The Future of Globalization: A Change of Pace
ACKNOWLEDGMENTS

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WHAT ARE BUSINESS ISSUES

Business issues are focused, cross-cutting themes that will be of central importance for business in the next five to ten years. They are areas in the business landscape that are susceptible to a major change or shift in the future. Topics for the Business Issues report series are drawn from the key drivers presented in our annual Ten-Year Forecast. By exploring topics such as the future of globalization, regulation, intellectual property, and demographics, these reports will help companies think through the consequences of these changes for their investing, organizing, creating, communicating, and marketing efforts.

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Introduction

The Challenge to Globalization

If recent events are any sign, the open international economy we have come to view as an integral part of the business landscape in the early 21st century is under threat. Random violence around the world, the terrorist attacks of September 11, 2001, increasing complaints about inequities, the antiglobalization demonstrations in the streets of many big cities, and voters’ reactions against immigration are all indications of an increasing challenge to globalization.

Although the world economy has contended with these issues for years, the growing violence of recent events suggests that the world has become an even more dangerous place for global business. Each day we see new threats to the easy expansion of the world economy we have become accustomed to—threats not just to the marketplace but also to a range of political, social, and financial institutions.

The key issue is not whether the growing global economy is benefiting the world as a whole and virtually every country that participates in it. Of this there is little doubt.
No, a more subtle issue is arising. The extramarket events of the past few years are slowly changing the way globalization gets done. Indeed, the institutions and rules that support the global economy are beginning to reflect the concerns of those countries that have experienced more of the pain of globalization than the originators. These countries are less willing to leave the well-being of their people and institutions to the vagaries of market forces. They put a higher value on protecting labor, on keeping their safety nets strong, and on providing equal outcomes for most of their citizens—in short, on protecting their economies from too much change. Transnational businesses competing in the global marketplace will have to adapt to these principles.

GLOBALIZATION DEFINED

Globalization has come to mean different things to different people. Yet at its most basic, globalization is the process of increasing economic exchange across borders; that is, increasing the movement across borders of the four key elements of economic growth—goods, services, finance, and labor. In practice, globalization assumes that such an increase in exchange is beneficial to those who participate in it. Another assumption is that this type of open exchange requires an infrastructure to support it—institions and legislation that ensure the absence of war or widespread organized violence, the respect for private property, widely accepted commercial laws, a cooperative search for solutions to commercial conflicts, and mechanisms for overcoming disruptions that arise from the broadening participation in the open trading system. Yet another of globalization’s key assumptions is that the general cultural environment of the participating countries works to encourage global interchange.

AN OPEN GLOBAL ECONOMY MEANS WORLD GROWTH

World trade leads to economic growth. Indeed, every country that has opened itself to the world economy has benefited from higher growth rates and faster increases in GDP. Data from countries around the world show that growth in export volume has consistently led to growth in real output (see Figure I–1).

This trend is the foundation of the basic assumption that the open economy provides the means to benefit all. But threats to that assumption will...
change the way globalization evolves and the speed at which it does so. Given current trends toward instability, many players whose cultural institutions currently pose some resistance to globalization are likely to modify the system to make it more compatible with their own principles and values. It won’t be a great transformation, but it will be enough of a change to force international businesses to adjust their basic assumptions about the extent and the pace of globalization in the long term.


In Chapter 1, we measure the beneficial impacts of globalization in macro terms and identify how increased globalization can affect countries differently.

Chapter 2 explores how globalization affects individuals by tracking the impacts on three groups: high-tech workers in high demand; low-skilled workers willing to move where the jobs are; and consumers, who have a much wider selection of international goods and services to choose from but who must also contend with the near-monopoly powers of huge multinational companies.

*Figure I–1*
*World Trade Leads to World Growth: 1950–2000*  
(Average annual percent increase)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World GDP</td>
<td>4.5</td>
<td>5.0</td>
<td>6.0</td>
</tr>
<tr>
<td>World exports</td>
<td>4.5</td>
<td>5.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Source: World Trade Organization
In Chapter 3, we take a look at the world consumer culture that supports the rapid expansion of the open international economy. People in different countries have reacted in a variety of ways to this increasingly ubiquitous culture, some choosing to reap its benefits and others to resist its influence.

Chapter 4 tracks the ways countries have adapted their institutions to maintain the integrity of the local culture while still participating in the global economy. Some have succeeded and others have not.

Finally, in Chapter 5, we forecast how the evolution of globalization is likely to change, and how the institutions and cultures of participating countries will be affected. Ultimately, we foresee some resistance to the current pace of globalization and a gradual adaptation of international institutions, commercial rules, and company practices to the more communal and protectionist principles of the countries embracing the global marketplace more recently. These developments are likely to affect all transnational companies.
Chapter 1
Globalization Is Good, But It Causes Problems for Some

Trade fosters economic growth, and economic growth is good for the poor.

This is the conclusion of a series of studies sponsored by the World Bank. One study finds that countries that are open to the world economy grow twice as fast as those that are not. Another study finds that when overall incomes rise, the average incomes of the poorest fifth of society rise proportionally with them. This relationship was found in a large sample of countries (92) over four decades, and it holds true across regions, time periods, income levels, and growth rates. The World Bank’s conclusion is a bold, well-supported statement that trade and growth benefit all.

Many believe that the opposite is true, however—that globalization favors the rich, and that, as a result, the poor absorb a disproportionate share of its costs. The mass demonstrations in the last few years against the organizations that promote international trade and development, such as the World Trade Organization (WTO) (Seattle, 1999) and the G8 nations (Genoa, 2001), show just how strongly this position is held. Are these protestors wrong? No. There is some merit to the antiglobalization argument, but the issue isn’t black and white, and it requires much deeper analysis.

Indeed, for all of globalization’s positive effects, there are some negative outcomes as well. While income inequality worldwide has declined in the past 25 years, inequality is increasing within and between some countries. And while poverty rates have declined in most parts of the world, most significantly East Asia, some regions—specifically Central Asia, Europe, and sub-Saharan Africa—have shown significant increases in poverty recently. Despite globalization’s role in decreasing overall inequality and poverty, then, some countries and groups of people lose out in the process. In fact, some of the most enthusiastic supporters of globalization, including the United States, the United Kingdom, Japan, and parts of Europe, are experiencing some of its negative effects.
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TRADE PROMOTES GROWTH AND REDUCES POVERTY

In the past 50 years, more people have been lifted out of poverty than at any other time in history. There are many reasons for this, including advances in health care, more efficient global transportation, and more effective communications. Arguably, however, the most important reason is globalization, which has played a significant role in reducing poverty by encouraging economic growth worldwide.

Long-term growth rates for countries divided into three categories—rich countries, open poor countries, and closed poor countries—demonstrate that greater openness to trade (a good measure of globalization) has tended to reduce inequality between countries dramatically (see Figure 1–1). Between 1960 and 1995, per capita income in open poor countries not only grew about twice as fast as in closed poor countries but also grew slightly faster than in rich countries.

Further evidence shows that economic growth was an important factor in reducing poverty in developing regions in the 1990s. On the one hand,

Figure 1–1
Openness Decreases Inequality Between Countries
(Average annual percent growth in per capita income, 1960–1995)

Percent

Rich countries
Open poor countries
Closed poor countries

the biggest declines in poverty were in East Asia, which also had the fastest-growing economies. The greatest increase in poverty, on the other hand, was in the states of the former Soviet Union, where per capita GDP saw the greatest decline. The countries of this region had to make the greatest adaptation in joining the open trading environment as they loosened the constraints of the socialist era.

All in all, then, according to another World Bank study of a large sample of countries, on average, growth in the income of the poor (defined as the bottom fifth of the population) increases about one for one with the growth rate of overall per capita income in a country. In other words, the poor are benefiting proportionally from growth and are not losing ground. In fact, researchers have demonstrated that there is no systematic association between growth and an increase in inequality for a large sample of countries over several decades (see Figure 1–2).

Along with economic growth, the expansion of international trade has often been thought to increase poverty and inequality. In fact, mounting empirical evidence runs counter to such a generalization—that is, greater

---

**Figure 1–2**

*Growth Does Not Increase Inequality*

*(Relationship between average annual percent changes in inequality and per capita GDP)*

openness to trade has a positive effect on a country’s per capita income. A recent study by researchers at the National Bureau of Economic Research estimates that increasing the ratio of trade to GDP by one percentage point raises per capita income by between 0.5% and 2%. Several other studies have reached similar conclusions, with some variation in size and statistical significance. What’s more, the World Bank study that found no systematic relationship between growth and inequality found no systematic association between changes in the ratio of trade to GDP and changes in inequality or the income share of the poorest quintile (see Figure 1–3).

Figure 1–3
Trade Does Not Increase Inequality
(Relationship between average annual changes in Gini coefficient* and trade/GDP)

*The Gini coefficient is a standard way of measuring inequality in the distribution of income—if all incomes were equally distributed the coefficient would be zero; if all income were in the hands of one person, the coefficient would equal 1.

Poverty Is Experiencing Positive Trends

The percentage of people living in poverty has decreased dramatically in most parts of the world, but some regions, namely Central Asia, Europe, and sub-Saharan Africa, are experiencing increasing poverty rates (see Figure 1–4). Analyzing the individual cases in detail, however, uncovers good explanations for these increases, and even supports the World Bank’s statement about the relationship of growth and poverty. A great deal of their poverty can be attributed to the fact that they are not well connected to the global trade system—that is, the problem is not globalization, as critics would say, but their lack of participating in globalization.

Vast improvements in very large nations that joined in the world economy in a big way, like China, India, and Indonesia, have been responsible for much of the overall decline in poverty. For example, the incidence of

---

Figure 1–4
Overall Poverty Rates Are Declining …
(Percent of population living below US$1* per day)

*Population below $1 a day is the percentage of the population living on less than $1.08 a day at 1993 international prices (equivalent to $1 and $2 in 1985 prices), adjusted for purchasing power parity.

poverty in India as measured by the official poverty line fell from 53% in 1973 to 35% in 1998. Likewise, Indonesia’s poverty rate declined from 60% in 1985 to 20% in 1998. Sub-Saharan Africa, in contrast, with little involvement in world trade and investment activities, greater population growth, higher rates of corruption, and little to negative economic growth, continues to experience increasing poverty rates. At the same time, the significant increase in poverty in Europe and Central Asia is largely due to the transition of the states of the former Soviet Union from closed to open markets—they haven’t yet been fully assimilated into the global economy.

But even as poverty rates fall, the absolute number of people living in poverty continues to increase in many parts of the world (see Table 1–1). The biggest increases are in sub-Saharan Africa and South Asia, but the transition from closed to open markets has also increased the number of people living on US$1 per day (one of the most common measures of poverty) in Europe and Central Asia. Meanwhile, the numbers are fairly stable in both Latin America and the Middle East. Despite these increases, the number of people living in poverty worldwide has still declined, largely because of the unprecedented and dramatic decline of poverty in East Asia, which saw 174 million people raised out of poverty in the 1990s.

