

Measures of Globalization and their Misinterpretation*

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ABSTRACT

Globalization is widely misinterpreted. In particular its quantitative extent and novelty are exaggerated. This article aims to put the facts in historical and statistical perspective. It criticises the use of inappropriate statistical measures, conclusions drawn from little data, and the failure to make historical comparisons, or to see counter-globalization tendencies and limits to globalization. The best measures suggest that globalization is neither so new nor so great as is often supposed. The political implications of this argument are briefly explored.

Almost everybody seems to believe that globalization is happening at a headlong pace, and is the defining characteristic of contemporary capitalism. Some like it, others see it as the source of all evil. But most see it as both unprecedented and irresistible. In an earlier paper (Glyn and Sutcliffe 1992) we analysed indicators of economic internationalisation in their historical perspective and found reason for serious scepticism with regard to the image of world capitalism presented by those who believe that it has been unprecedentedly transformed by globalization; similar points have been made by a variety of authors from various perspectives (Sachs and Warner 1995, Hirst and Thomson 1996.). This paper seeks to reinforce this “globalo-scepticism”, paying particular attention to why different statistical measures of recent trends suggest alternative conclusions and to which of them are the most meaningful.

We do not question that globalization in one of its meanings – the world-wide spread of capitalist relations in production and distribution – has been a major feature of the last 50 years. This has taken the form of the decline in peasant production, the absorption of domestic workers, mainly women, into the paid labour force and most recently the decline of state productive activity in both communist and non-communist countries.

The globalization debate, however, is mainly couched in terms of another concept: the increasing international integration of economic activity. This is seen to have been the central event of the current epoch of world social and economic development. Some see it as the whole process of post World War II development, others more as a phase in that development which has been especially marked since the late 1970s and is associated with other features of that period such as the growth of neo-liberal economic ideology.

It is our opinion that the degree of globalization in this sense, as well as its novelty, has been greatly exaggerated. Consider the following two paragraphs:

1. An ever-increasing proportion of the world's production is sold outside the countries where it was produced. International trade has grown more than production in every year since 1945. And over the whole period since then foreign investment has grown even more rapidly than trade. Capitalist corporations operate increasingly in more than one country; and the value of the worldwide sales of MNCs and of their associated companies comes to more than one third of the gross product of the world. The number of MNCs has risen from 7,000 in the early 1960s to more than 60,000 at by the year 2000.

2. The immense majority of what is produced in the world is consumed in its country of production, as it was in 1913. This percentage may grow because services, which are traded less than goods, are increasing disproportionately. The largest MNCs now produce a lower percentage of output in the USA than they did in 1977. The value of the sales of branches of US and Japanese MNCs is growing more slowly than the world economy as a whole. No more than 12% of the world's capital stock is foreign-owned; foreign investment is not much greater in relation to world output than it was in 1913.

Which of these two cameos corresponds to the real face of capitalism today? The answer is that this question is like the famous optical illusion puzzles in which one line looks longer than the other when they are really exactly the same length. Both the sentences are based on exactly the same body of information. They simply select and present it in a different way. To reach the right answer you have to use the right technique for looking. When assessing quantitative indicators there can differences of opinion over whether some measure is large or small, whether some trend shows a important or an unimportant change. But a precondition for such debate

is an analysis of what indicators are most appropriate. Many people seem to have an exaggerated impression of the present degree of globalisation, in most of its dimensions, and of its rate of increase, in at least some respects. Our objective in what follows is to lay out as clearly as we can what seem to us to be the best measures of globalisation, focussing on trade, foreign direct investment and importance of multinationals (the internationalisation of financial flows is less contentious).

(i) International Trade in Goods and Services

Probably the most widely known “fact” about the world economy today is that never has so much of world output been exported to other countries, in other words trade as a proportion of production is unprecedentedly high. In his authoritative overview of historical trends Maddison (1995: pp 37-38) measures the degree of trade integration by the ratio of merchandise exports to GDP at constant prices. This gives dramatic results for Europe in particular - the export ratio declining from 16% in 1913 to 9% in 1950 before rising to 21% in 1973 and 30% in 1992. It appears that the importance of trade has tripled since 1950 and now far exceeds its weight in the economy reached at the end of the classical free trade period and such figures are widely quoted in discussions of globalisation (see Rodrik 2000 and Bourguignon et al 2002).

