

# Coping with globalization

## A conclusion<sup>1</sup>

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This volume focused on the business and public policy responses to economic globalization – the increasing integration of factor, input and final product markets coupled with the increasing salience of cross-border value-chains of multinational enterprises (MNEs). It examined why and how actors seek to cope with globalization, linking these strategic to constraints internal and external to them and to the strategic choices of policymakers.

Market integration is not a new phenomenon. Based upon the ratios of exports to national income and levels of capital flows, some scholars observe that the wealthier countries were more globalized on the eve of World War I than they are now (Hirst and Thompson, 1996; Rodrik, 1997). Market integration experienced a setback during the inter-war years which lasted until the end of World War II. Between 1950 and the late 1970s, increased trade became the dominant vehicle of global market integration.

After the late 1970s, the relative depth and pervasiveness of cross-border economic linkages increased as MNEs became the main agents of market integration. One indicator of the change in the role on MNEs is the rising level of intra-company trade that now exceeds arm's-length trade (\$5.3 trillion versus \$4.8 trillion in 1993; UNCTAD, 1996). The value-chains controlled by MNEs now span great distances, thanks to instant and cheap telecommunications technologies and lower bulk transportation costs.

Traditionally, the growth in MNE activity was measured using data on foreign direct investment (FDI). However, FDI incompletely reflects the MNEs' economic clout because MNEs can access foreign markets for procuring inputs and selling final products through a variety of other institutional mechanisms such as alliances, joint ventures and contracting. Still, using FDI data as the key indicator, MNE growth has been impressive. FDI has surged in recent years: from \$1 trillion in 1987, FDI stock rose to \$3.2 trillion in 1997. International production by MNEs' foreign affiliates outweighs exports as the dominant mode of servicing foreign markets (\$5.2 trillion versus \$4.9 trillion in 1992). Further, about one-third of their exports take place on an intra-firm basis, attesting to the importance of intra-firm linkages (UNCTAD, 1995).

MNE-led market integration suggests that key decisions on resource allocation are increasingly taken within firms, not by markets or state planning agencies.<sup>2</sup> As Hart, Lenway, and Murtha point out in Chapter 5, state-sponsored technonationalist strategies may not be effective in high-technology industries. This is because high-technology firms need access to competencies across the world and relying solely on domestic suppliers for accessing them (that technonationalist policies encourage) leads to competitive disadvantages. This does not imply that governments cannot influence resource allocation and that a “borderless world” is on the horizon. As Kudrle (Chapter 8), Spar and Yoffie (Chapter 1), and Cowhey and Richards (Chapter 6) have argued, the current levels of market integration do not suggest the end of the Westphalian era.

Most MNEs continue to remain associated with specific countries (Hirst and Thompson, 1996; Pauly and Reich, 1997; Prahalad and Lieberthal, 1998). As the recent crisis in East Asia, Russia and Latin America suggests, governments still play important roles in market and corporate governance. For example, it is suggested that the reform of the *Keiretsu*-based or *Chaebol*-based industrial organizations – a prime structural cause of the current crisis – cannot take place without active governmental intervention. Thus, debates about the impact of globalization on extant modes of governance should not be framed in terms of competition among governments, markets and firms; rather in terms of the conditions under which governments intervene and what types of policy instruments best serve the goals of public policy and business strategy. Since governments’ influence over market processes, the levels of market integration, and cross-border dispersal of core competencies of firms vary across and within industries, issues for future research include: What causes such variations? Are they structurally determined or does strategic choice also play a role? Under what conditions is strategic choice possible? In short, how do governments and firms learn from the success or failure of past experiments in institutional change for shaping coping strategies?

