Contents

ARTICLES

Whither the Responsibility to Protect? Humanitarian Intervention and the 2005 World Summit
Alex J. Bellamy 143

The Gendered Dimensions of Conflict’s Aftermath: A Victim-Centered Approach to Compensation
Sara L. Zeigler and Gregory Gilbert Gunderson 171

Western Policies on Child Labor Abroad
Roland Pierik and Mijke Houwerzijl 193

ROUNDTABLE

“A THREAT TO ONE IS A THREAT TO ALL”: NONSTATE THREATS AND COLLECTIVE SECURITY

Decisiveness and Accountability as Part of a Principled Response to Nonstate Threats
Robert O. Keohane 219

Bio-Security, Nonstate Actors, and the Need for Global Cooperation
Bruce Jones 225

Nonstate Threats and the Principled Reform of the UN
Nirupam Sen 229

The Crisis of Global Trust and the Failure of the 2005 World Summit
Nancy E. Soderberg 235

International Governance and the Fight against Terrorism
Steven Lee 241

REVIEW ESSAY

Is Globalization Working?
David Singh Grewal 247

BOOK REVIEWS

Recent Books on Ethics and International Affairs 261

Contributors 277

Guidelines for Submission 279
Is Globalization Working?

David Singh Grewal*


The economic globalization of the 1990s did not go uncontested, either politically or intellectually. Public protests against the WTO at the Seattle Ministerial Conference in 1999, and later in Genoa, Cancun, and elsewhere, were accompanied by critical examinations of globalization by academics and activists alike. Joseph Stiglitz’s Globalization and Its Discontents and Dani Rodrik’s Has Globalization Gone Too Far? joined protest tracts like Naomi Klein’s No Logo to highlight the problems and shortcomings of neoliberal globalization. It was inevitable that these criticisms would attract counterfire from its defenders and boosters. Two of the most creditable responses in the spate of pro-globalization literature that followed are Why Globalization Works, by the financial journalist Martin Wolf, and In Defense of Globalization, by the economist Jagdish Bhagwati.¹

The two works have a similar orientation and motivation and a shared view of villains and heroes. Both restrict their attention to economic globalization, understood broadly to mean the liberalization of trade in goods, capital, ideas, and people within a multilateral and market-oriented framework. Both denounce its critics for their hostility to liberalism or capitalism. Wolf claims that these antiglobalization critics—the “new millennium collectivists,” as he calls them—are in league with “religious fanatics, obscurantists, extreme environmentalists, fascists, [and] Marxists”² and are liable to produce something worse even than

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¹ I want to thank Christian Barry, Daniela Cammack, Paul Cammack, and Lydia Tomitova for their helpful criticisms and suggestions.

“the monstrosities of Soviet and Maoist communism.” Bhagwati blames these “anti-capitalist” protests on Lenin, Derrida, Foucault, Che Guevara, and George Bernard Shaw, among others, and claims that undergraduate departments of “English, comparative literature and sociology are fertile breeding grounds” for such foment. Finally, both authors defend neoliberal globalization for related, if not identical, reasons: Bhagwati because of an argument that trade leads to growth and growth reduces poverty, and Wolf because “the market is the most powerful institution for raising living standards ever invented.” For both Wolf and Bhagwati, in short, globalization is understood as the promotion and deepening of market relations across borders; it is desirable because markets are the best way of getting more people, including poor people, more of what they want; and its critics are mistaken in one way or another about its negative impacts. Globalization does not undermine democracy, human rights, or the environment; it does not exacerbate poverty or contribute to inequality. Rather, it is the best hope we have to forge a better world.

Despite these broad similarities, the two books differ in both tone and content in a few salient respects. Wolf, a journalist and Financial Times columnist, writes in a clear, direct, and generally measured way, and his book provides the best introduction to and defense of globalization currently available. Bhagwati, by contrast, is now well known for his bombastic op-ed pieces, and as this book collects many of them together, it reflects their strident tone. Substantively, however, Bhagwati’s book is more interesting than Wolf’s, for while Wolf hews to the standard line on globalization, Bhagwati quarrels over the particulars in order to take up thoughtful positions on immigration, finance, and cultural subsidies that are in tension with the current framework. Thus, In Defense of Globalization is a contribution, in a way that Why Globalization Works is not, to the mature debate that we should be having about globalization: not only about whether we want more or less of it but about what kind of globalization we want.