A rising share of exports, measured in constant prices, implies that the volume of exports has grown faster than the volume of production overall, a comparison frequently made to demonstrate the growing importance of trade. For example exports grew by 5.1% per year for the EU-15 over the period 1970–99 against the 2.4% per year growth rate for GDP (OECD 1997: tables 3.1 and 4.8). Such constant price comparisons, however, exaggerate changes in the weight of exports in the economy.

This is because the prices of exports rise systematically more slowly than do prices for output as a whole. For EU-15 over the period 1970-99 the deflator for exports rose by 4.3% per year whilst the GDP deflator rose by 5.8% per year. So over this period around half of the discrepancy between export and GDP volume growth was offset by a slower growth of export prices. The fall in the relative export prices reflects the faster than average growth of labour productivity in the export sector compared to the economy as a whole. For example, over the period 1960-94 labour productivity in EU manufacturing, where exports are concentrated, grew at 4.1% per year whilst GDP per person employed increased at only 2.7% per year. This relatively rapid productivity growth in the export sector means that the share of employment devoted to exports grew systematically more slowly than the share of exports in output at constant prices. It is the share of export at current prices which most closely reflects productivity gains and thus the share of resources devoted to exporting activity. This measure shows a less dramatic change than the constant price figures.

In fact, in 1999 the shares of exports in GDP at current prices exceeded the levels of 1913 by a comparatively modest degree (table 1). This is true for the OECD countries in total and for the USA, Europe and Japan taken separately. Whilst such an historical perspective is interesting its relevance to discussions about constraints on post-1945 systems of national economic management may seem limited (see Bairoch and Kozul-Wright 1997 for discussion of the pre-1914 period). Much more significant from that point of view is the post-war period experience. Despite the recovery of world trade in volume terms, trade shares recovered quite slowly in the 1950s and 1960s when manufacturing productivity was growing very fast and thus the relative prices of exports were falling. Export shares then increased markedly in the early 1970s as OECD countries exported more to oil producers and developing countries to pay for the higher cost of oil. In the last quarter century, with globalisation apparently in full spate, export shares have risen only by one quarter in the USA and the EU and in Japan have actually fallen.

{TABLE 1 HERE}

Whilst the ratio of current price exports to GDP is the best measure of the trend in the importance of production for overseas markets it is subject to one upward bias. Exports include an import content so that their value exaggerates the value added contributed to them by the domestic economy. Thus before comparing exports to GDP the import content should really be subtracted. A crude adjustment suggests that some 26% of European GDP was devoted to export production in 1999 rather than 32% in the unadjusted data.

The upshot is that the best simple measure of the trend in the direct importance of trade for the domestic economy is the export share at current prices. This shows a relatively modest rise over the past 25 years, contrary to the exaggerated impression derived from constant price series. Even the current price export shares exaggerate the level of trade dependence because of the inclusion of the import content of exports.

The export share shows the proportion of economic activity which has to compete internationally on world markets. In a developed country with a classical structure of imports – raw materials, food and fuel – they represent interdependence but are complementary to domestic production not in competition with it. But now imported manufactures represent an additional competitive pressure on substantial sections of the economy over and above that derived from export markets. Table 2 shows that the classic division of labour has been unwinding for OECD countries as the share of imported food and materials slipped down; over the past decade falling oil prices have even reduced the share of imported energy to below that of 1964. Thus

the share of manufactures in total OECD imports grew over the past forty years from one half to four fifths. As Feenstra (1998) has emphasised many of these manufactured imports are intermediate goods – semi-finished and components.

{TABLE 2 HERE}

The impact of international competition within domestic economies, is most clearly displayed in the degree of import penetration of the domestic market for manufactures (table 3).