This volume conceptualizes globalization as a set of processes, exogenous variables, that are reconfiguring policy spaces, both by reterritorialization and deterritorialization. In Chapter 7, Benjamin Cohen contends that money, a traditional symbol of state sovereignty, is becoming deterritorialized. It is not uncommon that a country’s monetary space is “invaded” by foreign monies (Cohen terms this as currency substitution; for example, “dollarization” of the economy) or its money invades others’ policy spaces. Consequently, there is now an incomplete overlap between the functional and territorial domains of currencies. Instead of national monopolies, there is now an oligopoly. Since states derive significant benefits from monetary sovereignty, its erosion imposes costs, hence a need to cope with it. Oligopolies are marked by interdependence. Governments, therefore, have incentives to act collectively because outcomes of their coping strategies are influenced by the policies of other governments.

We see deterritorialization of money as a sign of incomplete adaptation to the changing international economic environment on the part of national governments. Governments that fail to inspire confidence in their management of the money supply, risk having their control of money ceded to the managers of the foreign currencies that displace the national currency. Cohen suggests four generic coping strategies for governments in the current system – market leadership, market alliances, market preservation and market followership. He also discusses the conditions under which they are most likely to succeed, the costs and benefits that flow from them for the governments, and what accounts for their success or failure. If deterritorialization of money creates conditions for “deep integration” in the monetary sphere, the potential advantages for central banks of retaining monetary sovereignty through market followership may not be significant, creating incentives for them to become “market leaders” or to enter into “market alliances.” Thus, an important learning is that states, although constrained, are not helpless in responding to the processes of globalization. Depending on characteristics of the issue area, they could respond alone or in conjunction with other states.

Challenges to monetary sovereignty create high “stress” for governments, since it undermines their control over key aspects of economic policies. On this count, as the introductory chapter suggests, governments are likely to centralize their decision-making. Since threats of currency deterritorialization are pervasive, we do see a trend towards more technocratic decision-making regarding currency and monetary policies.

Cowhey and Richards point out in Chapter 6 that globalization processes are reconfiguring the policy space of the telecom industry. The new telecom regime that the United States is championing to ensure truly competitive telecom markets imposes significant costs on Western Europe and the developing countries, at least in the short-run. The United States has an incentive to change the status quo because, in incompletely globalized telecom markets, US consumers provide huge subsidies to foreign telecom monopolies. Acceding to US demands implies that national telecom monopolies in Europe and the developing countries have to accept lower revenues in the short-term. Since these monopolies are important economic actors (as the authors note, sometimes they have the highest market capitalization in the national stock market), short-term reductions in telecom revenues can have serious consequences for the domestic economy.

Of course, in the long-run, everybody is better off with more efficient allocation of resources, hence the need for leadership. Nevertheless, the short-term impacts may be serious enough to cause the affected parties to resist US proposals. Since coping with globalization by establishing a new telecom regime imposes asymmetrical costs and benefits across actors, the outcomes of reform attempts are political and therefore uncertain. At a broader level, any sort of deep integration or harmonization of domestic economic institutions has the potential to create a backlash.

The recent experiences in transitional economies suggest that technocratic perspectives which ignore political factors are difficult to implement and sustain. Institutions that have taken years to develop cannot be dismantled overnight. "Shock therapy" may not be the most effective policy in every situation. Further, as suggested in the introductory chapter, when faced with highly variable external environments, policymakers are unlikely to commit to large policy changes with long lock-in periods.

The title of this volume is *Coping with Globalization*. The term "coping" is important for two reasons. First, though globalization is not inevitable or inexorable, there is widespread perception that it has ushered in significant structural changes in the world economy. Most societal actors, governments and firms in particular, are affected by it. Second, unlike many works on this subject that advocate either resisting or embracing globalization, this volume examines a wide array of strategies, without taking a normative position on the issue. The "winners" can be expected to embrace globalization and tout its benefits. They could also be expected to suggest that it is inexorable and inevitable, thereby invoking some kind of technological and structural determinism. Ironically, some ardent proponents of globalization seem to adopt a quasi-marxist position that technology determines the economic base and production arrangements (Ohmae, 1991).