### Table 1–1

*But the Absolute Number Living in Poverty Is Increasing in Most Regions (Change in absolute number of people living below US$1* per day, in millions, 1990–1998)*

<table>
<thead>
<tr>
<th>Region</th>
<th>Change (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>49</td>
</tr>
<tr>
<td>South Asia</td>
<td>27</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>17</td>
</tr>
<tr>
<td>Latin America</td>
<td>4</td>
</tr>
<tr>
<td>Middle East/North Africa</td>
<td>0</td>
</tr>
<tr>
<td>East Asia</td>
<td>-174</td>
</tr>
</tbody>
</table>

*Population below $1 a day is the percentage of the population living on less than $1.08 a day at 1993 international prices (equivalent to $1 and $2 in 1985 prices), adjusted for purchasing power parity.*

GLOBALIZATION BEGINS TO MITIGATE INEQUALITY: THE HISTORICAL CONTEXT

In general then, trade and growth are good for the poor—they increase the incomes of the poor and generally decrease inequality within or between countries. These recent developments are in sharp contrast to longer-term historical trends, however. You can’t fault antiglobalizationists for equating global markets with poverty—for most of the past 200 years this has been the case. Only in the last few decades has a completely new set of norms been established.


With the onset of the Industrial Revolution, dynamic European expansion favored the rich. The European countries that sponsored trade grew wealthier faster than the countries they traded with. As a result, inequality in income among countries grew dramatically between 1820 and 1980, driven by the rapid expansion of the European economies (see Figure 1–5). For more than 150 years, increasing globalization seemed to go hand in hand with increasing worldwide inequality.

Figure 1–5
Worldwide Household Inequality on the Increase for Decades
(Inequality as measured by the mean log deviation)

![Mean log deviation chart showing inequality trends from 1820 to 1980.]

Note: The larger the deviation, the more unequal is the distribution of income among countries of the world.

Global Markets Decrease Inequality: 1980-2002

Data show that in recent decades the tide has been reversed, however. Beginning in the early 1980s, worldwide household inequality began to decline (see Figure 1–6). A decrease in between-country inequality drove this decline. Overall, within-country inequality increased, but it was more than offset by the decrease in between-country inequality. What changed? In the last few decades, a range of developing countries began to participate in international trade—trade that helped them build a modern manufacturing infrastructure that brought a flow of outside funds into the country, raising incomes and lifestyles all around.

In the past 30 years, these new participants—which included some of the largest nations in the world, such as Brazil, China, India, Indonesia, and Mexico—became well-established members of the international trading system and used the growth of a worldwide, competitive manufacturing sector to begin to catch up to the rich countries. A critical mass of the world’s nations was participating in globalization, halting the long-term growth in inequality and even reducing the gap slightly.

Figure 1–6
A Decrease in Inequality in Recent Years
(Inequality as measured by the mean log deviation)

Note: The larger the deviation, the more unequal is the distribution of income among countries of the world.
**BUT INEQUALITY HAS NOT DISAPPEARED**

This is not to say that inequality is the same around the world. There is great variation, not just between rich and poor nations, but within these categories as well, and these differences can be very important. For example, the rich nations can be arranged in three groups: those with relatively low domestic inequality, those with moderate inequality, and those with higher levels of inequality (see Table 1–2).

In general, the countries that derive their laws and customs from the Anglo-Saxon tradition—Australia, Canada, Israel, the United Kingdom, and the United States—have higher levels of inequality, while the continental European and Scandinavian countries have substantially lower ones. Cultural traditions play a big role in determining how countries deal with issues like inequality. We will discuss those differences in Chapter 3, “The Impact of World Consumer Culture.”

In addition, those countries at the higher end of the scale, like Australia, the United Kingdom, and the United States, are more likely to experience increases in inequality, while others, like France, Germany, and Spain, have either seen decreases or remained stable (see Tables 1–3 and 1–4 on page 10).

---

**Table 1–2**

<table>
<thead>
<tr>
<th>Inequality Varies in Rich Countries</th>
<th>(Gini coefficient)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low inequality</strong></td>
<td><strong>Moderate inequality</strong></td>
</tr>
<tr>
<td>Sweden 0.221</td>
<td>Spain 0.303</td>
</tr>
<tr>
<td>Finland 0.226</td>
<td>Canada 0.305</td>
</tr>
<tr>
<td>Norway 0.238</td>
<td>Switzerland 0.307</td>
</tr>
<tr>
<td>Japan 0.249</td>
<td>Australia 0.311</td>
</tr>
<tr>
<td>Netherlands 0.253</td>
<td><strong>High inequality</strong></td>
</tr>
<tr>
<td>Belgium 0.255</td>
<td>Israel 0.336</td>
</tr>
<tr>
<td>Denmark 0.257</td>
<td>Italy 0.342</td>
</tr>
<tr>
<td>Germany 0.261</td>
<td>United Kingdom 0.344</td>
</tr>
<tr>
<td>Austria 0.277</td>
<td>Ireland 0.350</td>
</tr>
<tr>
<td>France 0.288</td>
<td>United States 0.372</td>
</tr>
</tbody>
</table>

Note: Gini scores in this table vary as to year and are generally from the mid-1990s.

Source: Luxembourg Income Survey, various years; Eurostat, *Statistics in Focus.*
### Table 1–3
*Inequality Increasing in Some Rich Countries … (Gini coefficient)*

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.292</td>
<td>0.311</td>
</tr>
<tr>
<td>Canada</td>
<td>0.283</td>
<td>0.305</td>
</tr>
<tr>
<td>Finland</td>
<td>0.209</td>
<td>0.226</td>
</tr>
<tr>
<td>Israel</td>
<td>0.308</td>
<td>0.336</td>
</tr>
<tr>
<td>Italy</td>
<td>0.306</td>
<td>0.342</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.303</td>
<td>0.344</td>
</tr>
<tr>
<td>United States</td>
<td>0.335</td>
<td>0.372</td>
</tr>
</tbody>
</table>


Source: Luxembourg Income Survey, various years.

### Table 1–4
*… And Stable or Decreasing in Others (Gini coefficient)*

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>0.254</td>
<td>0.257</td>
</tr>
<tr>
<td>France</td>
<td>0.292</td>
<td>0.288</td>
</tr>
<tr>
<td>Germany</td>
<td>0.260</td>
<td>0.261</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.237</td>
<td>0.235</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.256</td>
<td>0.253</td>
</tr>
<tr>
<td>Spain</td>
<td>0.318</td>
<td>0.303</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.309</td>
<td>0.307</td>
</tr>
</tbody>
</table>


Source: Luxembourg Income Survey, various years.
Meanwhile, the rapidly growing developing countries tend to have higher rates of inequality—with virtually all of them in the middle and upper ranges. Most of them, in fact, are well above the highest levels of the upper-range rich countries (see Table 1–5).

Inequality is not a static feature in these countries, however. In several developing countries, including Brazil, China, Colombia, and Mexico, inequality increased between the 1980s and the 1990s (see Table 1–6). But the opposite is true for several other new globalizers like India, Indonesia, Pakistan, and Thailand (see Table 1–7 on page 12). Still, virtually all of the developing countries rank in the high-inequality group.

**Table 1–5**

Inequality Varies in Developing Countries
(Gini coefficient)

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>0.277</td>
</tr>
<tr>
<td>India</td>
<td>0.297</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.316</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.317</td>
</tr>
<tr>
<td>China</td>
<td>0.403</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.414</td>
</tr>
<tr>
<td>Argentina</td>
<td>0.467</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.494</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.591</td>
</tr>
</tbody>
</table>

Note: Gini scores in this table vary as to year and are generally from the mid-1990s.
Source: Luxembourg Income Survey, various years; Eurostat, *Statistics in Focus*; World Bank.

**Table 1–6**

Inequality Increasing in Some Globalizing Countries …
(Gini coefficient)

<table>
<thead>
<tr>
<th>Country</th>
<th>Initial</th>
<th>Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>0.289</td>
<td>0.336</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.578</td>
<td>0.600</td>
</tr>
<tr>
<td>China</td>
<td>0.320</td>
<td>0.403</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.545</td>
<td>0.571</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.506</td>
<td>0.537</td>
</tr>
</tbody>
</table>

Note: Dates for initial and final Gini coefficients are:

The numbers show that the overall impact of globalization is positive for many countries around the world. Both growth and trade, two key elements of globalization, have positive impacts on income (including the incomes of the poorest) and do not necessarily lead to increases in inequality. But there is no denying that there are some losers.
1 | GLOBALIZATION IS GOOD, BUT IT CAUSES PROBLEMS FOR SOME

in the current system, and that in many cases globalization is associated with both economic growth and an increase in inequality.

This unequal distribution of benefits can cause conflict. Yet in some countries that are benefiting from the open trading arrangements and have been doing so for years, there are high levels of inequality but little conflict. In fact, the United Kingdom and the United States have long been the strongest exponents of an open global marketplace, and yet they have high levels of inequality in their own economies. But these are the countries that have established the global economy, as we know it today, based on their own economic and cultural models. The emphasis on individualism and acceptance of personal mobility as key components of an open economy are factors that are widely accepted in these countries. It’s their system, for the most part, and that’s why they’re comfortable with it. As other countries enter the global economy, with different cultural and economic values around greater support for communal values and more protections for the

---

Table 1–7

... And Decreasing in Others

(Gini coefficient)

<table>
<thead>
<tr>
<th>Country</th>
<th>Initial</th>
<th>Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>0.315</td>
<td>0.297</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.331</td>
<td>0.315</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>0.412</td>
<td>0.367</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.432</td>
<td>0.364</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.335</td>
<td>0.312</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.461</td>
<td>0.451</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.452</td>
<td>0.414</td>
</tr>
<tr>
<td>Venezuela</td>
<td>0.556</td>
<td>0.488</td>
</tr>
</tbody>
</table>


individual, they are likely to change the way globalization is done to bet-
ter meet the needs of their own cultures and people.

Indeed, an important factor sometimes left out of the equation is the
effect of globalization on people and cultures. In the next chapter, we
explore these effects on important groups of people in any economy—
workers and consumers—and in the chapter after that, we move on to dis-
cuss how the consumer culture on which the global economy rests affects
the local cultures of participating countries.
The founding father of contemporary sociology, Frenchman Emile Durkheim, wrote about the social consequences of modern capitalist life in the late 19th century. Durkheim was deeply concerned about the way that rapid industrial change engendered social atomization. He predicted that the complex divisions of labor required for industrialization would lead to individuals growing increasingly isolated, apathetic, and generally withdrawn from participation in their communities. Today we find his concerns echoed in contemporary discussions about subjects such as the loss of traditional family values, the rise in divorce rates in developed and developing countries, voter apathy, and violence in schools. But what Durkheim didn’t foresee was that the proliferation of industrial complexity would also produce new links between previously disparate groups of people—and new ways of thinking about what it means to be part of a global system.
Today, globalized economic activities and pervasive interactive media and communications technologies allow millions of people around the world to feel connected in ways that were previously unimaginable, rather than isolated or lost in a global system. Indeed, the capacity to imagine alternative ways of living and working has never been greater. The flows of information, images, entertainment, money, and people from distant places have become routine for many of us, fueling everyday decisions about what to buy, where to work, how to educate our children, and what makes life good overall. Globalization encompasses many things—flows of capital, migrations of people, and the growth of multinational institutions—but one of its most significant aspects is that it creates a new way of thinking about one’s place in the world.

**GLOBAL WORKERS: OPPORTUNITY AND VULNERABILITY**

In the United States, shifting attitudes toward work, by better-educated workers, and more sophisticated consumers have driven changes in the structure of the workplace in the past decade. The changes are the result of trends that began more than three decades ago, including an acceleration in the growth of service sector jobs, a rise in the rate of women’s participation in the labor force, and increasing demands for flexible work arrangements—all of which have provided growth in jobs and pay for the highest- and lowest-wage workers.