[TABLE 3 HERE]

Increasing import competition was noticeable even in the 1950s and, with the important exception of Japan, it has continued unabated with import market shares doubling in Europe after 1974 and rising more than three-fold in the USA. Most of this competition comes from other OECD countries. Imports from the “South”, however, have grown rapidly and now take nearly one tenth of domestic markets in USA and Europe.

The basis for the general impression of sharply increasing international integration through trade surely lies in this growing penetration by imports of domestic manufacturing markets. But manufacturing only constituted 18% of OECD employment in 1999 (ranging from 15% in USA to 24% in Germany); for OECD this represents a decline of one third as compared to 1974. Does globalization amount, therefore, to increasingly fierce competition about a diminishing and relatively small, but publicly highly visible, sector?

The significance of manufacturing is underplayed by its share of employment since other sectors contribute substantially to manufactured commodities. So part of the output of agriculture, mining, energy, construction, transport and finance and business services is dependent on the success of domestic manufacturing. Thus bits of these sectors are, at one remove, subject to the international competition within manufacturing markets. Data for the UK in the mid-1990s suggest that the inclusion of intermediate inputs increases the weight of manufacturing by one half as compared to its contribution to value added or employment. If we extended the calculation to include the value of agricultural and mining output (which is extensively if far from freely traded internationally) it would seem that around 30% of the UK economy is directly or indirectly contributing to the production of internationally traded goods.

Of course some services are traded directly as well. In the mid-1990s OECD exports of commercial services were about 25% of exports of goods and for the USA the figure was 35%. But these are concentrated in a narrow range of specialised

services (international transport, international finance, consulting and so forth) and are irrelevant for the mass of domestic service producers (tourism is one exception being in competition with a broad range of domestic services). There is no obvious way of quantifying what part of services is seriously internationalised; but any plausible estimate would leave a majority of employment in OECD countries, possibly a substantial and probably a growing majority, largely untouched by international competition. Outside agriculture, mining and manufacturing only a small proportion of workers are subject to international competition directly or indirectly through services provided to traded goods sectors. Wholesale and retail trade, community, personal and social services, utilities and construction together employ some 60% of employment in the OECD as a whole, rather more in the USA (calculations from OECD *Labour Force Statistics*). These sectors are almost wholly insulated from international competition through trade; in Japan where the proportions employed in these sectors is rather less, there is exceptionally little import competition in manufacturing.

The impact of internationalisation through trade, therefore, is quite complicated. For one section of the economy, manufacturing production and its suppliers together with some specialised enclaves in the services sector, internationalisation has intensified considerably in the USA (from a very low level) and in Europe, but much less in Japan. For the rest of the economy, covering probably a growing majority of those in employment, international competition is of little direct relevance, though even the “sheltered sector” is affected by the macroeconomic consequences of the success or otherwise of the traded goods sectors.

One reason for the impression of pervasive internationalisation is that a substantial part of the sheltered sectors deal with imports even if it does not compete with them. Thus the retail sector, for whom international competition is largely irrelevant, sells an increasing proportion of imported products (or products which

copy foreign products – witness the croissantification and bagelization of UK supermarkets), garages service imported cars, insurance companies cover imported VCRs and so on. Many services deal with and are ancillary to goods even if not involved in their production, so that the increasing internationalisation of goods production may be highly relevant to them. Their position on the domestic market may even be threatened if they do not keep as abreast of information on new overseas sources of supply as their domestic rivals. This overseas competition in the goods in which they deal increases both the informational complexity and unpredictability of their business. But the economic consequences of this relationship to the world economy are shallower than when maintenance of their position on the domestic market depends on their costs relative to those of overseas producers.