On the other hand, the "losers" often emphasize only the negatives of global market integration. As Spar and Yoffie discuss in Chapter 1, MNEs are accused of destroying the natural environment, abetting "races to the bottom," and undermining the social fabric by creating new kinds of dependencies both in the developed and developing world. The critics of globalization recommend resistance, believing that globalization can be rolled back by appropriate political action, and predicating this on the assumption that markets still operate at the mercy of governments. The key targets for political action by the anti-globalization groups (other than the governments of pro-global nation-states) are international organizations such as the IMF, World Bank and WTO, regional trade and investment agreements such as the NAFTA or Mercosur, and emerging regimes such as the Multilateral Agreement on Investment. The main complaint of anti-globalists is that these organizations or regimes privilege MNEs over other societal actors, forcing governments to retreat from their legitimate economic and social functions (heralding the demise of the Keynesian state), particularly in redistributing income and wealth.

This volume does not advocate either of the above positions. Firms and governments across policy arenas and industries are differentially impacted by globalization. Whether it is desirable to embrace, resist, or adapt depends on the perceptions of benefits and costs on the part of the impacted actors. We expect significant divergence of opinion even within the traditional categories of labor and capital interests on this subject. It is incorrect to assume that globalization privileges all capital over all labor, or that all firms will unequivocally support it. Some firms are more insulated from the

effects of globalization than others. The same could be said for workers. Some firms and workers will perceive themselves to be potential “winners,” others will not. Thus, an important implication is that since the effect of globalization can be expected to vary across and within industries and countries, a disaggregated analysis is necessary to understand its political economy.

### **Ideas and interests**

In the introductory chapter, we presented a framework linking globalization processes to coping strategies of firms and governments. We suggested that to understand the choice, pace and sequencing of coping instruments, a focus on the preferences and endowments of policymakers is required. As variables exogenous to policymakers, globalization processes upset the status quo. In considering coping strategies policymakers take into account both self-interests and organizational interests. Their choices are constrained by factors internal and external to their organizations. In firms, the top management is constrained by external markets and non-market pressures, and internal pressures from managers and workers. In governments, the executive is constrained by external or systemic factors as well as by domestic institutions and politics. Given these constraints, policymakers could adopt coping strategies that address issues external to their organization, internal to them, or both. Over time, such policies can influence internal and external constraints as well as the processes of globalization. This framework suggests that coping mechanisms are not structurally-determined and that the strategic choices of decision-makers play an important role.

How do ideas and identities influence coping strategies?<sup>3</sup> Ideas are beliefs held by individuals (Goldstein and Keohane, 1993) while identities are ideas about one’s social, cultural and economic coordinates. Should ideas and identities enter the equation as internal and external constraints that influence policymakers’ choices? As discussed in the introductory chapter, some argue that globalization should be viewed as having two components: market integration and the development of a global mind-set among policymakers in firms and governments. In this context, four categories of ideas can be identified. Ideas about:

- desirable consumption patterns and life-styles
- roles of and relationship among governments, markets and civil society
- religious, environmental, human rights and moral issues
- organization of corporate and market governance

In this volume, the flows of ideas about consumption, roles of governments, and corporate governance are treated as embedded in the flows of goods, services, inputs and investments; they are not treated as a separate category

of flows that impact market integration.<sup>4</sup> For example, the globalization of the entertainment industry has led to increasing flows of ideas about desirable consumption patterns (cultural imperialism, as some view it). Surging FDI diffuses notions of models of corporate and market governance across countries (for an excellent discussion, see Berger and Dore, 1996). The increasing power of the globalized stock markets and of ratings agencies such as Moody's and Standard and Poor's accelerate the acceptance of Anglo-Saxon managerial and accounting standards. Nevertheless, significant variations remain within and across countries on the desirable consumption patterns, roles of governments, trade-off between environmental issues and economic growth, and architectures for corporate governance. Along with globalization, there is a rising tide of localization manifesting as an upsurge in the civil society and in various forms of ethno-nationalism (Appadurai 1996; Crawford and Lipschutz, 1998). The global information infrastructures that enable MNEs to reduce transaction costs of managing cross-border value-chains, and their managers to leverage a global mind-set, also empower local groups to network and assert their identities.