Both high- and low-wage workers have been some of the most mobile and visible in the global marketplace. On the one hand, they staff the labs and management teams of multinational firms; and on the other, they perform services such as housecleaning, taxi driving, and agricultural labor that domestic workers aren’t so interested in doing. While the lives of elite Asian computer programmers and Mexican migrant workers might differ in fundamental ways—salary, housing, language, culture, and so on—as workers at the forefront of globalization, they face similar challenges. Globalization presents both groups with new sets of expectations and possibilities, which has led them abroad to seek work, residency, and possibly even new citizenship status. Both groups have experienced a substantial increase in income from global work in the past decade, and both must come to terms with the gap between the opportunity for a better life and the
vulnerability of exposing oneself and one’s family to life away from familiar circumstances.

**High-Tech Workers from India: Becoming Citizens of the World**

If, as Belgians like to say, being born with a brick in your stomach means you’ll settle down in the same vicinity as your ancestors, the new highly skilled international workers are being born with something more like a passport in their bellies. Their approach to employment—even to citizenship—is increasingly based not on conventional ties to nation and locale, but on going where the jobs are. Because their skills are in such high demand, especially in the West, they are able to choose from a range of options for wages, investments, and lifestyles around the world. Most people would view this as an enviable position. Yet, as the case of Indian information technology workers in the United States and Europe shows, this flexible, internationally mobile approach to life and career can also expose people to uncertainty and rapid changes in status—both positive and negative—for themselves and their families.

**What Changed?**

The growth of the information technology sector in the United States and Europe in the past decade has greatly benefited the skilled workers of one developing country in particular: India. A shortage of domestic technicians—by about 850,000 in the United States and nearly 2 million in Europe in 2000 alone, according to the Organisation for Economic Co-operation and Development—led to intense lobbying by high-tech corporations for a change in immigration policy. The result in the United States was a tripling of the number of H1-B visas available for specialized workers (see Figure 2–1 on page 18). The law was passed in the fall of 2000 when the tech boom was in full swing, raising the number of visas available from 65,000 per year in 1998 to 195,000 in 2000. (The increase stays in effect through 2002.) And more recently, after a bitter and divisive debate, Germany passed a new immigration law in early 2002 that increased the number of high-tech workers admitted.

Lindsey Lowell, an immigration expert at Georgetown University, estimates that 710,000 temporary visa holders are now working in the United States. The majority of them are in the information technology sector,
which dominates the H1-B labor pool. With 47% of all H1-B visas, India far outranks other countries (see Table 2–1).

**Changes in Personal and Professional Lifestyles**

The people behind these numbers are a diverse lot, with individuals making choices based on their unique situations. But some general trends are worth noting. In the latter half of the 1990s in particular, young, highly educated Indian engineers and technicians were attracted to the centers of information technology in the United States and Europe. In the United States, these workers moved to high-tech metropolitan areas such as Boston, Silicon Valley, and Washington D.C. Wooed by multinational firms, the best and brightest found salaries up to fifteen times the amount they would make at a comparable firm in India. Wages like this make for a comfortable living and often provide enough of a surplus to send to immediate or extended family back home. This behavior raises the lifestyles of people in both places.

To help themselves feel more at home in a foreign land, these workers establish familiar institutions and activities—cultural clubs, cricket teams, religious groups, restaurants, and stores stocked with Indian goods. But they...
also avail themselves of the new products, services, and experiences that are part of the American lifestyle, including late-model cars, nice houses, entertainment equipment, and so on. They become citizens of the world.

But the change in their personal lifestyles is only part of the picture. In their professional lives, they are exposed to new ways of working with coworkers and colleagues (networking inside and outside the company), different corporate management styles (often less hierarchical), an expanded range of capital acquisition (venture capital), and access to better resources (like cutting-edge R&D facilities).

This type of radical transformation is merely the stuff of dreams for millions of people around the world. But for those able to make their dream come true by taking advantage of globalization’s demand for highly skilled and flexible labor, such a transformation brings not just new lifestyle options and labor practices, but also new ways of “being” in the world. As one Indian woman in Silicon Valley put it, “I feel empowered here and am not going to give it up. I love this country. I love what I have become.”

The Risk for Global Workers

This woman realized her dream because of the opportunities afforded by globalization. But what happens if she loses her job in an economic downturn and can’t find another employer willing to sponsor her H1-B visa? She might very well be forced to return to India. And rather than suffer just the typical pains of unemployment for domestic workers, though these are difficult enough, she will have to deal with much more.

Upon her return to India, for example, home may no longer look quite like home. Even when she finds a new job, she could face a significant decrease in income (which would change her standard of living), she may find her work environment uncomfortable and limiting (having been exposed to new ways of working in the United States), and she would likely lose that new feeling of self she was so pleased to have discovered abroad. This type of cultural dislocation is the downside risk for global workers.

Mexican Migrant Workers: Integrating but Not Melting

The highly skilled workers who fill positions in the technology companies of the West are at the vanguard of an increasingly common, though still proportionately small, breed of global worker. Highly educated, they have
choices that many in the world do not. Much more common is the situation of the low-wage migrant worker, who occupies the lowest tier of the employment hierarchy.

There is nothing new about poor workers crossing borders looking for better jobs and better lives. What is new, however, is how global low-wage workers are maintaining more active ties with their home countries and diversifying their destinations.

**Staying Connected Is Easier Than Ever**

With the emergence of better transportation and communications technologies, migrant workers from Mexico no longer have to choose between cultural assimilation and isolation in ethnic enclaves in their country of destination. Indeed, such workers are now able to keep the ties between their “new home” and their “old home” active in unprecedented ways. The inexpensive international phone card, the increase of mobile phones in rural Mexico, and satellite television broadcasts of Mexican soccer games and talk shows are just a few of the ways that low-wage workers from Mexico maintain the currency of their connections to home while living and working in another country, primarily the United States. Sociologist Bryan Roberts, from the University of Texas, Austin, characterizes these immigrant communities as “transnational.” He means that they participate “on a routine basis in … relationships, practices, and norms that include both places of origin and places of destination.”

**New Destinations**

The other change for migrant workers, especially those from Mexico and other Latin American countries, is that they end up in a greater variety of places in their adopted countries. Rather than traveling to a few states and big cities in the United States, for example, these immigrants are settling (for both long and short periods) in new locations. For example, more Mexican immigrants are going to states other than traditional destinations like Arizona, California, and Texas (see Figure 2–2). In fact, nontraditional destination states such as Georgia and North Carolina have seen huge increases in their Latino populations.

Businesses clearly benefit from the migration and immigration of low-wage workers, including the California farming industry, the garment industries in California and New York, the construction industry in fast-
growing regions like Phoenix, Arizona, and Las Vegas, Nevada, and a whole range of service industries, including food, custodial, and hospitality services. But beyond the important role low-wage immigrant workers play in the economy, what does globalization mean for the migrants themselves? That is, what are the impacts on the individuals as they cross borders to participate in the global economy?

**What Changed?**

Just as Indian and other high-tech workers responded to an increase in the cap on H1-B visas, changes in immigration policies have shaped the possibilities for migrant workers from Mexico today. The Immigration Reform and Control Act (IRCA), passed in 1986, was meant to curb undocumented immigration from Mexico. Its unintended consequences have been what some have called “the new era” of Mexican migration to the United States. Rather than slowing the rate of undocumented entry, the new law transformed a seasonal flow of temporary workers into a more permanent pop-

**Figure 2–2**

*Latinos Migrating to a Wider Variety of States (Percent)*

![Bar chart showing the percentage of Mexican immigrants going to California and nontraditional states in 1990 and 1996.]

Source: U.S. Census Bureau
In the future, residents of transnational communities will not necessarily “melt” into the larger U.S. population, but rather will be connected to it and to their former homes, creating independent but fairly autonomous communities of their own.

New Transnational Communities

The result of these changes in immigration laws has been the establishment of more permanent and prominent Latino communities with strong ties to the United States and Mexico. States like Idaho and North Carolina have set up offices to work with their burgeoning Latino populations. Ohio State University recently held “Latino Ohio,” a two-day conference for university employees and community organizations, to better understand Latino issues.

But not all low-wage Mexican workers are permanent residents or have legal status to work in the United States. For the more contingent workers, these new communities of legal and more permanent immigrants, scattered all over the country, provide a place to feel more at home. These workers may only stay a few months at a time or they may remain for several years in order to earn enough money to make a big difference in their lives in Mexico. But either way, they benefit from being part of a transnational community—they have an easier time finding familiar products; they have access to news, information, and entertainment from home; and they are more likely to build a network of people to help them find work.
In the future, residents of transnational communities will not necessarily “melt” into the larger U.S. population, as the American myth would have it, but rather will be connected to it and to their former homes, creating independent but fairly autonomous communities of their own. Further globalization will no doubt foster the development of more transnational communities like these in other places around the world, and with similar results.

**CHOICE VERSUS COMPETITION: GLOBALIZATION’S IMPACT ON CONSUMERS**

Globalization affects not only the workers performing the labor of the global economy but also the consumers buying its products. Consumer choice is a notoriously difficult animal to track. People buy things for all kinds of reasons, including price, convenience, fashion, aesthetics, and even politics. Protectionists of all stripes would prefer that more of us pay attention to where things are manufactured and who is selling the products, and that we support domestic or local companies by buying domestically produced goods from local retailers. But how important is this distinction to the average consumer? The story of the multinational giant retailer (also called a “hypermarket”) versus the local mom-and-pop store gets a lot of press, and yet in most regions of the world, international hypermarkets have been experiencing increased consumer support in the past decade. This is but one impact of globalization on consumers. The question is, do the benefits of the global marketplace as represented by the hypermarket outweigh the negative consequences on the lives of individual consumers?

**Global Consolidation**

Cees H. Van der Hoeven, president and CEO of Dutch-owned Royal Ahold (one of the largest grocery retailers in the United States and Europe), thinks that in the next ten years there will be fewer than five supermarket chains controlling the world’s packaged food supply. In fact, the United States (and Europe) saw great consolidation in the food retail industry in the last decade (see Figure 2–3 on page 24).

However, there are those who worry about the near-monopoly power of such consolidation and the effects of decreased competition within markets. Should their worries bear fruit, and we see global consolidation on the scale Van der Hoeven suggests, consumers may not experience the
benefits of less expensive or better products. In fact, they might see just the opposite.

**Globalization Gives Consumers More Choices**

So far, however, globalization has brought consumers expanded choices in all sorts of markets. Consumers in developed nations and big international cities have access to a vast assortment of products from all over the world, from clothes and cars to electronics and food. At the grocery store alone, consumers can choose from among freshly prepared Japanese sushi, Asian vegetables, fresh Mexican cheese, Chilean wines, and African coffee—and the range will only continue to expand as more people move around the world and are exposed to more international goods.

Consumers will also receive better customer service. Twenty-four-hour service, shorter lines, more items on the shelves, lower prices, and special discounts for frequent shoppers are some of the perks they’re likely to experience as the service standards of international retailers spread around the globe.

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*Figure 2–3*

**Consolidation in the Grocery Business**

(Percent of total national grocery sales accounted for by the top eight grocery retailers)

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<th>Percent</th>
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Source: U.S. Department of Commerce; *Fortune.*
What’s more, with food retail almost at saturation in mature markets like France, the United Kingdom, and the United States, global retailers will continue to extend their range of non-food products and service offerings. Costco, the U.S.-based warehouse retailer, already offers a range of financial, travel, home decorating, and eye care services, while Tesco, the largest grocery chain in the United Kingdom, has been successful with financial services and online shopping.