(ii) Foreign Direct Investment

Foreign direct investment (FDI) rose rapidly in the final decades of the 20th century. UNCTAD's *World Investment Report 2002* calculates that the inward stock of FDI in developed countries increased from 4.8% of GDP in 1980 to 8.1% in 1990 and jumped to 17.1% in 2000 (for outward FDI the figures are 6.2%, 9.6% and 22.1%). Although the increase seems impressive, comparing a stock of FDI to GDP does not directly measure its significance. For the OECD countries the ratio of non-residential capital stock to GDP lies in the range 2-3. In order to allow for historic cost valuation of FDI (meaning its undervaluation in current cost terms), we will take the minimum figure of 2 as a rule of thumb, thus assuming that the share of FDI in the domestic capital stock is about one half its ratio to GDP. This suggests that foreign ownership of productive capital does not amount to much more than 10 percent of the total for the OECD countries. Using the same rule of thumb the figure for the developing countries would give a higher figure of about 15 percent. According to

these estimates less than 10 percent of the world's non-residential capital stock is foreign-owned (UNCTAD 2000, Annex Table B6).

Another, probably more reliable, method of arriving at this result is by looking at the figures for flows of FDI compared to the corresponding flow of domestic investment (table 4). These figures are not subject to the accounting biases caused by historic cost valuation. They shows what the share of the capital stock represented by FDI would be if the flow continued at that rate.

{TABLES 4a and 4b HERE}

In recent years the proportions of capital expenditure represented by FDI, as shown in these tables, have varied within the range of 3–22 percent: at first higher in developing than developed countries, though now the reverse and lower in Japan than in the rest of the OECD. The relative size of FDI was generally less in the early 1990s than it had been in the late 1980s, but then, as Tables 4a and 4b show, rose very rapidly in the second half of the decade. In the year 2001 FDI once again experienced a sudden collapse, the value of the flow being less than a half of the previous year; only a small part of this fall has been attributed to the effect of the September 11 attack (UNCTAD 2002, Chapter 1). These figures are consistent with the previous rough estimate that FDI as a proportion of capital stock world wide cannot be more than 10 percent and is almost certainly less than this: the foreign share of current investment in developed countries has only exceeded this level in the latest three available years.

Is 10 a large or small percentage? It has certainly grown over the last three decades and especially rapidly in the second half of the 1990s. But it is still a good deal smaller than is commonly supposed. It is now probably greater than its previous historical peak, though not by a large margin. Estimates of the size of foreign

direct investment before its collapse after 1913 suggest that it amounted to between 7 and 9 percent of world output, somewhat below today's figure (Maddison 1995; Bairoch and Kozul Wright 1996).

There are a number of reasons why the weight of foreign investment may be still less than these figures suggest. One is that the recent flow of FDI to developing countries has been concentrated in very few. Over one third of the higher figure for inward FDI to developing countries during the 1990s is accounted for by China alone. And most FDI into China comes not from developed countries but from other overseas Chinese capitalists in other Asian developing countries so it does not correspond to the common image of FDI as Western multinationals expanding throughout the world¹. In addition, not all FDI consists of the construction of new production facilities by overseas companies, thus generating a clear increase in competition through internationalisation. Well over half of FDI inflows into OECD countries represent cross-border mergers and acquisitions. In the year 2000 the estimated value of cross-border mergers and acquisitions was over 90% of the value of the total FDI flow. Some, but by no means all, of these mergers and acquisitions result in international intrusion into the competitive structure of the industry, just like a new plant or office. Other acquisitions are closer to portfolio investments, involving a change in ownership but with relatively little impact on industry behaviour. So that is another reason why FDI does not always have the results which are commonly ascribed to it. In addition, a considerable part of the acquisitions were the result of privatization policies which must tail off as state sectors decline; so the relative amount of FDI for this reason likely to flag.

The sectoral composition of FDI is less biased towards manufacturing than foreign trade. In the 1990s around one half of outward FDI from major home

¹ Newspaper reports suggest that substantial inflows of FDI into China actually originate within China itself, masquerading as FDI in order to obtain tax breaks.

countries was in the services sector (two thirds in the case of Japan). Obviously FDI can reach into parts of the service sector immune from direct competition from imports (eg Macdonalds) and this represents some qualification to the remarks above about the insulation of large parts of the services sector. As yet, however, the impact on services overall is still very much smaller than for manufacturing.

iii. **Firms**

Both popular and scholarly perceptions about globalization are based to a great extent on perceptions about firms. It is the multinational corporation (MNC), as agent of globalization, which plays a starring role in nearly all the theoretical approaches to the contemporary world economy. The MNC, however can be hero or villain. By some it is regarded as the modern incarnation of the finance capital which the classical Marxist writers on imperialism regarded as so important and by others as the confirmation that the age of which Hilferding, Bukharin and Lenin wrote has been superceded.