Wolf adopts the pure more or less position—“the failure of our world is not that there is too much globalization, but that there is too little.” This leads him to accept rather uncritically our current global arrangements, suggesting that all we can (or should) do is to press on along existing lines. Accordingly, Wolf repeats throughout a chastened Panglossian refrain: if our current globalization is not the
best of all possible worlds, it is certainly the best we can reasonably hope to attain. The problems we face are not due to the kind of globalization we have, but to the fact that the world is so incompletely globalized. Unlike Bhagwati, Wolf does not argue over the uneven or biased nature of contemporary globalization (except to attack agricultural subsidies), and he does not exercise any institutional imagination in pursuit of a more consistently or differently globalized world. This modesty has both unfortunate and fortunate consequences for the reader. It means that Wolf leaves much unaccounted for, but also that he presents a concise apologia for neoliberal globalization as it is currently institutionalized. This is of no small value: the critical position has no similarly coherent and contained statement.

Bhagwati, by contrast, does more than validate current arrangements; he criticizes them when they fall short in ways he cares about. He can be both bullish about “global capitalism,” considered abstractly, and nuanced in his criticisms of the particular institutional vehicles that we now have for its promulgation. At that level, at least, he has moved from asking more or less questions to asking what kind questions. This difference between Wolf and Bhagwati is notable in their respective positions on the liberalization of capital and labor. The current form of globalization is, as the Harvard economist Dani Rodrik has pointed out, deeply biased in its liberalization, for while capital is free to roam the globe in search of higher returns, labor remains trapped within nation-states, resulting in enormous differences in pay for similar work. This gap should be of serious concern to those who, like Wolf and Bhagwati, argue that the liberalization of trade (including in factors of production) is the best way to raise living standards, for perhaps the best way to achieve greater allocative efficiency would be to let wage levels converge—and in a service-heavy global economy, that convergence cannot happen just by trading labor-intensive goods. People too must be free to move. And, indeed, the earlier episode of globalization preceding the First World War was marked by high capital mobility and unrestricted migration, which the economic historian Jeffrey Williamson estimates led to 70 percent of the convergence in real wages among the participating countries between 1870 and 1910. But with a few notable exceptions, the silence from economists on the issue of labor mobility has been deafening.

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Bhagwati, however, is one of these exceptions. He has called, both in this book and elsewhere, for a “World Migration Organization” that would support “enlightened immigration policies,” and he recognizes the role that liberalized immigration policies could play in global development. Wolf, by contrast, exempts labor flows from the usual economic logic about factor mobility. He writes almost nothing about contemporary migration in Why Globalization Works, but in an op-ed contribution to the Financial Times he argues that immigration should not be an economic question first and foremost. “If our aim were to maximise global economic output,” he admits, “we would abolish restrictions on the movement of people.” But instead of supporting greater immigration, he defers instead to the right that countries have “to serve the interests of their own citizens,” which is surprising, given the vehemence with which he argues for other kinds of economic liberalization in Why Globalization Works. Wolf does not explain why national interests should be allowed to trump international integration with respect to immigration and not, say, environmental regulations or the management of capital flows.

The position is reversed on the controversial subject of capital controls, which Bhagwati favors but Wolf opposes. Bhagwati’s argument, which was first articulated in a Foreign Affairs piece following the Asian financial crisis, is that trade in capital should be treated differently from trade in goods, since the potential costs of increased capital mobility include a much greater risk of financial crisis. Accordingly, Bhagwati warns of the “perils of gung-ho international financial capitalism” and even goes so far as to suggest that a “Wall Street–Treasury” complex has pushed aggressive financial liberalization to the benefit of American banks but the detriment of fragile developing economies. Bhagwati’s argument, which condemns by name former Clinton Treasury Secretaries Robert Rubin and Lawrence Summers, shocked many at first, as it put him (on this limited question at least) in line with the skeptics rather than the advocates of neoliberal globalization. But it is a sign of Bhagwati’s intellectual self-confidence and honesty that he took the position he did. His assessment of capital controls is