**Savvy Consumers Benefit from Globalization**

At the same time that the business of buying and selling products and services is becoming increasingly global, consumers are growing increasingly savvy. This behavior stems from several factors, but perhaps the two most important are the rise in the share of new consumers (those with high levels of education and discretionary income and extensive experience with information technologies) and the emergence of new communications technologies, especially the Internet.

It has never been easier for consumers to gather information, even from far-flung sources, on products, services, and companies—information they use to become more discerning consumers. These savvy consumers go into stores armed with price quotes gathered online from a range of retailers with the goal of getting the best possible price. They use multiple channels to make purchases of different types of products (groceries in the store, books online, work clothes from their favorite catalog) with an eye toward not just getting the best price but also maximizing convenience and time savings. In our increasingly global marketplace, they won’t stand for things like price gouging, even on an international level.

For example, British consumer organizations waged successful campaigns to end the “Great British Car Rip-Off,” forcing car manufacturers to bring car prices in the United Kingdom in line with those of the rest of Europe. As the director of the British Consumers Association explained, “The British consumer has been sleepwalking for decades and now they’re waking up.” In another case, the United Kingdom’s Competition Commission’s first report on supermarket prices led to price savings at the checkout counter in that nation, as well. Consumer rights organizations continue to gain force across the globe. In fact, National Consumers Day, March 15, is recognized all over Europe. For consumers with the where-
withal to participate in the global marketplace, globalization has given
them unprecedented power in the distribution network.

What Could Go Wrong?

On the downside, as alluded to earlier, consumer activist groups worry that
global retail consolidation may lead to monopoly control, a lack of account-
ability, and a narrower range of controlled products with prices held artifi-
cially high. They also worry about the closing of small local stores where
international retailers enter new markets. Governments in some places, such
as Spain, are responding to the pressure to regulate against hypermarket
expansion. This could translate into a call for international businesses to be
engaged more closely with local communities in new ways. Quotas for local
hires, living wage requirements, and other such programs may become
increasingly common where the hypermarkets set up shop.

THE CHALLENGES OF BEING TRANSNATIONAL

There is no turning back globalization. And it is unlikely that the
groups described in this chapter would really want to. Each of them
is experiencing tangible employment, lifestyle, and marketplace
benefits. Both high- and low-wage global workers are able to maintain a
type of “dual citizenship” with their home countries and their destination
communities, by working and traveling in different countries, keeping in
closer touch with friends and family, watching the latest TV shows from
home, or reading familiar magazines online. And consumers with interna-
tional tastes in many parts of the world no longer have to shop in expen-
sive “specialty” shops when the new international supermarket offers an
increasingly wide range of products.

And yet, being transnational presents its challenges as well—challenges
that will only be more strongly felt in the coming decade. Businesses
should think now about what can be done to alleviate the dilemmas glob-
alization may create in the future for workers and consumers alike.

Elite Indian high-tech workers may seem a narrow slice of the popula-
tion, but it is one that has shown explosive growth in the past five years with
no signs of slowing. Despite the current economic downturn in the informa-
tion technology industry, European and U.S. firms still face massive
shortages of workers to fill the positions they need in order to grow. These
talent shortages will continue to be filled by Indian, and to a lesser extent, Chinese and Taiwanese, technicians and engineers. Such highly skilled global employees may be cultivating flexible attitudes toward politics, culture, and citizenship, but they are also more vulnerable to extreme cycles of change in their daily lives: their annual salary might go from $4,000 to $60,000 and back again, in the space of a few years. Their children are likely to grow up stretched across different languages and cultures, sometimes with parents living in a different country. The parents of these workers, in turn, often move with them to take care of their grandchildren, facing unfamiliar routines and leaving friends back home. The ever present possibility of extreme changes like these means building new relationships with home, country, and even family—a difficult proposition, but one that more and more highly skilled global workers will have to manage.

Low-wage workers like the Mexican migrant workers are less likely to experience the extreme shifts that high-tech workers do. They face their own sets of problems, however, including difficulties in returning home to care for family, anti-immigrant sentiment, and accusations of “job stealing” from low-wage workers in destination countries. What’s more, after the events of September 11, these workers will likely experience more trouble crossing international borders, as countries like the United States beef up border security and tighten immigration controls. Without the cash or the legal right to travel back and forth between Mexico and the United States, these workers have little choice about “being transnational.” They will be living lives in which both worlds are significant. And unlike former waves of immigrants, these ethnic communities of low-wage workers won’t be quite so ready to lose their cultural identification with the old country. Rather, they will contribute to a society in which immigration does not necessarily mean melting into the pot.

Consumers are already transnational in their habits of consumption. But there are plenty of local worries about the globalization of retailing. The international consumer rights movement has become increasingly vocal on issues of competition, fair trade, corporate transparency, and pricing, arguing that, in the words of Consumers International, “the purpose of production is consumption and the main objective of competition regulation should be to provide benefits to consumers.” Anything that prevents that, the organization would argue, should not be allowed.

Globalization affects the citizens of the world at the core of their day-to-day experiences at work, at play, and with their families.
In the end, globalization affects the citizens of the world at the core of their day-to-day experiences at work, at play, and with their families. But it also has impacts at the larger cultural level. In the next chapter, we explore what results when the increasingly global culture defined largely by the consumer culture of the West interacts with autonomous local cultures.
Chapter 3
The Impact of World Consumer Culture

The spread of a world consumer culture has facilitated the enormous expansion of world trade in the past 50 years. Largely a product of Western, developed countries, especially the United States, world consumer culture embodies a set of values, a lifestyle built on these principles: personal economic and political freedom, free-market economies, a virtually unlimited access to material goods, and the proliferation of popular media as a means of information and entertainment. World consumer culture, or more simply, consumer culture, is heavily materialistic, but it also rests on several philosophical notions—individuality, freedom, the pursuit of happiness, and individual choice—that are attractive to people around the world.

The consumer culture has facilitated international trade by acting as a common denominator, a type of infrastructure, that forms the basis for the exchange of a broad range of goods and services, including cars, movies, music, information technologies, and thousands more products besides. Although consumer culture is spreading widely around the world, we shouldn’t make the mistake of thinking that it is moving deeply into the local cultures with which it comes in contact. Indeed, as consumer culture continues to spread, its adoption and incorporation into disparate local cultures causes tensions that undermine its effectiveness as a conduit for further globalization. Indeed, many cultures are saying, “This far and no more,” to the globalization of consumer culture.
While consumer culture will continue to play a key role in facilitating globalization and world trade, the resistance to its deeper penetration into autonomous local cultures will set the limits of globalization. Such resistance will mark the areas where adaptation to an open world economy is likely to be the most difficult.

THE ROLE OF CULTURE IN GLOBAL TRADE

Cul{}ture has always played an instrumental role in trade. A degree of cultural commonality and understanding, such as consumption preferences and language, must exist to create a desire for goods or services and to facilitate the completion of commercial transactions. During the course of such trade, cultures adopt outside influences. Tea, for example, that quintessentially British drink, didn’t become so until Britain set up the tea trade with China in the 17th century. Cultural exchange and adoption, however, doesn’t always travel equally in both directions. Historically, economic or military strength has resulted in the cultural dominance of one country’s ideals, values, and trends. The Roman Empire, the British Empire, and the Chinese dynasties (especially the Tang dynasty) all marked eras when the ideas, values, and language of each of these cultures dominated large parts of the globe for centuries.

Since the end of World War II, international exchange has expanded on the basis of certain widely accepted rules—the peaceful exchange of goods and services, an interest in experimenting with products from other countries, common rules for international finance and currency exchange, respect for commercial and private property law, and increasingly liberalized world markets that welcome foreign competition. Perhaps because it was the industrial strength of the West, particularly the United States, that carried the Allies to victory in World War II, the dominant cultural voice in the world since then has largely been that of the American consumer culture. During this time, the consumer culture, and its system of values, has spread throughout the world by means of trade, mass media, language, business practices, tourism, immigration, and the selling of vast quantities of consumable goods, all reflecting Western values and ideals.

As the pace of globalization has accelerated, consumer culture has acted as an infrastructure, a shared set of assumptions, for further interaction and exchange around the world. In the process, this larger sense of consumer
culture has interacted with many different local cultures. Examples abound: American television shows are broadcast in remote villages in Africa; farmers in Bolivia are purchasing mass-produced athletic shoes; and Haitians have incorporated Coca-Cola into religious ceremonies.

Although this cultural infrastructure is both appealing on a mass scale and increasingly adapted to local cultural differences, it cannot fully bridge centuries of the accumulated uniqueness of local cultures. As a result, consumer culture inevitably does two things: one, it threatens to destabilize the local cultures it comes in contact with; and, two, it threatens the very process of globalization itself. Both of these present challenges for businesses, governments, and cultural institutions.

**Identification and Communication with Consumer Culture**

While on the surface the success of American consumer culture can be attributed to its style and presence, in a deeper sense its success can be attributed to its appeal to universal values: individualism, personal freedom, empowerment, material goods, and financial progress. America’s gift to consumer culture has been twofold.

First, with Hollywood as the source and creative center for much of the world’s entertainment, the United States has taught the world how to tell stories across a range of languages and backgrounds, with pictures and action substituting for words. TV programming that relies on visuals, movies that substitute action for dialogue, pop songs whose simple melodies say the same thing in every language, and music videos that show off attitudes and lifestyles appeal to the least common denominator of communication—image and spectacle. It follows that the values of the society that created these media will be spread by these media as well. The ideas of freedom, individuality, and opportunity are embedded in these formats and their content. These values resonate globally with large groups of people, especially youths.

Second, the messages in all the cultural forms are simple and straightforward. Individual desires matter. People should have options and choices—what clothes they wear, what goods they buy, what jobs they take, where they live, and whom they date and marry. The array of material goods offered by consumer culture demonstrates this range of choices. What’s more, the free-market system that produces these material goods gives indi-
The message of consumer culture is that jobs and money bring individual empowerment, social mobility, and satisfaction.

These cultural influences are spreading widely. For example, a recent United Nations population report identified that birth rates in nations where poverty and illiteracy are still widespread are declining unexpectedly and rapidly. Gelson Fonseca, Brazil’s ambassador to the United Nations, indicated the importance television played in this phenomenon. The portrayal of smaller, happy families in the popular media, he contends, is triggering a desire to emulate this example, even among the poor and uneducated. In this manner, consumer culture captures the “Modern Dream” of opportunity, freedom of choice, and upward mobility, and translates these ideals for the consumption of other cultures.

Even though consumer culture taps into the latent desires of all kinds of local cultures around the world, thereby facilitating cultural modernization, ultimately consumer culture can go only so far in transforming these local cultures. Once it reaches these limits, it can create tensions within and between cultures.

**Consumer Culture May Destabilize Local Cultures**

The world consumer culture manifests itself in many ways. On the most superficial levels, it influences what people around the world watch, listen to, wear, buy, and visit. It also affects the values of the people it touches, usually in what they find entertaining, in the lifestyles they want to adopt, and in the experiences they see as desirable. But once consumer culture has successfully penetrated the local culture enough to affect these superficial behaviors and values, it runs head-on into the much more fundamental values of the cultures—values that are much harder to influence or change without creating deep rifts.

These more fundamental values may include the deeply held beliefs and the traditional behaviors associated with how people work, how they form communities, how they worship, what place the family holds in the culture, how institutions support people, how social and economic resources are shared, what is sacred, and the like. Once consumer culture runs into the
bedrock of these fundamental values, it is either turned away or it forces itself in at the cracks, threatening to break apart the foundation and destabilize the local culture.