Ideas are not epiphenomenal in understanding the etiologies and impacts of globalization processes. We agree with Goldstein and Keohane (1993) that ideas and interests *together* explain political outcomes. However, with competing sets of ideas, strategic choices of policymakers play an important role in privileging one set over others (Mendelson, 1993).<sup>5</sup> For example, to explain variations in the acceptance of Keynesian ideas across countries, Hall (1986) identifies three categories of interest-based explanations: economist-centered, state-centered, and coalition-centered. The economist-centered approach focuses on how the economics profession became interested in Keynesian ideas and then passed them along to politicians. Since Keynesian ideas identified interesting puzzles amenable to quantitative analysis, they served to constitute a viable research program for young economists. The state-centric approach focused on the differing levels of compatibility of Keynesian policy approaches to extant institutional structure; the more the compatibility, the higher the acceptance. The coalition-centered approach emphasized the power of ideas to mobilize winning coalitions, and hence assume salience for politicians. Thus, the three approaches provided interest-centered explanations for the varying success of Keynesian ideas. As Hall notes:

It is ideas, in the form of economic theories and policies developed from them, that enable national leaders to chart a course through turbulent economic times, and ideas about what is efficient, expedient, and just that motivates the movement from one line of policy to another. Simply recognizing that ideas are important to the development of policy is not enough, however. All too often ideas are treated as purely exogenous variables in accounts of policy making, imported into such accounts to explain one outcome or another, without much

attention to why those specific ideas mattered. . . . if we want to accord ideas as explanatory role in the analyses of policy making, we need to know much more about the conditions that lend force to one set of ideas rather than another in a particular historical setting.

(1986: 361 and 362)

Ideas should not be viewed as tools employed by interested actors and as having no ontological status by themselves (Sandholtz, 1999). Their role in furthering or impeding the processes of globalization, in the selection of coping strategies, and in influencing their success or failure is an important project that needs to be examined *separately* in the future. To retain the focus on coping responses, this volume assumes that the processes of economic globalization – material flows and the rising salience of MNEs – are exogenous variables, and ideas are mediating variables influencing and constraining the choice of coping mechanisms that decision-makers chose to employ.

To elaborate, policymakers need support from policy elites and key interest groups to implement policies. Needless to say, ideas and opinions about the best course of action often diverge. For example, internal policy elites may believe that the IMF's prescriptions for structural adjustment programs are beneficial for the country but may not have popular support for their views. Alternatively, external policy elites may argue that capital controls are harmful but domestic policy elites may still favor them. As discussed in the introductory chapter, there could also be disagreements within otherwise unified epistemic communities: e.g. some international economists may believe in temporary capital controls (Krugman and Bhagwati) while others may not (Summers and Fischer). There are usually many conflicting ideas and opinions that policymakers can draw upon. Which particular ideas are actually adopted is a function of many variables, including (among others) the personal preferences of the policymakers, their willingness and ability to entertain new ideas, and the relative political power of the proponents of various competing ideas. Ideas become part of coping because, eventually, choices of policy instruments need to be explained and justified in terms of their likely impacts on the economy. In light of this discussion, important theoretical issues for further research include:

- Why do policymakers have varying preferences towards a given coping strategy?
- How has the end of the Cold War and the “victory” of capitalism affected the pace and the extent of market integration?
- How has the increased strength of the American economy in the 1990s compared to the European and East Asian economies given legitimacy to the scaling back of statist models, empowering MNEs at the expense of other societal actors, thereby legitimizing MNE-led cross-border integration?
- Is there a convergence towards the Anglo-Saxon model a part of the globalization processes or a consequence of it? (Berger and Dore, 1996).