David Singh Grewal
now shared by the IMF and the Economist, both of which have reversed their earlier push for greater mobility of capital.\textsuperscript{13}

By contrast, Wolf repeats a chastened version of the “gung-ho” line: that capital mobility remains good, on balance; that the crises and the IMF’s damage-control were not as bad as the critics claim; and that international institutions have learned to pay more attention to the banking infrastructure of developing countries as they are launched into the rough sea of global capital.\textsuperscript{14} Wolf’s support for capital mobility does not seem to square with his support for immigration restrictions, as the free mobility of capital and labor seem to present similar kinds of potential and risk. The full movement of labor would prove disruptive to local economies, especially in the short run, but perhaps economically advantageous in the longer run, which is all that one can say about the gamble of unrestricted international capital flows.

When they leave behind their shared “pro-globalization” rhetoric, Wolf and Bhagwati reveal different judgments about our current institutions for global integration. One weakness of both books is their lack of serious engagement, at this level of detail, with the criticisms and alternatives advanced by some of globalization’s critics. Apart from the extreme cases that both Bhagwati and Wolf are fond of bringing up, most “critics” of globalization are also asking questions about the kind of global integration we want and how best we can achieve it. True isolationism or autarky is a convenient straw man, but it is a caricature of the critical position—a caricature that both Wolf and Bhagwati seem to endorse—to suggest that concerns about institutional capacity, laboring conditions, cultural diversity, or environmental sustainability must all amount to a rejection of globalization, \textit{in toto}.

**GLOBALIZATION AND POVERTY**

We should take issue with both Bhagwati and Wolf about today’s globalization on some specific points, particularly on the contentious estimates of poverty trends, which are central to the evaluation of market-led globalization. Both Wolf and Bhagwati point to studies by the World Bank economists David Dollar and Aart Kraay, and a later paper by the Columbia economist Xavier Sala-i-Martin, which conclude that the number of the poor, after increasing throughout most of


the twentieth century, has been falling since around 1980, alongside the enactment of neoliberal economic policies. The most significant problem with these studies is that they rely on the “one-dollar-a-day” poverty line established by the World Bank, a widely cited measure that is of doubtful relevance to the assessment of actual poverty. In fact, for such an assessment, the dollar-a-day measure is “meaningless,” as the economist Sanjay Reddy and the philosopher Thomas Pogge have argued in a series of papers, because the figure uses purchasing power parity (PPP) ratios in order to convert foreign purchasing power into U.S. dollars. The problem is ultimately one of aggregation: to value real purchasing power (the ability to buy goods and services) in one currency in terms of another, economists compare representative baskets of goods and services—cars, movie tickets, doctor visits, heads of lettuce, and so on—purchased in each country for a given amount of currency. But many of the goods and services that enter into these calculations may be irrelevant to the poor, because no poor person consumes them, and so they skew poverty calculations that include them. Reddy and Pogge conclude that it is impossible to construct a meaningful poverty line of the dollar-a-day type that uses PPP ratios. If anything, these ratios have the effect of underestimating the true extent of poverty. Reddy and Pogge offer an alternative to the dollar-a-day standard, suggesting that international poverty comparisons focus on a common “achievement concept,” specifying a certain level of elementary capabilities.

The debate that followed Reddy and Pogge’s papers is highly technical but extremely important for an accurate assessment of neoliberal globalization. While Wolf makes an effort to explain it, he offers in the end what amounts to a hollow concession, thanking Reddy and Pogge for their necessary “warning” but then concluding his chapter just as he began it, with the claim that we know that world poverty has fallen as a result of globalization. The truth is that we know no such thing. Without a meaningful poverty line, we cannot say one way or the other. Bhagwati makes the same claim as Wolf, relying on Sala-i-Martin’s work (which uses the same PPP ratios as the World Bank studies), but without even offering the caveat that there remain deeply contentious issues of measurement and application.

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15 The latest versions of Reddy and Pogge’s papers on this theme, both technical and popular (including their central paper, “How Not to Count the Poor”), are collected at www.socialanalysis.org, along with World Bank responses and media coverage.

16 Such a common achievement concept would probably include (without being restricted to) the attainment of minimal nutritional standards.