For example, the spread of consumer culture can influence fundamental lifestyle decisions. When consumer culture is tied to economic growth, as it inevitably is, it can bring on dramatic lifestyle changes with profound long-term consequences. In developing countries, for example, consumer culture can encourage movements of rural residents into urban areas in search of opportunity presented by modern jobs, in this way permanently changing the distribution of the country’s population. In return, these types of jobs can provide the resources that bring children increasing levels of education that will benefit them throughout their lives, and empower them to think for themselves about what they want for their country and society. Consumer culture can also facilitate international migration, bringing options for new lifestyles to those who move and even to those left behind if they are financially supported by family members abroad. While these changes can have positive impacts—for example, new employment opportunities and the ability to live a more comfortable life—they also bring rapid change to long-standing, traditional ways of doing things, creating conflict with more conservative elements in the culture.

In this way, consumer culture can directly challenge an individual’s perception of self and his or her place in the world. In cultures in which identity rests in the family rather than in the individual, for example, consumer culture, with its emphasis on the satisfaction of individual desires and self-empowerment, can threaten the moral foundation on which the society is built.

Indeed, if the values of the consumer culture and media come to supplant those of the family and community, individuals may become confused about how to act. In cultures where marriages are still arranged, for example, do individuals go along with the arrangement as their local customs dictate, or do they hold out for the romantic attachments of consumer culture? How do young women decide how much education is appropriate or how to trade off career versus family needs? How does a good employer trade off loyalty to its workers with the flexibility required to compete in international markets?
Gaps between product consumption and political liberty and economic stability can trigger another type of destabilization. For some citizens, unfulfilled desires for the material goods they see every day on television or in the movies can cause tension and dissatisfaction—seeing a product doesn’t mean you have the means to purchase it—which might result in social unrest.

But even for those with enough money to buy the desired goods, the “things” don’t always bring about the lifestyle and freedoms associated with them. So while any middle-class, urban citizen around the world can purchase the same products and services as any middle-class American citizen, the “American Dream” or accompanying personal freedoms may remain elusive. That is, the democracy of product choice may not result in commensurate democratization of political institutions or social hierarchies. Governments and other key institutions are either unable to keep up with the necessary changes or are unwilling to change their ways, leaving frustrated citizens in their wake.

By changing desires and lifestyle expectations, consumer culture can contribute to the weakening of family and community structures by encouraging migration and offering competing influences. In developing countries, for example, men leave rural areas for the promises of modern jobs and lifestyles in urban areas. But sometimes their dreams of a better life don’t come true. So, not only have they broken up their families and communities back home, but they also are likely to find anonymity, poverty, dislocation, and disenfranchisement in their new locations. In Dhaka, Bangladesh, more than 90% of urban poor feel that they are worse off economically than their parents; 63% are employed in the “informal work sector”; less than 50% have access to safe sanitation; and 90% live in poor-quality yet high-cost shelters. And this isn’t the case in Bangladesh alone. In developing countries all around the world, the share of city dwellers who are either unemployed or underemployed is extremely high (see Figure 3–1).

Since the modern information and communications technologies and economic mechanisms enabling the spread of consumer culture are unlikely to go away any time soon, local cultures confronting globalization can no longer ignore the impacts of the modern world on their cultures. Better to face up to the spread of consumer culture with their eyes open.
As cultural globalization continues, and uprootedness, urbanization, and consumerism are not offset by a sharing of the wealth and social protections, it is increasingly likely that broad international consensus about the values of globalization will not be reached, and that the infrastructure of popular consumer culture supporting the spread of globalization may fray.

Countries are addressing the challenges of consumer culture with a range of responses.

**Compatibility**

Countries like Australia, the United Kingdom, and the United States are in general compatible with the consumer culture because they have created much of it. Indeed, many of the manifestations of consumer culture—the fast-food places, the TV shows, and the ubiquitous popular music—reflect commercial demand inside these countries. Still, even in these countries,

**Figure 3–1**

*Urbanization Translates into High Unemployment and Informal Employment*  
(Percent of urban population unemployed or informally employed, 1998)

- **Developing countries**
  - Africa
  - Latin America
  - Arab states
  - Transition*
  - Asia-Pacific

- **Rich countries**

*Transition countries include the states of the former Soviet Union.*

influential groups are pushing for “family” or “moral/religious” values against the dominant culture they perceive as feel-good materialism.

**Alternative Content**

Numerous countries like Canada, France, and Norway are open to consumer culture but place some limitations on its influence by mandating or subsidizing competing local content or products. Such countries may, for example, require equal time on the radio for domestic music, control some national media outlets, or offer subsidies for domestic movies. From a cultural perspective, countries like Hong Kong and Korea have succeeded by borrowing cultural ideas from the world commercial culture and transforming them into a unique local blend—Hong Kong action movies and Korea’s own version of regional popular music (called K-pop) are examples of this approach.

**Legal Protection in the Marketplace**

Many countries accept the impact of the consumer culture but have put in place a number of laws that protect individuals and local companies as they partake in the more competitive global marketplace. For example, France mandates a maximum 35-hour week for workers. Germany goes a step further by regulating work on weekends and evenings, counteracting the competitive advantages of huge multinational retailers with price controls and limitations on discounts, and carefully legislating ownership and shareholder rights to protect domestic companies from unwanted takeovers. And countries like Japan and Korea have legislation and business practices that support unique relationships among key economic players such as business enterprises, banks, unions, governmental agencies, and universities.

**Economic Buffers**

Many Latin American countries accept cultural influences in the form of movies, TV programs, print and broadcast media, ideas, and music but have institutions that make the transmission of the economic influences difficult at times. Devaluations of the currency, foreign exchange restrictions, limitations on bank transfers, and high tariffs or non-tariff barriers make it difficult for many consumers to actually follow up their prefer-
ences with purchases. These economic hurdles form significant barriers to the ability of these countries to access the goods associated with the world consumer culture.

**Legal Protection of Social and Political Life**

A number of Asian countries—China, Vietnam, and, to a smaller degree, Singapore—open their economies to the full competitive forces of world trade but place restrictions on items that affect domestic cultural life. Such political and social restrictions can affect the flow of magazines and media, for example. These restrictions are not so much on the physical goods of the market but on the cultural and political content of items that reach consumers.

**Protection of Economic, Communal, and Family Values**

Finally, some countries reject consumer culture outright by banning entire classes of its domestic manifestations. Iraq, the old Taliban regime, and, to a lesser extent, Saudi Arabia are examples that have set domestic social and religious laws that mandate everything, including clothing, entertainment, social life, education, social customs, and religious practices, in an attempt to insulate their people from world commercial influences.

**Implications**

The world consumer culture is having tremendous impacts as it spreads around the world. But these impacts only go so far—they affect entertainment and leisure activities almost everywhere. In many places, they affect how people dress, eat, and move around. In some places, they affect how people find and perform their jobs. Only in very few places, however, are they likely to affect fundamental issues about how members of a community work cooperatively to provide aid and support to their citizens in times of need. These are the fundamental issues of family and community that are the most resistant to the changes brought on by consumer culture (see Figure 3–2 on page 38).

Consumer culture had a relatively easy time of breaking through the layers of entertainment, consumer goods, and travel. But penetrating the tougher barriers, deeply held by the world’s rich variety of societies, will bring new challenges to countries that are globalizing. As we have seen,
countries can follow a number of models that create points of resistance to the world consumer culture. While consumer culture permeates the United States and the United Kingdom, it is encountering increasing amounts of resistance in other countries, and even the rejection of entertainment and lifestyle messages (typically the easiest areas for consumer culture to penetrate) in certain semi-closed societies (see Figure 3–3).

**Core Values Still Are Not Western**

World consumer culture has grown more ubiquitous and more pervasive on a substantive level, but it will increasingly face the tougher resistance of cultural values, the breaking down of which inherently involves conflict, whether individual, ideological, or physical. In short, while consumer culture is communicated to some degree in Western terms, it is heard, understood, and integrated according to the language, culture, and experiences of the receiving societies.

**Contradictions Abound**

Consumer culture’s limited ability to change core values breeds contradictions that manifest themselves in the activities of daily life, the expectations of a government safety net, or the dominance of extended family

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**Figure 3–2**

*International Cultural Penetration Is Limited*

<table>
<thead>
<tr>
<th>Values</th>
<th>Behaviors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment</td>
<td>Listen/watch</td>
</tr>
<tr>
<td>Lifestyles</td>
<td>Buy</td>
</tr>
<tr>
<td>Experience</td>
<td>Visit</td>
</tr>
<tr>
<td>Belief</td>
<td>Work</td>
</tr>
<tr>
<td>Networks</td>
<td>Provide mutual help</td>
</tr>
<tr>
<td>Safety net</td>
<td>Participate in community sharing</td>
</tr>
<tr>
<td>Religion</td>
<td>Worship</td>
</tr>
<tr>
<td>Family</td>
<td>Nurture family ties</td>
</tr>
</tbody>
</table>

Source: Institute for the Future
relationships and societal hierarchies. For example, while Europeans are the largest consumers of American popular culture, banks in most of Europe still close early in the day and are open only on weekdays—the banking industry has clearly not embraced consumer culture’s notion of convenience. Similarly, French workers recently won a reduction of the work week to 35 hours without loss of pay—a policy that goes against the consumer culture’s value of workers maximizing their employment and earnings opportunities and a mobile workforce accepting much of the cost of economic adjustment. A central control of hours demonstrates France’s strong cultural bias toward communal equality. Likewise, Latin Americans have adopted many of the trappings of consumer culture (food, fashion, and entertainment, for example), but they continue to hold on to core cultural values, such as their belief that a woman’s role is in the household instead of the white-collar labor market. In 1998, 45% of Latin American women participated in the labor force, compared to more than 60% in the United States and Canada, while the participation rate for men stood at 75%. Furthermore, the gap between men’s and women’s unemployment doubled during the decade of the 1990s, showing that, in general, women were still considered an appendage to the market. It seems that as the consumer culture’s notions of equal treatment and opportunities

![Figure 3–3](source: Institute for the Future)
for women penetrate Latin American societies, more women want to join the workforce, but fewer are able to, because of the barriers erected by a society that would rather they stay at home.

**Hybrid Cultural Forms Proliferate**

Cultures will accept or reject outside influences by filtering them through their own core cultural values. As these influences are incorporated at different levels and by different groups of people, individuals and communities will develop hybrid cultural forms and practices. The formation of such hybrids will accelerate over the next decade, as consumer culture comes into greater, more substantive contact with a larger number of cultures and their core values. While fundamentalism and terrorism are examples of extreme reactions, young people, generally the most adaptive to and enamored of the tenets and material trappings of consumer culture, will continue to make lifestyle decisions that incorporate outside influences that make sense in light of the underlying core cultural values they hold most dear.

As Figure 3–3 demonstrates, consumer culture will not spread equally among individuals and cultures. At the country, community, family, and individual levels, the acceptance of globalization will range from buying the goods and nothing else to complete identification with the consumer society’s values, with various levels of acceptance and rejection in between. Some Latin American women will continue to define themselves according to traditional ideas of a woman’s role in society, for example, while others will push for the delivery of the promise of popular culture—equal participation in the labor force.