One could also employ the Goldstein–Keohane (1993) framework to examine the role of ideas in global market integration. They identify three categories of ideas: world views, principled beliefs consisting of normative notions of right and wrong, and causal beliefs about cause–effect relationships rooted in shared consensus among elites. Ideas play the following roles in the formation of foreign policies (their insights could be extended to domestic policy as well):

[I]deas influence policy when the principled or causal beliefs they embody provide road maps that increase actors' clarity about goals or ends-means relationships, when they affect outcomes of strategic situations in which there is no unique equilibrium, and when they become embedded in political institutions.

(Goldstein and Keohane, 1993: 3)

Based on the above framework, one could classify ideas about globalization into three categories:

- World views about globalization and market integration.
- Normative notions about the desirability or undesirability of market integration.
- The link between the level of market integration and desired policy objectives such as employment, economic growth, environmental sustainability.

Then, one could examine their impact on specific policies facilitating market integration. How have ideas about desirability of market integration and the link between market integration and domestic employment, impacted policy outcomes with multiple equilibria such as the granting fast-track authority to the President? What were the processes by which ideas impacted the fast-track policy dynamics? Clearly, the impact of ideas on globalization processes and their role as parts of globalization processes, constitutes an important area for future research.

### **“Races to the bottom”: conceptual and empirical challenges**

An important component of the globalization discourse is the subject of “races to the bottom”. Debora Spar and David Yoffie discuss in Chapter 1 that MNEs are under pressure to cut costs and governments want to attract investments from MNEs, so there are incentives for governments to ease environmental or labor laws. Such races can be countered by establishing international regimes that set minimum standards across countries. Empirically, races to the bottom do not seem significant since developed countries with comparable levels of labor and environmental laws received 66 percent of FDI during 1996–96 (UNCTAD, 1997). A disaggregated analysis of FDI inflows to developing countries also suggests that most of it is not in pollution-intensive industries. As Rugman and Verbeke point out



in Chapter 3, there is a literature arguing that firms should unilaterally adopt stringent environmental policies, thereby gaining first-mover advantages. The international trade literature also reports lack of conclusive evidence for "industrial flight" from developed countries to "pollution-havens" in developing countries (Low and Safadi, 1992).

Scholars also point out that international trade has had a minor impact on lowering wages in the United States and other high-wage countries (Krugman, 1994). It could be argued that it is not the actual race to the bottom but the potential for it that serves to constrain governments and privileges capital over labor.<sup>6</sup> In addition, there is plenty of anecdotal evidence suggesting firms relocate their factories to developing countries to cut labor costs. There is no dearth of politicians (or demagogues) eager to fasten upon such anecdotes, thereby creating concerns about such races. The potential for such races was a major issue during the NAFTA debate in the United States and President Clinton had to rely on Republicans to get the treaty ratified. A full-employment economy has not significantly toned down public concern as evidenced in the inability of President Clinton to persuade the Congress to grant him authority for fast-track negotiations.

Races to the bottom and establishing mechanisms to curb them raise issues of equity. Turning a blind-eye to such races could hurt domestic labor in some industries while successfully curbing them may deny developing countries opportunities to industrialize. The latter is important because international organizations such as the World Bank and the IMF have persistently advised developing countries to shun import substitution, embrace open markets, and attract MNEs. Developing countries are advised to allow markets to determine their country's comparative advantage.

