

STRATEGIC ISSUES SERIES

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GLOBALIZATION TRIUMPHANT OR  
GLOBALIZATION IN RETREAT:  
Implications for Canada

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*The views in this discussion paper are those of the author and do not represent the views or positions of the Department of Justice, Canada. The paper was commissioned as an opinion piece to stimulate research and discussion.*



## Strategic Issues Series

The Research Papers included in the Strategic Issues series generally have been prepared for the Statistics and Environmental Analysis Unit of the Research and Statistics Division (RSD). This series is part of the Research and Statistics Division's efforts to look ahead and to scan the environment to provide contextual facts and perspectives on a wide range of social and economic issues. Topics covered include: the policy challenges of bio-technology and genetics; speculation on markets for crime and a proposed typology for understanding crime; the impacts on children of divorce and separation; globalization; and global governance of the Internet.

The papers that will be included are thought-provoking. In general they have been written by academics whose commission instructed them to be wide-ranging in their critique of current practices and provocative in their suggestions for new approaches.

Discussion papers and think pieces in this section of the RSD library have already stimulated discussion for exercises such as: new mandate planning, strategic policy planning by senior executives or as backgrounders for research planning. It is our intention to offer them here so that they now can contribute to wider discussion among researchers and policy-makers.

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## Biography

Janice Gross Stein is the Director of the the Programme on Conflict Management and Negotiation (PCMN) at the Munk Centre for International Studies, University of Toronto, as well as the Harrowston Professor of Conflict Management and Negotiation, and a fellow of the Royal Society of Canada. In addition to conflict management, Professor Stein specializes in Middle Eastern Politics and Canadian Foreign Policy, topics on which she has published widely.

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the Social Union Series), McGill-Queen's University Press, 2001 and David R. Cameron and Janice Gross Stein (eds.), *Street Protests and Fantasy Parks: Globalization, Culture and the State*, UBC Press, 2002.



## 1.0 The Argument

The current conventional wisdom has it that:

- Globalization is inevitable;
- In the wake of globalization, power has leaked up, down, and out from the state. The state is increasingly “hollow,” because its borders no longer correspond to economic, cultural, and social spaces. Indeed, some argue that we are entering a borderless world in which the state has a distinctly limited shelf life.

We make four central arguments:

- Globalization is not inevitable. The uncertainties in the trajectory of globalization are very large; even the parameters are unknown. There is a range of outcomes that are possible when we imagine the future a decade from now; the future is contingent rather than determined;
- Globalization is “layered”: some of the threads of globalization may thicken more quickly than others;
- Globalization in itself is neither good nor bad. The phenomenon requires evaluation, not blanket condemnation or uncritical celebration;
- The nation-state faces unprecedented challenges, but it remains an indispensable institution, no matter what future one imagines. Its challenges and its responses will be different, however, depending in part on the trajectory of globalization.

## 2.0 Globalization: Real Time and Virtual Space

- Globalization is a long historical process, bumpy and uneven in its pace, moving in fits and starts - backwards, forwards and sideways. Its contours and consequences are deeply contested. In its current phase, the distinguishing characteristics of globalization are “real time” and “virtual space.”

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- We consider the revolution in information and communication technologies to be at the core of the contemporary phase of globalization. This revolution includes:
  - Rapid and accelerating improvement in information-processing and telecommunications technologies;
  - An increasing emphasis on knowledge as the most important commodity and growing specialization of knowledge and expertise;
  - The compression of time to “real time”. Markets and news, for example, can move at the speed of light;
  - The shrinking of distance and the creation of “virtual” space.

This revolution permits significant new opportunities and formidable new constraints.

- A global economy, made possible in part by the revolution in information technologies, has exponentially expanded capital markets, trade, mobility of factors of production, and investment opportunities.
  - It has created significant wealth for those who participate, directly and indirectly, in the global knowledge economy.
  - It has also marginalized that part of the labor force that does not have the literacy and the skills to participate in the knowledge economy. Like earlier phases of globalization (and other rapid processes of change, such as industrialization), it has contributed to social inequalities.
  - The global economy has weakened national markets as natural economic spaces.
  - Consequently, state capacity to wield monetary and fiscal policy to lever growth and control cyclical economic downturn has diminished.
  - As state capacity has diminished, the capacity of the state to honour the social contract created in the last four decades has also diminished.
- More accessible transportation has greatly increased the mobility of people, who migrate far more easily, although not always under the protection of the law, in search of safety and economic opportunity. Immigration and emigration have grown again, after a hiatus of fifty years, as society becomes global. The concept of citizenship is changing as people move back and forth between societies. In a global society, “transilient” citizens become critical nodes in a thickening network of interconnections.