Local cultural characteristics provide resistance to the consumer culture of the open global marketplace. These cultural conflicts run deep. Sometimes the resistance points are superficial—rejecting American movies or limiting the music played on the radio. But often they are made manifest in important legal or regulatory barriers—rules for hiring and firing workers, control over investments or local listings of shares, or the hours and rules of commerce. Such cultural clashes are early indicators of fundamental conflicts between the tenets of the world consumer culture and local values and customs that demand respect. In the next chapter, we explore how the institutions of a wide range of countries participating in the global marketplace are able to withstand the pressures of such conflicts.
Chapter 4

Globalization Pressures State Institutions

A country's institutions reflect the collective will of the people—the state's ability to meet the needs of the people as expressed through politics and tradition. These institutions are built on a cultural foundation that determines how the state defines itself, and, perhaps more important, how the state functions, both internally and externally, in relation to the rest of the world. In other words, the strength of the institutional infrastructure—the laws, the administration of those laws at the national and local levels, the process of making new laws, the press and media, and the mechanisms of law enforcement, to name some important elements of that infrastructure—determines the ability of a state to adapt to political, social, or economic changes, driven by both internal and external pressures.

An open global economy presents a range of challenges to the institutions of participating states. Some states find that their domestic institutions are compatible with globalization; many more find that serious issues arise when the institutional responses demanded by domestic circumstances are different from those demanded by the global economy. In fact, weak institutions can be overwhelmed by pressures to change in response to the dictates of the global marketplace. Conflicts between the local culture and the global economy over basic values often lead to political or social conflicts both within a country and between countries.
In this way, a variety of states are facing the challenge of building institutions flexible enough to maintain the integrity of the local culture while still participating effectively in the open world economy. Some have succeeded, and others have not.

Some Benefit, Others Do Not

While most countries on average have benefited from open trade, the particular benefits are not evenly distributed. In fact, just a few developing countries have participated widely in world trade, and as a result, they have received the biggest influx of foreign funds (see Figure 4–1 and Table 4–1).

Those countries that have successfully opened themselves to globalization tend to have higher real growth rates over time. For example, those countries that have increased their global participation in trade and investment have had a remarkably strong economic performance. In fact, the 24 developing countries that have doubled their trade-to-GDP ratios over the

Figure 4–1
World Trade Is Concentrated
(Percent of all exports)

*The ten developing countries with the largest shares of trade are Brazil, mainland China, Hong Kong (PRC), Indonesia, Korea, Malaysia, Mexico, Russia, Saudi Arabia, and Singapore.

last two decades are growing faster than even the rich countries of the world, whereas the rest of the developing world has actually lost ground in the last decade (see Figure 4–2 on page 44).

The reason some developing countries succeed in the global economy and others do not has a lot to do with how well their institutions withstand the pressures of globalization. And how well these institutions do just that has a lot to do with how they were set up in the first place.

**The First Age of Globalization: Varieties of Weakness**

The expansion of the world economy has always put pressure on participating countries. From the 17th century through the first half of the 20th century, open world trade didn’t bring countries together; rather, it exacerbated the economic differences between them. During this time, the more powerful countries (primarily from Europe) dominated the other countries of the world. By virtually taking over the economic infrastructures of many non-European countries, the European countries succeeded in increasing their rates of growth substantially and widened the gap between themselves and these other countries. In each of the countries in which they operated, they established their own institutions, such as banks, trading companies, and governing bodies— institutions that often violently clashed with local ones.

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**Table 4–1**  
*Concentration of Foreign Direct Investment Is Extraordinarily High*  
(Percent of total foreign direct investment funds)

<table>
<thead>
<tr>
<th>Inflow</th>
<th>Outflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed countries (25)</td>
<td>Developed countries (25)</td>
</tr>
<tr>
<td>79</td>
<td>91</td>
</tr>
<tr>
<td>Rapidly developing countries* (6)</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>All other countries (163)</td>
<td>All other countries (168)</td>
</tr>
<tr>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>

*The six rapidly developing countries are Argentina, Brazil, mainland China, Hong Kong (PRC), Mexico, and Poland.*

Most of these countries changed forever because of their encounters with Europe. Some were able to maintain their essential cultural characters, while others were utterly transformed into new countries altogether.

**The Colonial Model**

For centuries the Dutch, English, French, Portuguese, and Spanish set up enclaves around the world that involved the political dominance of key centers of trade and commerce with the goal of exploiting valuable resources such as gold, silver, sugar, and coffee. Governmental organizations, laws, business enterprises, and a country’s infrastructure were all set up to reflect the home country’s commercial needs. In the Far East, for example, many of today’s large urban centers—Batavia (today’s Jakarta), Singapore, Hong Kong, Shanghai, and Calcutta among them—became centers for European trade. Essentially, they were political and commercial enclaves in otherwise “foreign” territories that offered a secure and safe haven for a wide variety of Western commercial enterprises. Even more important, there are remnants of colonial rule in many developing countries around the world, from languages and laws to commercial customs and financial infrastructure.

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**Figure 4–2**

*Divergent Paths of Developing Countries in the 1990s*  
*(Annual percent change in GDP per capita)*

- Less globalized countries (140)
- Rich countries (25)
- More globalized developing countries (24)

The Development Model

The British and Dutch also built successful overseas states by means of substantial emigration that allowed extensive development based on the cultural attributes of the European homeland—Australia, Canada, New Zealand, South Africa, and the United States are examples. Eventually, all of these states grew into separate countries of their own, built on the European model.

Where settlement was not extensive, or direct colonial rule was not a factor, countries like England were still able to develop a concentrated commercial infrastructure that linked the traditional society to the European economy. For example, the British developed an infrastructure in Latin America in the 19th century by investing large amounts in ports, railroads, depots, and financial centers that channeled the resources of the mines and plantations of the interior to the processing centers around major cities and then to the great seaports. The internationally oriented transportation hubs of Buenos Aires, Montevideo, Valparaiso (linked with Santiago), Barranquilla, Rio de Janeiro, Santos (in combination with São Paulo), and Callao (in combination with Lima) connected the internal centers of mining, agriculture, and manufacturing with European markets, often with limited economic advantage to the originating countries. Often the benefits of globalization were focused on the industrial countries and did not spread far through the local economy.

THE WEAKNESS OF STATES

The decolonization that took place between 1945 and 1970 swept away the political basis for these colonial models. The withdrawal of the Europeans left these young states in a variety of situations. Some, like India, Malaysia, and Singapore, had absorbed institutions and ideas that were consistent with an open world—principles of common law, law courts, administrative procedures, and the notion of an independent civil service, for example. Others, however, were not as fortunate. They had little or no political or institutional apparatus built up, and in many cases the geographic borders imposed from without made little sense. Afghanistan, the Congo, Ethiopia, Sudan, and Yemen are prime examples.

With their independence, these states also pushed their own traditional cultural values—characteristics that were often at odds with the contem-
porary view of commerce and development of the world economy. Examples include the prohibition of domestic enterprises, developing systems that favored loans to friends and family enterprises, and limitations on commercial competition. The 40 years of Cold War didn’t help, either. The struggles of the Soviet Union and the United States to expand their spheres of influence around the world exacerbated internal cultural conflicts regarding the efficacy of free trade by pitting the values of capitalism against those of socialism. This ideological competition called into question the value of the openness of the commercial culture of the West. Over time, however, the material success of the Western economic model gradually made it the dominant form of internationalism.

But the gap between the local cultures of these countries and the institutional structures necessary to take part in the international economy has been widened in recent decades by the speed and magnitude of globalization. Most such countries have been affected in one of two ways. Those whose domestic institutions are too weak to ensure an environment of peaceful participation have experienced a series of economically debilitating wars, both civil and foreign, and other types of chaos. And those that have built the basic institutions necessary for participation in the global economy, but for whom those institutions aren’t quite strong enough to withstand the economic cycles that are a natural part of that economy, go through discouraging periods of boom and bust.

**Some Nations Can’t Ensure Domestic Tranquility**

Many countries in the world have trouble maintaining domestic order and ensuring the peace and security of their citizens. It is extremely difficult for these states to participate in the global economy, where safety, security, and broad acceptance of the rules of exchange are basic conditions.

These states fall into two categories: those that can’t maintain the rule of law at home among groups with major religious, ethnic, or ideological divisions; and those that have border disputes with neighbors they can’t control. Most of these countries—Afghanistan, the Congo, Sierra Leone, Somalia, and Sudan, for example—share the characteristics of very low income and low levels of educational attainment. These conflict-ridden states have little impact either as buyers or sellers in the world of open, competitive global markets, but they can be found in every corner of the
world (see Table 4–2). To the extent that these local conflicts affect other players around the world, they can disrupt the global economy without being truly part of it.

Other Nations Have Weak Supporting Institutions

At the same time, other countries have managed to avoid these types of major conflicts but have yet to build institutions strong enough to fully participate in the global economy. Studies show that the economies of countries with strong legal and institutional support are much more likely to compete in the world economy. In studies of more than 100 countries, the

Table 4–2
Countries with Conflicts in the Last Decade

<table>
<thead>
<tr>
<th>AFRICA</th>
<th>AMERICAS</th>
<th>EUROPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>Colombia</td>
<td>Bosnia and Herzegovina</td>
</tr>
<tr>
<td>Burundi</td>
<td>El Salvador</td>
<td>Chechnya</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>Guatemala</td>
<td>Croatia</td>
</tr>
<tr>
<td>Chad</td>
<td>Haiti</td>
<td>Cyprus</td>
</tr>
<tr>
<td>Congo</td>
<td>Honduras</td>
<td>Georgia</td>
</tr>
<tr>
<td>Eritrea</td>
<td>Peru</td>
<td>Kosovo</td>
</tr>
<tr>
<td>Libya</td>
<td></td>
<td>Macedonia</td>
</tr>
<tr>
<td>Liberia</td>
<td></td>
<td>Serbia</td>
</tr>
<tr>
<td>Mozambique</td>
<td></td>
<td>MIDDLE EAST</td>
</tr>
<tr>
<td>Namibia</td>
<td>Afghanistan</td>
<td>Iran</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Azerbaijan</td>
<td>Iraq</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Cambodia</td>
<td>Israel</td>
</tr>
<tr>
<td>Somalia</td>
<td>East Timor</td>
<td>Kuwait</td>
</tr>
<tr>
<td>Sudan</td>
<td>India</td>
<td>Lebanon</td>
</tr>
<tr>
<td>Uganda</td>
<td>Nepal</td>
<td>Palestine</td>
</tr>
<tr>
<td>Western Sahara</td>
<td>Pakistan</td>
<td></td>
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<tr>
<td></td>
<td>Philippines</td>
<td></td>
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<tr>
<td></td>
<td>Sri Lanka</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tajikistan</td>
<td></td>
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<tr>
<td></td>
<td>Uzbekistan</td>
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</tbody>
</table>

World Bank has found that measures of government effectiveness, such as the quality of institutions for public service delivery or perceptions about the rule of law, are related to openness in international trade. This is the case even after adjusting for such variables as income, size, ethnic composition, and legal heritage (see Figure 4–3).

A good general indicator of the strength of a state’s institutions is its ability to control inflation. Countries that can meet public demands for resources by allocating public goods without breaking the budget have a much better chance of success in international markets. Countries that have had severe bouts of inflation, however—defined as two or more years of double-digit inflation in the last decade—are much more likely to run into trouble when confronted by the wide swings in demand of a dynamic world economy. Inflation often marks a painful and unsuccessful attempt to adjust domestic government spending policies or domestic financial institutions to the vagaries of international market change (see Figure 4–4).