For most developing countries having abundant supplies of labor relative to capital, their comparative advantage lies within labor-intensive activities. Consequently, MNEs could have incentives to locate their labor-intensive activities in these countries. This discussion raises a fundamental question: how are the outcomes of races to the bottom different from those of comparative advantage? One strategy is to differentiate them in terms of causal variables. Though the outcomes may be similar in terms of low-factor and regulatory costs for the MNEs and a specialization in labor-intensive activities on the part of developing countries, they are the results of different forces.<sup>7</sup>

Comparative advantage may be natural or created. Races to the bottom are in the special category of created comparative advantages because governments *consciously* establish low regulatory standards or laxly enforce stringent standards to attract investment. If a labor surplus country has low labor costs, this does not constitute a race to the bottom if the government did not consciously seek to lower or suppress labor costs through policies such as disallowing (or discouraging) unionization or giving access to MNEs to prison/forced labor. However, it is methodologically challenging to tease out the relative impacts of labor surplus versus labor oppression on

wage rates since countries where labor is allegedly oppressed are also usually abundant in low-skilled labor.

For environmental issues, this discussion has different implications. Instead of environmentally-rich countries attracting pollution-intensive industries (analogous to labor surplus countries attracting labor-intensive industries), the pollution-intensive firms allegedly gravitate towards countries with degraded environments. The latter are also underdeveloped and have a comparative advantage in attracting “dirty industries” in terms of low relative price for environmental amenities,<sup>8</sup> but obviously not in terms of the initial condition of the natural environment. This opens an old debate about operationalizing comparative advantage in terms of relative prices (that take into account both factors endowments and preferences) versus physical endowments only. If one employs the relative price method, outcomes of races to the bottom are not different from those resulting from specialization based on comparative advantage. However, if comparative advantage is defined in terms of physical endowments, then perhaps underdeveloped countries that are often poor in resources required for environmentally-sound processing of industrial waste products, should not attract pollution-intensive industries. The comparative advantage in relative prices is created by lax environmental laws – environmental amenities are priced too cheaply, even though the quality of the environment is precarious. This discussion suggests that assessing the efficiency and equity implications of races to the bottom versus those of pursuing specialization based on comparative advantage requires confronting many methodological and conceptual puzzles.<sup>9</sup>

### **Towards a new architecture of global governance**

Many chapters explore the possibilities of establishing or strengthening international regimes to cope with globalization. Spar and Yoffie (Chapter 1) discuss the conditions that facilitate “governance from the top”. Kudrle (Chapter 8) examines the possibilities of such governance to curb tax evasion. Cowhey and Richards (Chapter 6) suggest a new international regime to cope with incomplete globalization of telecom markets. Ostry (Chapter 2) presents WTO-led deep integration as the basis for a new international regime for trade and investment. Should such regimes be established? If so, how? Who should wield the rule-making, monitoring and enforcement powers? Will they remain state-centered or would MNEs and international non-governmental organizations (INGOs) also have significant roles? If so, will the democratization of such regimes (or lack thereof) impede their abilities to make and implement decisions?

Ostry correctly argues that the WTO suffers from an “analytic deficit” – not enough staff or budget to conduct needed analyses – as well as from a very large number of actors. To deal with the latter problem, she has suggested establishing an Executive Committee. However, this leads to

another set of issues: international organizations (IOs) such as the WTO and the IMF are alleged to suffer from a “democratic deficit” – too much elite policy-making without mechanisms to make elites accountable to broader publics. International nongovernmental organizations (INGOs) are important contributors to globalization discourse. They criticize international organizations for not being transparent, democratic and accountable, and they lobby strongly for direct participation by INGOs in the deliberations of IOs. Any effort to exclude them from new or reformed regimes could accentuate the backlash to WTO-led deep integration. On the other hand, including them also risks further criticism that IOs are undemocratic, since INGOs tend to be just as elitist as IOs, if not more so.

The abilities of national governments to create new international regimes are impeded by demands by INGOs for a “voice” (Hirschman, 1970) and by subnational pressures. There are concerns that to cope with globalization, governance may increasingly become concentrated with technical elites and at supranational levels, reducing opportunities for citizen participation. Brussels is remote to many citizens in the EU and similarly Washington, D.C., is remote to people in various parts of the world that are subjected to policies of the IMF and the World Bank.