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- The information revolution has also made possible a nascent global culture:
  - Cultural boundaries coincide even less than economic boundaries with national political spaces. Globalization creates a common cultural environment where everyone who is connected has access to the same messages, produced and disseminated through the tightly controlled networks of television and film;
  - The Internet works in the opposite direction by encouraging direct, unhindered individual participation and the fashioning of niche identities. At the same time, like other global media, it promotes cultural and social integration through the development of a common language;
  - The multi-channel universe and magazines and music tailored to niche markets work in opposition to cultural homogenization. The “customization of cultural product,” so characteristic of the global economy, contributes to social fragmentation and to the proliferation of subcultures with little in common. The “national” is weakened as the primary reference category for identity.
  
- In each of the areas listed above - information and communications, the economy, population mobility and global culture - the story is one of a field of endeavour and human experience slipping its moorings to the state and entering into a global world. The story of the social sector, however, is very different. The social institutions and the array of social responsibilities built up in the post-war period remain firmly tied to the state. This disjunction defines the hazardous territory the modern democratic state must negotiate. It creates severe tensions in the mandate and role of contemporary governments.
  - Corporations and their senior executives may globalize, but their workers do not, especially when they become unemployed. It is the state which is expected to pick up the pieces.
  - Health care, education and social assistance remain the province of governments.
  - The broad responsibility for social justice and the cohesion and well-being of national societies is the responsibility of the state, although many of the problems in these fields arise as a by-product of globalization processes.
  
- Hubert Humphrey once said that “the moral test of government is how it treats those who are in the dawn of life, the children; those who are in the twilight of life, the aged; and those who are in the shadows of life - the sick, the needy and the handicapped.” This is still the moral test of government, not of any other international or domestic organization. While the test remains the same, the government’s capacity to meet it has been diminished.

### 3.0 Is Globalization Inevitable?

The powerful effects of the revolution in information and communication technologies suggest that the current phase of “globalization,” while not new, is qualitatively different: its scope is unprecedented – it reaches literally around the globe — and its dynamism makes it irreversible. As each technological advance enters and alters the patterns of society and culture, it is effectively irreversible. And the impulses of scientific curiosity and human ingenuity on which technological change is founded make its future course unpredictable and uncontrollable.

We need to qualify these statements at every point.

- The speed of information technologies is certainly new, but the revolution in information processing has been going on for centuries, as improving technologies permitted ever-faster delivery of information.
- In earlier phases of globalization, cultural homogeneity occurred largely through force, as imperial powers imposed cultural idioms and languages on the peoples they conquered. Currently, culture spreads globally as economic product, dependent on its capacity to advertise, market, and entice the consumer.
- Economic globalization is not new at all. It peaked in the first decade of this century, and the last eighty years saw first a marked retreat and then a gradual return to the levels last reached 100 years ago.
  - Labour is still less mobile than it was in the last century. Passports were then unnecessary and people moved freely across national borders in search of work, with no restraints. Immigration was generally easier, especially to North America, than it is today.
  - Trade was relatively freer in the 1860s than it is today. Even after the recession of 1875 began in Europe, 95% of Germany’s imports were free of duty. In the United States, exports were 7% of GNP; in 1999, they are 8%.
  - A “capital mobility index” prepared by the International Monetary Fund (IMF) in 1997 suggests that capital movements as a proportion of economic output are still well below the levels reached in the 1880s.
  - World War I provoked a stunning retreat from “globalization,” which was then reinforced by the Depression. Only in the last three decades has the trend begun to reverse and approximate the levels reached last century.





## Could such a reversal occur again?

Shocks are not difficult to imagine, although our capacity to predict and cope with them is extremely limited. There have always been unexpected shocks to the system, and there is no reason to think that these kinds of unanticipated “wildcards” will not continue to occur.

- War among the great powers in 1914 was an unexpected, dramatic shock to the system. While a war among the great powers today is unthinkable, a nuclear war in South Asia or the Middle East is conceivable. Such a war could shock the global economic system.
- In 1973, the dramatic increase in the price of oil was anticipated by very few. Its effects transformed the economic prospects of all western countries. It is conceivable that a recartelization of energy prices could again destabilize a humming global economy.
- The current phase of economic globalization is perhaps more vulnerable to shocks precisely because of the broad base of the investment pool. Unlike the system 100 years ago, where a relatively small group of knowledgeable investors accounted for the bulk of global capital, current investments are far more likely to be short-term, leveraged, and speculative, able to move far more quickly in and out of vulnerable economies and, indeed, to contribute to the vulnerabilities which then provoke the capital flight.
- The international institutions designed to manage the global economy are lagging far behind the electronic flows of capital and investment. Even if current reforms are implemented, the capacity of global institutions to brake real time capital flows and to regulate capital markets will remain questionable.