**Figure 4–3**
*Quality of Institutions Increases with Openness to Trade (Government effectiveness index)*

Even the Fastest Adapters Have Problems

Even those countries that have most benefited from growth have had trouble sustaining success, however. Some run aground not in the early stages of evolution but rather much later, after undergoing some of the profound changes that mark decades of success. Brazil, Indonesia, Mexico, and Thailand are contemporary examples of countries that ran into difficulties after achieving high levels of success. Other countries seem to run into trouble only after they have approached the very highest pinnacle of success—Germany and Japan are the best examples.

Problems Among the Rapid Developers

Just because a country has had some success in global markets doesn’t mean it has been completely integrated into the global economy. Deep-seated institutional problems that clash with the needs of the global economy may be hidden by short-term success, but such problems don’t

Figure 4–4
Serious Inflation Problems Around the World
(Countries with at least two years of double-digit inflation in the last ten years)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial countries</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td></td>
</tr>
<tr>
<td>Developing Asia</td>
<td></td>
</tr>
<tr>
<td>Developing Americas</td>
<td></td>
</tr>
<tr>
<td>Developing Africa</td>
<td></td>
</tr>
<tr>
<td>Ex-Socialist economies</td>
<td></td>
</tr>
</tbody>
</table>

disappear. Indeed, in countries with otherwise robust economies, such problems may come to the fore only after the global economy changes in some way.

Often, the problems that limit growth arise inside the financial system. Brazil, Indonesia, Mexico, and Thailand have all had long runs of success with high rates of growth in both export value and real GDP, supported by their ability to enter international markets. But their successes were interrupted by inflation at home or by international business cycles that led to excessive borrowing and periodic bouts with financial crisis. In the past decade, for example, both Brazil and Mexico experienced the domestic budget deficits, heavy borrowing, and substantial increases in inflation that signal economic strain. In another example, in Indonesia and Thailand large capital outflows in the years following the 1997 financial crisis (triggered in part by substantial current account deficits, extensive foreign capital borrowing, and troubled domestic banking systems) indicated that confidence levels at home still were not high.

These experiences show that many countries are adapting their infrastructures only slowly to respond in a sophisticated way to the financial crises that can occur in both periods of expansion and contraction. Some of these countries have certainly transformed sectors of the domestic culture to adapt quickly to international needs—by training disciplined workers for their plants, by encouraging and providing higher levels of education, by accepting the role of private international firms, and by maintaining services that support the infrastructure. At the same time, characteristics of the local culture may remain that, when push comes to shove, hinder the successful operation of these institutions on a global scale.

In Latin America, for example, many of these characteristics date back to the centuries of Spanish or Portuguese control, and even earlier—the role of family and extended family that influences decisions; the loyalty of workers to particular bosses instead of the company as a whole; a reliance on the government rather than the private sector as the source of jobs and middle class attainment; the dominance of informal means of making things happen over institutional formats; the close relationship between asset control and government; and the military rather than the rule of law as the guarantor of order. All of these factors are beyond the control of the markets, and can skew market activities in any number of ways.
For these reasons, the institutional changes demanded by globalization can run into the same brick wall the cultural changes we discussed in Chapter 3 did. If the institutions demonstrate the value conflicts described above, then the open international economy brings change only to the point where it runs into dramatic resistance from domestic institutions. At that point, adaptation to the global markets slows or stops, especially during periods requiring the greatest adjustment (see Figure 4–5).

**Problems Among the Mature and Successful as Well**

Even some of the most successful countries on the international scene can have serious, long-term institutional issues. Japan (along with many of the Asian Tigers—Indonesia, Korea, Malaysia, and Thailand) adapted its strong communal decision-making culture to the open world economy by forming cooperative ventures between government, university, business, and labor that could focus energy and resources on high-quality and precise production. In this way, Japan developed a commercial ethos that supported its domestic cultural values of cooperation and communal decision making while providing an enormously successful mechanism for competing effectively on world markets.
However, Japan did not adapt well to the technology and entrepreneurial boom of the 1990s and is currently mired in a decade-long period of slow growth. This slow growth resulted from three major problems. One, as the world economy moved toward more rapid production cycles driven by the style and lifestyle changes of consumers, Japan’s competitive advantage of slowly adapting standardized products for the world market became less effective. Two, as corporations found low-cost suppliers around the world, the price of Japanese goods became less competitive. Three, at a time the markets were moving toward a greater service orientation and rapidly changing retail processes, Japan was far removed from the final consumer markets in the West. All in all, the strength of traditional Japanese institutions—a closely tied banking and production system, strong employer-employee loyalty, and government protection of domestic players—turned out to be markedly slow at adapting to the demands of a highly competitive, fast-changing global marketplace (see Figure 4–6). As a result, during the last decade Japan has shown the slowest growth rate of the world’s leading industrial countries.

Germany also went through a period of slow growth in the 1990s, when it posted the slowest growth of any country in the European Union. Like
Japan, it had built an enormously successful business model that achieved a high degree of labor, management, and banking cooperation that supported the development and marketing of high-quality precision exports such as machine tools, transport equipment, and scientific devices. This export-led model flourished with the expansion of the European economy from 1950 to the early 1990s. But like Japan, Germany ran into trouble when its institutional culture couldn’t handle some of the changes as the global market shifted toward a more flexible and adaptable pattern.

Specifically, as the cost of reunification with East Germany rose, the German government began to run huge annual deficits. The German model for decision making, which consisted of management-labor councils at the heart of industrial enterprises, led to a painfully slow adaptation to the changes required by the reunification and the increasingly competitive global markets. What’s more, the German banks, deeply involved in every German enterprise, made it difficult for German firms to gain access to the more open, dynamic, and larger-scale international financial markets. Government support for the “German model” made adjustment time for reorganizing outdated companies even slower. Finally, German industrial enterprises were slow to adapt as world markets expanded from supplying basic industrial inputs like long-lasting industrial tools and equipment to supplying the more rapidly changing consumer-oriented goods that relied on the fashion and style of the moment, and retailers and consumer services led economic growth.

The enormously successful economic models of Japan and Germany value longer-term relationships and the protection of domestic workers and institutions over quick responses to marketplace demands. But because they have been slow to adapt to changes driven by increasing globalization, they have lost their momentum in the last few years.

**Models for the Future**

The countries that seem best adapted to the open international economy are the ones that created it—the United Kingdom and the United States. In the first place, their primary language is English, the language that has become the prime mover of international consumer culture. Both countries have also had a long tradition of openly commercial cultures, of mobile societies and flexible labor markets, and of giving relative...
precedence to individuals over family and community. (See text box, “A Pair of Social Revolutions,” for more insight into the United Kingdom and the United States.) They also share traditions of limited government intervention in free expression and a loud and boisterous media corps. With the U.S. dominance in movies and TV programming, as well as the number and size of multinational firms originating in the two countries, the United States and the United Kingdom have been well placed to influence the international consumer culture.

Perhaps more important, in their traditions of individualism, these countries have also created domestic institutions that are able to accept the greater amount of responsibility that comes with a flexible labor market. Workers are more mobile, for example, and accept the personal burden of adapting to change on their own—they move, they change jobs, they retrain and change careers, they accept flexible work tasks, and they look less to the government for help. The two societies also accept a certain

A PAIR OF SOCIAL REVOLUTIONS

The United States and the United Kingdom are the countries that have been at the forefront of pushing for a more open global trading environment for the last two 200 years. They also shared social revolutions in the 1960s and the 1970s.

Between 1965 and 1980, the baby boomers came of age in the United States, bringing with them vast social changes. The changes affected a broad range of activities—they changed styles and fashion in clothes and music; they delayed the age of marriage, lowered the birth rate, and raised the divorce rate; women’s participation rate in the workplace rose dramatically; the share of young people in college doubled; and they brought an end to that 20th-century phenomenon of the military draft. At the heart of this revolution was the idea that personal rights and choices are of paramount importance, and that such rights and choices are to be respected and even protected by society.

In the United Kingdom, a similar revolution was taking place. In the 1960s, London became a center of the “Swinging Sixties”—British music sold around the globe and youth lifestyle and fashion was decided on Carnaby Street and Abbey Road. Pirate radio stations, broadcasting from ships off the coast, broke the old monopoly power of the BBC with new music and ads. The Labour government played a significant role in bringing change—abolishing capital punishment, ending theatre censorship, making divorce easier, and decriminalizing abortion and homosexuality. These changes in personal liberty were spread around the world through these two countries’ control of the three “M’s”—movies, music, and media.
level of inequality in their composition—that is, their philosophy is to offer equal opportunities to their citizens rather than guarantee equal outcomes.

Historically, several other countries have been closely tied to the United States and the United Kingdom through their role in world trade—Australia, Belgium, Canada, Hong Kong, Ireland, the Netherlands, the Scandinavian countries, and Singapore. These countries—all of them relatively small countries that have long had to build their economic success on successfully developing trading relationships with larger neighbors—have adapted their institutions more easily to the open international style. In other words, their institutions have accepted globalization as well (see Figure 4–7).

All in all, by creating much of the rules and infrastructure of the open international economy, the United States and the United Kingdom have had an easier time adapting their domestic institutions to the pains of globalization. They are more comfortable with exactly those issues that are bringing resistance to other countries, such as the conflict between flexibility and protection, between personal responsibility and a safety net. As more and more other countries enter the global economy, however, they are likely to change the way globalization is done by imparting more of their own values to the system. In the next chapter, we forecast the way globalization is likely to change in the next ten years, and we explore the implications of these forecasts for businesses.

**Figure 4–7**

*Successful Adaptation and Acceptance of Globalization*

United States

United Kingdom

**Institutional adaptations**

Rules of exchange
Open privacy system
Protection of property
Monetary policy/exchange rate
Financial institution control
Open flow of international funds
Antitrust on wide scale
Open information/privacy
Water protection
Safety net

Source: Institute for the Future
Chapter 5

The Future of Globalization:
Human, Cultural, and Institutional Resistance

In the next decade, globalization will continue to be important to the economic life of this planet. Transnational companies, consumers, workers, and countries—rich and poor alike—all find that an effective global economy is very valuable to their well-being. That is not to say that the expansion of globalization will continue unimpeded. The mechanisms driving globalization are showing signs of wear.

Given the current concerns with the limitations of pure globalization, many new players are likely to arise to change the system and make it more compatible with their own principles and values. As market influences have grown, more countries have found them to conflict with internal needs. An increasing number of these countries will work to channel and tailor international institutions supporting mechanisms that allow a country’s institutions to protect local markets, businesses, and labor forces from globalization’s inevitable swings. It won’t be a revolution, by any means, but it will be enough of a change to force businesses to reevaluate the way they participate in the global economy.
Countries that participate in the open international economy are marked better off than those that do not.

What We Know About Globalization

Each chapter of this report explores a different aspect of globalization. Taken together, they provide a good overview of the range of issues the global economy faces today.

Chapter 1 describes the benefits of the open international economy. Countries that participate are markedly better off than those that do not. But there are costs for many of those that participate, in the form of growing inequality in income—sometimes between countries, but more often within countries. In fact, one of our most interesting findings is that those countries most likely to have the strong institutions and adaptability needed to succeed in the international economy—the United States and the United Kingdom—also have high levels of inequality in their own economies.