17 Wolf, Why Globalization Works, p. 163.
Whether economic globalization contributes to more or less poverty (and indeed how we should best understand poverty) is one of the most important questions about it. And when we move from abstract or ideological debates to actual empirical assessments, the picture becomes much murkier, not least because these debates have been distorted by partisan bias. Acknowledging this empirical uncertainty and drawing careful and cautious conclusions is the only way to proceed, but this is not the route that some pro-globalization economists, such as Sala-i-Martin and those who rely exclusively on his findings, seem willing to take.\(^\text{18}\) Wolf and Bhagwati frequently admonish globalization’s critics to rely on facts and reasoned debate, but in this case, they should be much more concerned about the deceptions of its cheerleaders.

There is a yet deeper problem with using these poverty numbers to assess the impact of globalization on the poor. Even if we were to grant that Sala-i-Martin’s data is correct, it does not follow that globalization in its current form is helping the poor in an ethically relevant sense, unless we first specify the relevant counterfactual against which we wish to contrast it. These studies conclude that poverty was greater before than it is now, and thus they adopt a historical baseline against which to assess the present condition of the poor. But it seems that a \textit{counterfactual} and not a historical assessment is the more appropriate one for determining whether our current form of globalization is superior in this respect to its possible alternatives. Whether poverty has fallen over the past few decades does not in itself provide strong evidence for maintaining the status quo; rather, it begs the question whether poverty could fall faster still under other policies.

\section*{TAKING POLITICS INTO ACCOUNT}

A more overarching question that neither book addresses is how we should properly think about the connections between politics and neoliberal economic globalization. Both Bhagwati and Wolf downplay the role of new technologies in bringing about economic globalization, focusing instead on the \textit{policy changes} driving global integration. Wolf comes out explicitly against the naive “technological determinism”\(^\text{19}\) that fellow-journalist Thomas Friedman adopts in

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\textsuperscript{18} Sala-i-Martin’s work contains what the Nobel Prize winner Joseph Stiglitz has called “gross distortions” that seem aimed at showing a dramatic reduction in poverty under neoliberal policies. The work of the economist Surjit Bhatta, which also argues that poverty has fallen rapidly, attracted similarly fierce criticism at a Carnegie Council on Ethics and International Affairs conference on poverty estimation in 2003. See coverage of the conference at www.glovesoff.org/ringside_reports/poverty_040603.html. \textsuperscript{19} Wolf, \textit{Why Globalization Works}, pp. 16–17.
\end{flushright}
The World Is Flat, while Bhagwati emphasizes that, unlike earlier episodes of globalization, which were “driven more by technological developments in transportation and communication than by policy changes,” today’s is dependent on political decisions to promote international integration.

Despite the insistence that economic globalization is a political creation, neither Wolf’s nor Bhagwati’s book adequately addresses the role of politics. Wolf and Bhagwati are explicit in restricting their arguments to economic globalization, but both of them want their economic arguments to matter for the political choices driving it. Imagining an autonomous realm of the economic that can or should be understood apart from the political is an assumption shared by, among others, neoclassical economists and some Marxists. This kind of analysis, however, cannot illuminate the contradiction underlying much that is puzzling or interesting about today’s globalization: the fact that everything has been or is being globalized except for politics, which remains national. (All treaty organizations and UN agencies are, ultimately, the voluntary associations of sovereign nation-states.) Thinking through the tensions in a global economy forged out of a nation-based politics reveals aspects of globalization that both Wolf and Bhagwati neglect.

Consider the case for free trade. Why do nations pursue such economic integration? Obviously, as Bhagwati and Wolf argue repeatedly, they do so because trade works to the advantage of both parties, enabling them to exploit comparative advantage, as classical trade theory suggests. This theoretical defense of free trade assumes that policy-makers are concerned with absolute gains—the increased welfare that trade brings, irrespective of its benefits to the trading partner—and not relative ones. If we are concerned only with our absolute level of material welfare, then we may indeed wish for freer trade. If, however, we are worried not just about absolute levels of welfare but also about the relative positions of different countries (including, presumably, our own), then the situation becomes much more complicated than either Wolf or Bhagwati admits.

The most important and obvious arena of relative comparison is military advantage. An absolute level of military capability means nothing; a country’s army is great or small only in comparison to those of its rivals. To the extent that free trade works, it undermines a nation’s relative advantage over its rivals by producing economic convergence. Particularly on today’s high-technology battlefield, economic power can rather easily be converted into military power.