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A slowing or reversal of globalization is one among several plausible futures. Were it to occur, it would most likely be occasioned by a combination of several factors such as those mentioned above. Other imaginable contributing factors are a sudden and severe recession in the United States and serious Y2K problems. While technological change appears to be a one-way street, processes of economic, cultural and demographic globalization could, then, conceivably be arrested or even thrown back.

#### **4.0 Contingent Scenarios: Globalization Triumphant and Globalization in Retreat**

Scenarios of possible contingent futures are appropriate when the uncertainties are large and exogenous shocks are a credible possibility.

We develop only two contingent scenarios of globalization - each at opposite ends of a spectrum of possible futures - and we consider the impact of each of these on Canada in 2010. We do so fully conscious that these are stylized narratives, designed to highlight different tendencies. In 2010, Canada will likely find itself somewhere along the spectrum between these two extremes.

As will be clear, we are not talking about a “good” and a “bad” scenario, but about two alternatives which both carry within them a rich array of opportunities and threats.

##### **4.1 Globalization Triumphant**

It is easy to imagine the quickening and deepening of processes that are currently in play.

- Global capital markets, direct foreign investment, and trade continue to expand in proportion to national economic flows. International institutions lag behind global economic flows, but nevertheless expand their capacity to monitor and regulate.
- Movement of people continues to grow as people migrate voluntarily in search of economic opportunities. Barriers to mobility decrease and “citizens” move back and forth among multiple centres. They live “somewhere” but work “everywhere.” Legal jurisdictions blur as projects, products and people become increasingly global.
- Globalization rewards innovation, analytic thinking, independence, and the capacity to “lead” flexible networks rather than hierarchically organized bureaucratic organizations. Those without the analytic skills to participate become further marginalized as global economic activity generates an increasing share of gross domestic product measured nationally.
- The two “global cities” in Canada – Vancouver and Toronto – grow in dynamism, attractiveness to new immigrants, and as engines of wealth. They become the “hubs” connecting diverse populations to hubs worldwide. These two cities become powerful global players, generating resources that dwarf those of provincial and federal governments. That



these cities do not have an adequate tax base to meet the needs of those marginalized by new forms of wealth creation becomes a growing irritant. That their feeble political power is utterly out of synch with their massive and growing population and their economic clout is also a growing tension.

- Power continues to bleed up to a vibrant global economy and to international institutions, out to non-governmental organizations and global associations, and down to local communities. Local communities become more important as a haven from global pressures and as an arena of effective political action. The state retreats as the commanding force of political loyalty and identity.

## 4.2 Globalization in Retreat

- An overheated stock market in the United States declines markedly, destroying consumer confidence and provoking a decline in global markets.
- The decline of markets is exacerbated by significant failures of computer technology as a result of Y2K. Human resources are not adequate to repair all systems in a timely way. Interruptions to information transfer – military and civilian – are serious and prolonged. Information systems within international institutions are not functioning well enough to track and monitor financial transactions.
- Seeking to prevent speculative runs on the Euro, the European Union imposes temporary currency controls. Their action sparks similar actions by others, who restrict not only currency movements but also mobility of people.
- A regional military conflict with the potential to go nuclear erupts.
- Global economic activity – trade and direct foreign investment – declines as a proportion of gross domestic product.
- The “global cities” – Toronto and Vancouver – experience real declines in housing prices, significant growth in unemployment, and intense pressure on a social infrastructure that was already inadequate to meet social and economic needs.

## 5.0 The State in the Two Scenarios

Under either scenario, a complex mix of problems and opportunities present themselves to the state and to state governing authorities. The role of the state will be different under each scenario, but there are a number of underlying common factors to be borne in mind:

- First, the state has as yet no competitor in its capacity to wed governing effectiveness with democratic control, and there is none in prospect;
- Second, the social sphere, as we have pointed out earlier, has not migrated out into the global world, as have the domains of the economy, culture,

- information and communications, and - to some extent - the mobility of populations. For better or for worse, the social buck stops with the state;
- Third, inequality, exclusion and marginalization have become increasingly acute problems and show every sign of worsening.