In this context, Alfred Aman’s essay (Chapter 4) is very instructive since he discusses constitutional obstacles for national governments to negotiate with international actors. He correctly notes that one of the key resources that the national governments could have is constitutional flexibility to devise new policies through appropriate legislative measures. To effectively cope with international challenges, national governments need domestic political support: international negotiations often require gains in some areas and concessions in others. However, the United States Supreme Court has stepped in to redefine important constitutional parameters, thereby empowering the states. As suggested in the introductory chapter, if the federal government cannot implement international agreements domestically or is faced with significant opposition from the states, its credibility is eroded. For example, unlike shallow integration that involves removal of border impediments such as tariffs, deep integration requires harmonization of domestic economic policies and institutions. If the federal government is enfeebled or straightjacketed by the Supreme court, it is constrained to undertake deep integration, and therefore becomes a less credible actor in the WTO. Aman’s chapter therefore attests the conclusions of many other chapters: domestic politics and institutions have crucial impact on the establishment and functioning of international regimes.

## Notes

- 1 We thank the anonymous reviewers for their comments.
- 2 As per transaction cost theorists, we differentiate firms from markets (Coase, 1937; Williamson, 1975). Markets are institutional arenas for exchange while firms are actors undertaking such exchanges.

- 3 We thank Peter Katzenstein for encouraging us to examine this issue.
- 4 Many view ideas as key factors in furthering market integration. In particular, the roles of the global media industry and the "new media order" have been studied by world-systems and cultural studies scholars. The perspectives of Foucault, Gramsci and Habermas, in particular, have inspired this scholarship. These works seem as continuations of the intellectual discourse on "new international information order" that sprung up in the 1980s. The main contention is that the monopoly of the developed countries and the MNEs over cross-border information flows has resulted in cultural hegemony and "manufactured consent" in favor of continued market integration. Key recent works include Poster (1995), Babe (1996), Gerbner, Mowlana and Schiller (1997) and Perry (1998).
- 5 Keynes had noted, "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist" (1936: 383). John Stuart Mill's observation, perhaps, needs to be considered along with Keynes' famous quote: "ideas, unless outward circumstances conspire with them, have in general no very rapid or immediate efficacy in human affairs" (1845: 503).
- 6 Milner and Keohane (1996: 1) make a similar point. They note that a potential for international movements of capital by itself can have dramatic impact on national economies even if no capital movements actually take place.
- 7 Labor-intensive activities can lead to dead ends for economic development. Unless the country in question can find ways to make labor more valuable by raising the average level of skills in the work force, or unless it can make capital more plentiful domestically by reorganizing domestic capital markets, its workers will not escape from the combination of low wages and job insecurity that comes from knowing that the MNEs will move to lower cost locations whenever they must.
- 8 This could also be called the "Larry Summer perspective": since people prioritize jobs and economic development over environmental degradation, such countries have a comparative advantage in attracting pollution-intensive industries. This debate also has implications for the political economy and ethics of international waste trade or trash trade that led to the Basel convention.
- 9 Kudrle notes (1999):

Poor countries have low market wages, and policy interference other than fiscal redistribution can generally raise market incomes for some only at the expense of others' market income. Policy support for labor monopolies is a question of degree, and there is a wide divergence between form and substance. Except for some child labor laws, rudimentary safety standards, and possibly some highly circumscribed rights for labor organization, a race to the top would look a lot like 'a race to avoid competition from the poor countries'. The same goes for environmental standards. Except for cross-border externalities – which admittedly are growing in importance – there are no obvious grounds to insist on minimum environmental standards if they conform with internal preferences. In summary, as Jagdish Bhagwati (no conservative, he) never tires of pointing out: low wages and a collective preference for goods and services other than those from the environment at low levels of income are as legitimate a source of comparative advantage as anything else.