foreign banks to domestic elite to foreign MNCs selling imports.
 - a) Loans are supposed to go to acquiring assets that have a return higher than interest rates on the loan.
 - b) Instead go for conspicuous consumption by elite, and just enough purchasing of consumer goods (or other means) to prevent revolt at home.
 - c) "Showcase" economic projects for political benefits rather than economic growth.
 - 5. Economic policies driven by short-term political forces rather than long-term economic factors
- IV. Possible solutions
 - A. Autonomy – developing countries gaining more control or sovereignty over resources and territory. Sometimes simply by claiming it, although they lack significant power to do this successfully
 - B. Regimes: Through international institutions as discussed in reading from Krasner for today
 - 1. Create system as an alternative to markets and existing economic system to determine the distribution of wealth in the world: airline regime vs. shipping regime – former is more authoritative in allocation, latter is more market-based
 - 2. "Once regimes are actually in place, however, the relationship between power and regimes can become more attenuated" (Krasner in A&J, 321).
 - C. Collective bargaining - OPEC unique successful case
 - D. Socialist revolution and changing to NIEO
 - E. Liberal orthodoxy suggests devaluation of currency to increase price of imports and decrease price of exports
 - F. Structural changes to economies - structural adjustment policies
 - 1. At behest of IMF and World Bank
 - 2. Or due to leadership as discussed by Weyland
- V. Structural Adjustment
 - A. What is it? Policy reforms designed to reduce government intervention in the economy and reduce barriers to international trade and foreign investment. Goal is to increase exports in order to cover costs of debt repayment and imports, and to restore own creditworthiness.
 - B. Whats involved?
 - 1. Devaluing currency.
 - 2. Reducing trade and FDI barriers to make domestic industry more competitive.
 - 3. Government reform of state enterprises to improve efficiency and profitability, or privatize.
 - 4. Reduce or eliminate budget deficits by decreasing public expenditures.
 - 5. Get government out of marketplace, such as controls on food prices
 - C. How do rich countries impose structural adjustment on poor? They have money that the poor countries need. Why do they need it.
 - 1. Debt burden: They borrowed money in past when money was cheap and the future seemed bright, and now cannot afford to repay the interest on their loans – defaulting on debt. Almost all countries, including the US, need to borrow money all the time for a variety of reasons; and if your credit rating is no good, you are going to be in serious trouble.
 - 2. Trade deficits: import more than they export. Need to borrow to finance this deficit.
 - 3. Boster currency: International investors and currency speculators can influence local stock markets and, to avoid devaluation borrow money to bolster currency
 - D. Can't borrow directly from banks so borrow from governments or from banks with governments as backup. IMF
 - 1. IMF loans money but has conditions attached and major condition is structural adjustment policies

2. But generally, IMF money is brought in to stop falling currency in which nobody wants local currency so it is losing value. Government uses borrowed money to buy local currency and prevent its slide. But they are buying it from foreign currency speculators and investors who want out and who generally are from the countries loaning money. So, essentially, money goes from industrialized government to IMF to developing country to investors in industrialized country. BUT borrowers have to pay us interest for the privilege of paying off our own investors!

VI. What is Globalization?

- A. Globalization as interdependence on steroids. "Social, economic and technological unification of the globe" (Gilpin in A&J, 353).
- B. Increasing flows of: People; Money, investments, and corresponding influence; Goods and services, corporations; Information, knowledge, and ideas; Culture; Disease, pollution, drugs, terrorists, weapons of destruction (whether mass or otherwise)
- C. Greater flow NOT equal to more equitable flow and NOT equal to more beneficial flows and NOT even that flows increasing in all countries. Increases among developed states greater than for developing states.
- D. Why is the world globalizing?
 1. Technological change: transportation (cars, ships, planes); phone; Internet connections that move ideas; money; services.
 2. Economic pressures: technology makes access to new markets possible, economic growth makes it desirable for those who would benefit from it.
 3. Social pressures: transnational linkages that are not driven by economics but by bonds forged across countries both directly by immigration and indirectly by transnational loyalties and allegiances
 4. Deliberate governmental policy choices trying to pursue a more global economy and culture that they see as benefiting them. Liberalization of trade, foreign direct investment, and capital
- E. Liberalization promoted by governments of richest countries and major international organizations, all dominated by richest countries:
 1. Organization for Economic Cooperation and Development (OECD), intergovernmental thinktank from world's ~30 richest countries. OECD states produce 2/3 of world's goods and services.
 2. International Monetary Fund, which makes loans to countries facing bankruptcy.
 3. World Bank, which makes loans for development projects.
 4. World Trade Organization, which oversees world trade.
- F. Globalization, in my view, involves a major change in where power is located in the world. What Gilpin calls the fact that the state is both too small and too large.
 1. Traditionally, states have been able to control the flows of all the factors mentioned above. What Wade calls "national borders continue to be control points where governments can affect the quantity and price of cross-border merchandise transactions" and flows more generally" (Wade in A&J, 368-369). Globalization involves a change in how much they can control these flows of people, information, etc.
 2. From state governments to multinationals
 3. From developing state governments to industrialized state governments and corporations
 4. From industrialized state governments to transnational actors that are not corporations, such as NGOs
 5. From governments to international institutions and regimes like WTO, EU, NAFTA, ILO, and other international organizations that can, within limits, restrict the freedom of states
 6. Complex phenomena which is likely to lead to greater concentrations of power in some cases and, at the same time, empowering of some who are not yet empowered

VII. Conclusion