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Therefore, a country concerned exclusively with economic welfare may support free trade, but a country worried about welfare and security will have a more ambivalent stance.

This insight quickly brings us to an interesting and neglected fact: that periods of international economic integration correspond to periods of international hegemonic stability. Great Britain’s hegemony underwrote the so-called first globalization, starting in the 1870s through to the Great War, just as it was the unrivaled power of the United States from the early 1990s that resulted in the adoption of NAFTA and its expansion in the FTAA and the transformation of the weak GATT into the strong WTO. We should expect the call to free trade to come from the international hegemon, the country (or perhaps bloc of countries) that need not fear the quicker economic growth that trade brings to underdeveloped rivals. But as industrial rivals develop, the cries for free trade become weaker, both from the hegemon, now willing to forgo additional material welfare for greater relative security, and among its rivals, which may seek a strategic disengagement from the world economy in order to protect infant industries and enable a mature industrial and military policy. In a period of great power rivalry without clear hegemony, we should expect free trade to fall low on the agenda. The call to arms is always stronger than the call to trade; perhaps only a national security expert can trump an economist.

Theorists of doux commerce, whether eighteenth-century writers, such as Montesquieu, or early-twenty-first-century popularizers of the same concept, such as Thomas Friedman, are right to spot that freer trade has some kind of relation with more peaceful politics. But they may have misunderstood the nature of the causal relationship between these phenomena. It may be the case not that trade pacifies international relations but that pacific relations are a prerequisite of economic integration. Periods of rapid globalization go hand in hand with periods of international peace, during which countries can worry less about relative and more about absolute levels of welfare. And given that international peace remains (so far at least) a consequence of hegemonic stability and mutual exhaustion, periods of globalization and periods of hegemony come together in waves. The world’s leading power can afford to think about the welfare gains that accrue from trade, and to ignore—for a time—the unsettling thought that economic power translates sooner or later into military might.

In the eighteenth century, at the beginning of Britain’s maritime supremacy, David Hume argued for free trade as boldly as anyone ever has: “as a British
subject, I pray for the flourishing commerce of Germany, Spain, Italy, and even France itself." A century earlier, amid warring national rivalries, the mercantilists did not share Hume’s optimism but instead adopted a protectionist and zero-sum approach to international trade—one derided by economists today but perhaps comprehensible given a concern with both national security and economic gain. And a century and a half following Hume, many Britons maintained his optimism despite the rise of their military rival and second largest trading partner, Germany. Sir Norman Angell famously claimed, on the very eve of the First World War, that Germany would never attack Britain, given the interconnections between the two economies. But Britain’s free trade regime had provided shelter for the development of its military rival, and the liberal trading order that British hegemony encouraged came to a violent end.

Today’s free traders, like Bhagwati and Wolf, now offer Humean prayers for the flourishing commerce of India, the European Union, Russia, and even China itself. Whether these prayers ignore the realities of international power politics is quite another matter. Bhagwati notes that “historians have long observed that if the flag sometimes follows trade . . . trade more often follows the flag,” but he does not seem to draw from this aside the lessons that he might. Wolf recognizes that “international rivalry” is the greatest threat to the liberal trading order, but he takes assurance from the fact of U.S. hegemony and his conviction that “a move to open hostilities seems quite improbable." Wolf would do well to pick up a copy of The Great Illusion, as his analysis provides the latest version of that doctrine once called “Norman Angellism.” On a different reading of history, free trade appears less a formula for global peace than an effective means of amassing wealth for the next war.

26 Norman Angell’s doctrine was that “military and political power give a nation no commercial advantage; that it is an economic impossibility for one nation to seize or destroy the wealth of another, or for one nation to enrich itself by subjugating another.” Angell, The Great Illusion, p. vii. Wolf adopts these themes, and adds to them the unification of purpose that he hopes the “global war on terror” will bring to otherwise competing nations. Wolf, Why Globalization Works, pp. 309–10.