Chapter 2 tracks the impact of the world economy on individuals. Those who participate most fully in the open economy by moving from country to country generally benefit in many ways. This is true whether they are engineers in high demand or unskilled workers who take the jobs no one else seems to want in advanced economies. However, global workers may pay a heavy price when their migrations disrupt their families and communities. At the same time, the countries that lose these key human resources are at a greater disadvantage in their own adaptations to the global market. Even those who seem to benefit the most from the world economy—consumers who find a wider range of goods at lower prices—find some costs in a greater standardization of products and the threat of artificially high monopoly pricing.

Chapter 3 describes some of the forces of the world consumer culture that support open trade. Consumer products, movies, TV shows, music, popular style and fashions, and international travel form a global consumer culture—one defined by materialism, individual empowerment, mobility, and freedom of choice. Messages about these values penetrate almost every local culture around the world, but almost all of these cultures have points of resistance where the values of individual freedom, choice, mobility, and empowerment run into those of protection, mutual support, the richness of community life, the enduring ties of family, and religion. The countries that have best adapted the messages of consumer culture are the United States and the United Kingdom, perhaps because consumer culture is largely their invention.
Chapter 4 explores the domestic institutions that help a country adapt to the demands of the global economy. Success in the open economy requires not just compatible laws, regulations, courts, and administrative apparatus, but also an open and flexible process for changing the rules. As the international economy has grown in size and scale, as the number of participating countries has increased, and as influences from other countries have become more pervasive, the domestic institutions of many countries have not been able to adapt. This group includes countries that have increased their share of GDP from the global economy dramatically, like Argentina, Brazil, Indonesia, and Thailand. It also includes two of the world’s three largest exporters—Japan and Germany—countries that have tied their domestic economies very closely to the international economy. The countries that seem to be adapting most efficiently to the demands of the open economy are the United States and the United Kingdom—the countries that set the rules of the game for the past 200 years.

**WHERE GLOBALIZATION IS GOING**

Given the way the open international economy is structured, certain countries have a clear advantage. These are the states that have a tradition of providing protections and rights to the individual, that favor the mobility of labor, that are more comfortable with a commercially oriented, private market economy, and that can accept the passing of many of the costs of adjustment to individuals. The countries on this list include Australia, Canada, Ireland, Israel, New Zealand, the United Kingdom, and the United States. We’ll call these the countries of radical individualism (see Table 5–1 on page 61).

A second tier of countries, many of the countries of continental Europe, in fact, follows just behind the radical individualists. These countries have accepted the value of international trade—especially among themselves. They also have long traditions of personal liberties and commercial activities, but they do not have deep traditions of unquestioned democratic governments; they are less inclined to take on the risks of a mobile and free labor force; and they rely more extensively on the government as a provider. These societies are built on communal goals and a government-sponsored safety net. They strive to create equal outcomes for as many citizens as they can. These are countries of communal individualism.
The third tier is the group of countries with even greater emphasis on communal values; they also have strong social and political institutions. Generally, they have adapted those institutions to support international economic activity. However, while the countries of this group encourage international business exchange, accept the rules of the WTO, follow the latest directives of the Bank for International Settlements on international finance, and accept competitive pricing of internationally traded goods, they have not changed their domestic cultures at the same pace. They don’t espouse the virtues of the more radically open states such as individuality, flexibility, openness, mobility, and the willingness to leave the responsibility of caring for individuals to the individuals themselves.

A fourth group includes countries that distinguish sharply between internal and external ways of doing things (such as China) or those that will not impose internationally required restrictions on domestic banks and government spending programs when domestic groups are hurt (Argentina and Brazil, for example).

<table>
<thead>
<tr>
<th>Table 5–1</th>
<th>Level of Comfort with Globalization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Radical Individualism</strong></td>
<td><strong>Communal Individualism</strong></td>
</tr>
<tr>
<td>United States</td>
<td>Germany</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>France</td>
</tr>
<tr>
<td>Australia</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Israel</td>
<td>Belgium</td>
</tr>
<tr>
<td>Canada</td>
<td>Sweden</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Norway</td>
</tr>
<tr>
<td>Ireland</td>
<td>Finland</td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Institute for the Future
The major change coming to the global market will be the gradual movement of activity away from the core countries of radical individualism (the United States and the United Kingdom) and the multinational companies headquartered in those countries, to the countries of the second tier (continental Europe), and gradually to the countries of East Asia, South Asia, and Latin America. Indeed, in the next decade, the countries in the third and fourth tiers will account for a greater share of international activity (see Table 5–2). The growing number of these countries participating in the world economy and their relative success in penetrating world markets will make them increasingly important in determining the rules of the international game.

While the share of the total international market going to the second, third, and fourth tiers will grow, and the number of countries playing a big role will also grow, the institutions of many of these countries will continue to be weak; these countries will not be able to participate as fully and positively as others. The countries of Africa, the Middle East, and Central Asia, where violence will discourage the building of safe and secure infrastructures for participation, will be chief among this group. Problems will also continue with countries that have a strong enough government to promote laws and international exchanges but whose institutions will show weakness when confronted with the domestic implications for the huge swings the international economy always brings. Many developing countries in Latin America, South and Southeast Asia, Eastern Europe, and the

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### Table 5–2
Shift in World Trade Away from the Radically Open
(Percent of world exports)

<table>
<thead>
<tr>
<th>Year</th>
<th>Radical Individualism</th>
<th>Communal Individualism</th>
<th>Communalism</th>
<th>Weaker Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>36</td>
<td>40</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>2000</td>
<td>30</td>
<td>39</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td>2010</td>
<td>25</td>
<td>34</td>
<td>24</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Institute for the Future; historical data from International Monetary Fund.
Middle East will continue to have problems with government deficits, monetary policy, and lending policies in the banking systems.

At the same time, a growing set of successful players will take on a greater role in the open economy. These countries will be more sensitive to the discrepancies between their own domestic needs and the needs of the open international economy. They will play by the rules of the international game but gradually modify its rough edges. They will be more willing to take steps to protect national or regional interests in company ownership, to support the central bank’s role in independent monetary policy, to build and maintain strong domestic financial institutions, to protect domestic labor markets, and to strengthen the role of local governments in setting regulatory standards (see Table 5–3).

Altogether, these variations in policy in the next wave of globalizing countries will provide not so much barriers or hurdles but rather potholes in the road toward an ever more open world economy. Look for the rate of

Table 5–3
The Key Points of Resistance to Globalization in the Future

Pressure points where the International Monetary Fund, the World Bank, the International Labour Organization, and national laws will slow the transmission of cross-border adjustments in the international economy:

<table>
<thead>
<tr>
<th>International institutions will modify rules of exchange by creating more flexibility in:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Exchange rates</td>
<td>• Ownership rules</td>
</tr>
<tr>
<td>• Financial security</td>
<td>• Time for adjustment</td>
</tr>
</tbody>
</table>

At the national level, there will be more of an emphasis on:

| • Antitrust issues                                                                  | • Control over financial flows |
| • Privacy and security                                                             | • Environmental and health issues |
| • Worker protection                                                               |                                |

Source: Institute for the Future
growth of world trade to slow slightly and the rate of expansion of multinational firms to slow somewhat as well in the next decade.

We anticipate that the countries that will be growing the most rapidly in international importance will be those that have exhibited some cultural or institutional resistance to the world consumer culture in the past. These countries will be looking for institutional mechanisms that protect them from market disruptions. Already the International Monetary Fund has proposed, despite U.S. protest, a means of helping countries in debt trouble to reach orderly and fair deals with their creditors, rather than go through messy defaults.

In many cases, they will gradually come to see that European Union directives on issues like labor market policies, work rules, controls and protections for financial institutions, privacy rules, safety net issues, regulation and control of business practices, environmental and health regulations, and cultural sensitivities are much closer to their own than those of the Anglo-Saxon countries. Look for the International Monetary Fund, the World Bank, and the WTO to gradually shift to a more European Union style of decision making, as well as a growing compatibility between European Union rules and policies and those that regulate international trade, finance, and labor.

**Business Implications of Evolving Globalization**

The open world economy has driven the tremendous success of multinational businesses in the last 50 years. The rules of globalization have gradually lowered the barriers to trade and financial flows. It has allowed multinational companies to use ideas and financial resources from wherever they could gather them, to build supplier networks at the least expensive and most efficient sites, and to assemble and distribute their products in the countries of their choice. Foreign firms have begun to be trusted as much as local firms. Competition among developing countries that want to enter the global economy has kept the welcome mat out for transnational companies looking to expand their international sourcing.

In the next decade, with the emergence into the global marketplace of the next tier of more protectionist countries, look for changes in how businesses are treated in three main categories: control of business practices, regulation, and labor policies.
Control of Business Practices

- **Stricter antitrust enforcement.** Given the recent European Union rulings that have limited the activities of airlines and telecoms and prevented mergers like GE/Honeywell, there will be a growing tendency for large businesses operating across borders to be measured more strictly in how they affect domestic enterprises.

- **Ownership rules.** Many countries will adopt policies that allow local governments, banks, and shareholders to protect their interest in companies that are important to the local economy. Recent European Union rulings that have restricted the ability of foreign companies to buy media firms, banks, and utilities are likely to be adopted elsewhere.

- **Controls over banks and share markets.** Access to both international and local financial markets will continue to be the key to running a multinational company. As the international players become more diversified, look for regional markets, such as those in Europe, Tokyo, and Shanghai, to play bigger roles. In these markets, access to funds will be more difficult for large extranational firms when competing against local firms.

- **Intellectual property.** The WTO will gradually accept modifications to the control of intellectual property, modifications that are more sympathetic to local needs. The rulings on AIDS drugs in Africa and Latin America will begin to evolve into new standards that loosen the protections for the use and control of all types of patent rights in the global market.

- **Capital controls.** More countries—even successful players on the international stage—will utilize controls over the flow of capital across borders to insulate domestic economies from the brunt of international influences. Once, only countries with weak domestic institutions, like Argentina, imposed controls. In recent years, however, countries with good records of competing on the international export markets, like Chile and Malaysia, have done so.
Regulation

- Commercial practices. Local laws will grow much more aggressive in controlling foreign retail activities in a number of countries where middle-class markets are growing. For example, French and German rules regulating local practices protect both local communities and local companies.

- Environmental and health practices. Businesses will find that the European Union model of stricter environmental and health standards is a way of getting the international economy to invest in improving some of the negative consequences of growth that have disrupted local infrastructures.

Labor Policies

- Hiring workers. Companies will be able to hire workers flexibly, but will have to adhere to stricter policies before laying off large numbers of them.

- Control of workers. Workers will agree with recent decisions by several European Union countries that local government has the right to make regulations that protect workers from market forces. As a result, in many markets companies may find it difficult to execute mass layoffs, and work hours may be regulated in more cases, as is now common in France.

- Cross-border workers. Many more developed countries will set up regulations to attract high-tech workers on special visas. At the same time, they are likely to restrict other forms of immigration.

All in all, transnational companies are likely to find stricter standards to follow in middle-class countries in Asia, Eastern Europe, and Latin America, which will be more open to these adjustments when global business practices lead to disruptions of domestic markets. A number of emerging countries will pressure the international institutions to modify their
rules. The large multinational institutions that protect open international trade—the WTO, the International Monetary Fund, and the World Bank—will support these standards as their members and boards reflect the new distribution of influence. These institutions will gradually change in both composition and procedures as the flows of trade, finance, and transnational firms broaden. They will set rules that reflect the beliefs of more cultures and countries in communal values, the importance of the safety net, and equality in domestic markets. Companies that have been the most successful in playing by the rules of the more open, flexible, mobile international markets will be challenged by these changes.