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### 5.1 Globalization Triumphant: The State as Handmaiden

- Under this scenario, state capacity is decreased relative to the growing power of such competitors as international political organizations, global private-sector corporations, military alliances and international trade agreements. Domestically, the state loses out to cities, self-regulating industrial sectors, Aboriginal governments, cooperative associations and other institutions of civil society and the private economy. Largely as a result of their continuing social responsibilities, the provinces hold their own in this environment better than the federal government.
- The state attempts to mediate between the forces of globalization and its citizenry. It supports the efforts of its citizens, corporations and private organizations to participate and compete successfully in the global community. Within its borders, it becomes the referee that seeks to enforce fair practices and compliance with international norms and regulations.
- Economic growth rises, but redistribution in the service of social justice becomes more difficult. For example, governments are pressured to lower taxes to satisfy corporations and retain the talented, mobile professionals who are essential in the global economy, but doing so cripples the capacity of the government to address the growing social inequality which is itself in large part the result of globalization.
- The state remains central to the marginalized and excluded members of society who seek to mobilize political resources to press the state to honour the pre-existing social contract or fashion a new one. It has been said that “a country is a territory over which people are prepared to redistribute;” the national government seeks, with limited freedom of action (and, in Canada, challenged by the provinces), to preserve national identity through redistributive social policy. For the same reason, it protects the “national



brand” (as in the “branding of Britain”), by promoting symbols of identification and by tightening citizenship requirements to foster loyalty to the country.

- Nevertheless, the state retreats as the commanding force of political loyalty and identity for many of its citizens, particularly, those capable of participating successfully in the global world. Nationalism declines as a source of appeal for these globalizing elites. In Canada, both Canadian patriotism and Quebec nationalism are in retreat.

The key question here is: How can the state-as-handmaiden tackle the increasingly acute problems of social and economic inequality and secure the insertion of the marginal and excluded population into the global community?

## **5.2 Globalization in Retreat: The State as Protector**

- As things fall apart in the global world, citizens come “back home” to the state. It is old and familiar; it has a real if diminished capacity to act; it retains substantial democratic legitimacy. It is a good port in a storm. The state’s role relative to other players is increased as people, seeking security and protection, reinvest national governments with greater economic authority.
- Borders begin to matter more. The state offers a degree of protection from the now unfriendly forces of globalization. Ceasing to be simply a referee, government becomes an active player in the national economy, in some cases challenging the dominance of international regulations and institutions. The feeling of vulnerability extends into the ranks of the globalized professionals, now being shed by retrenching private companies.
- Economic growth stalls, but redistribution remains a problem, although for different reasons than in the case of the first scenario. The political authority to address the issue expands, but so does unemployment. In addition, the fiscal capacity necessary to act is limited by the economic recession which is part of globalization’s retreat, as well as by the low-tax regime put in place to remain competitive when the international economy was booming.
- As the nation-state resumes its prominence, loyalty to the national economy and its institutions grows. In many industrialized countries, suspicion of immigrants rises and citizens demand tighter immigration controls. Both patriotism in Canada and nationalism in Quebec are on the rise.

The key question in this scenario is: How can the state-as-protector reignite the engines of economic growth in a “post-global” world which leaves national economies and national communities more to their own devices?

## 6.0 Conclusion

- The future is deeply uncertain. History demonstrates that human existence is full of surprises, although history also demonstrates that human beings repeatedly and mistakenly tend to assume that the future will be a linear extension of the present. Globalization, except in its information and communications technology aspects, is not inevitable, and could, in certain circumstances, be arrested, or even reversed, in some of its dimensions.
- You can't go back again. Some critics of globalization appear to believe that the process could be halted and that we could go back to the 'good old days' of the post-war welfare state. But that is not possible. Even if globalization retreated, the Keynesian state would not re-emerge, chiefly because the technological platform shaping information and communications is different and more elevated than it used to be, and that will not disappear.
- It is not helpful to try to characterize globalization generally as good or bad, or as positive or negative in its consequences. The threads of globalization are multiple and complex, and, by almost any standard, exhibit characteristics which are both good and bad in their effects.
- Human action and public choice - or the abnegation of action and choice - make a difference. Many of the forces making up globalization are effectively beyond the control of any single agent, but the molding of these forces to fit social and political preferences is not.
- The international political economy has attracted the most attention in recent years. Now, the new frontier lies in exploring and understanding the social impact of globalization and the impact on globalization of social needs and preferences.
- States will continue to be, as they have been in the past, the venue where the combined exercise of power together with accountability for its use has been best worked out. Although by no means ideal, democratic states have achieved a higher level of development in this respect than have other "competing" organizations and institutions. The equation between the accumulation of power sufficient to address the central public purposes of modern life, on the one hand, and the existence of democratic processes adequate to impose a degree of popular control, on the other, has been better struck by the modern democratic state than by any other competitor. Whether globalization is triumphant or globalization is in retreat, the state will continue to be a key player. How it will play, however, will matter.

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