David Singh Grewal
Military power is not the only relative comparison of importance. Even within a purely economic analysis, the consideration of relative and not absolute gains changes our calculations—and even our understanding of the consequences of free trade. Indeed, classical trade theory, with its emphasis on comparative advantage, is being called into question in a world of commerce based not on wool and wine but on semiconductors, biotechnology, and blockbuster films. In a modern economy, comparative advantage is the product of national development strategies rather than fixed natural resources. Therefore, the relative differences between nations that determine the control of emerging and existing markets can generate broader economic outcomes as the product of strategic interaction with similarly situated rivals.

This revision of classical trade theory has been articulated elegantly by the mathematician Ralph Gomory and the economist William Baumol in their book *Global Trade and Conflicting National Interests*. Gomory and Baumol argue that classical trade theory fails to take into account dynamics that generate multiple trading equilibria rather than a unique one. Given the many different possible outcomes, the question becomes not how a country should pursue its comparative advantage (understood statically) but how a country can produce one outcome rather than another—how a South Korea moves from agriculture and labor-intensive production a few decades ago to the very forefront of advanced industries such as semiconductors today. The answer is not the invisible hand of free trade—which can generate many different results, according to Gomory and Baumol—but politics and policies. In competition for emerging industries that exhibit properties like economies of scale—an inconvenience for economic theory routinely encountered in the real world—national policies and national rivalries matter enormously.

One of the interesting insights that Gomory and Baumol present is that trade between nations at a similar level of development (and thus in competition in the same sectors) is most likely to deviate from the conclusions of classical trade theory: “Among developed nations changes that benefit one of them may well

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27 Ralph E. Gomory and William J. Baumol, *Global Trade and Conflicting National Interests* (Cambridge: MIT Press, 2000). Gomory and Baumol make an argument made earlier by John Stuart Mill and others concerned with the political economy of industrial development, as they recognize. Their book includes a closing chapter by Edward Wolff presenting empirical evidence that confirms the persistent specialization among industrialized countries that their argument suggests.
come at the expense of the other.”

For example, the control of new markets or new technologies may disproportionately benefit one country or group of countries over and against its rivals, such that free trade consolidates (or undermines) existing advantages rather than working to the benefit of both countries. This strategic competition may be particularly important between developed countries and their emerging industrial rivals. Trade between such countries may work mainly to the benefit of the more developed country, which can thereby maintain existing advantages and lock in new dominance in new industries. By contrast, it is trade between a developed and underdeveloped nation that is most likely to be mutually beneficial and conform to classical theory, as these economies are not competing for dominance in the same industries.

A more nuanced ethical assessment of globalization would need to account for these dynamics, since free trade may sometimes work to raise living standards, as Wolf and Bhagwati suggest, but at others the “magic of the market” may be missing. On this account, then, economic rivalry alone may be enough to undermine a liberal trading order—and not because of any self-defeating blanket protectionism, but entirely in the consistent pursuit of economic self-interest, according to which free trade might be recommended between certain agents at certain times, but not at others.

AN OLD DEBATE

There was a time when the analysis of free trade was not undertaken apart from an analysis of the politics of nation-states, and in which arguments like those advanced by Gomory and Baumol were more commonplace. Those interested in renewing this understanding should consult the Cambridge historian Istvan Hont’s recently published and immensely learned book, Jealousy of Trade, which explores the history of economic and political thought in early modern Europe.

David Hume, Adam Smith, and others wrote about what we now call globalization, studying commercial rivalry, capital mobility, poverty, economic development, cross-country wage convergence, and even the “China price.” As Hont explains, “by taking the history of political and economic thought seriously

28 Ibid., p. 73.
we can see that the globalization debate of the late twentieth and early twenty-first centuries lacks conceptual novelty.\textsuperscript{30}

The debate lacks novelty because the world that we are in—a world driven by commercial competition and divided into nation-states—is not a new one. This fact should matter for Wolf and Bhagwati because these features are the enduring backdrop against which globalization has been taking place for several centuries and continues to take place today. If our present moment looks similar in key respects to past periods of globalization, we should be skeptical of the grand claims currently made on its behalf and worried about the precedents with which history presents us. The rise and fall of the previous free trade regime—and the liberal hegemon that backed it—proved as bloody an episode as humankind has experienced. If we wish to escape a similar fate, a better understanding of the long history of globalization should help us to imagine its possible futures.

\textsuperscript{30} Ibid., p. 155.