Firms are seen as the centerpiece of globalization either because they are large and getting larger relative to the world economy or because they are multinational and becoming more so. As to the size of firms and their concentration it remains extremely difficult to find satisfactory estimates of the degree of concentration of national (let alone world) output by numbers of firms. Firms are usually ranked in terms of the size of their turnover. This is not the same as their contribution to the value of production since it is a gross and not a net (value-added) figure. Companies in which raw materials or semi-finished goods constitute a large part of costs, and which buy these inputs from other firms will have a turnover greatly in excess of their net contribution to such aggregates as the GNP. But, despite this elementary fact, most assessments of the relative size of large firms or MNCs in the world economy

are carried out by comparing turnover with GNP. This is not comparing like with like and will give us an exaggerated number. One often quoted conclusion is that the world is “controlled” by the largest 200 companies (defined by total sales) which had a turnover equal to 24.2% of World Product in 1982, rising to 31.2% by 1995 (Clairmonte and Kavanagh 1994, Clairmonte 1997). This calculation is misleadingly presented as the “share of the 200 in world GNP” and is often referred to with such misleading phrases as “the large MNCs control more than a third of the world's production”. Such figures are based on double-counting: the sales of one corporation include the value of those products and materials which it has bought from suppliers. But an estimate of a firm’s contribution to the national product is a much more difficult figure to obtain and, in the absence of a large amount of research, the only way to calculate it is by means of another rule of thumb, this time relating value-added to sales. We will probably not be far wrong if we take a ratio of 3:1 as the average ratio of sales to value added². Applying this to the estimates of the importance of the 200 largest firms we would arrive at the conclusion that they accounted for about 10 percent or less of World Product instead of the frequently heard estimate of nearly one third. This figure is broadly consistent with the estimate that in the year 2000 the 100 largest firms ranked by value of foreign assets (almost all of which are included in the top 200 firms ranked by turnover) owned (at home and abroad) assets worth about \$6,300 billion (UNCTAD 2002) which amounts to a little under 10 percent of the world’s capital stock (estimated by the rule of thumb mentioned in the previous section)³. Even this figure must be an upper limit since it includes the assets of affiliates which are not wholly owned by the parent companies.

² This is intermediate between an estimate for the USA of 2.8:1 (Laffer 1969) and a ratio of 5:1 given implicitly by UNCTAD 2002 (Table 1.1 p 10) for all foreign affiliates). deGrauwe and Camerman have directly calculated this ratio for several large firms and find it to be between 3.5 and 4.5:1 for manufacturing and about 3:1 for services. (de Grauwe and Filip Camerman 2002).

³ These figures plainly refute many common exaggerated impressions and claims such as the one that “[s]ome 400 multinational corporations own two-thirds of the planet’s fixed assets...” (Robinson 1996, p. 20).

In the debate about globalization large firms and multinational corporations have become virtually interchangeable concepts. But figures for the concentration of world production in a certain number of firms do not in themselves imply anything at all about the multinationality of those firms. All the firms could in principle be purely national in their operations. So it is necessary to look at data specifically about multinationality.

A corporation could be classified as an MNC according to where it sells, where it produces, whom it employs, who owns it, where it has its offices and so on. There is no official definition and so about the MNC in one source may be based on completely divergent criteria from those from another. What is most nearly coming to be an official definition is that which is used by UNCTAD's annual *World Investment Report (WIR)*. In a series of annual reports on international production and investment this has come to use the following very inclusive criterion: a firm which has at least one foreign subsidiary defined as a firm in another country with more than 10% of the equity owned by the parent company). This means that a company with only one marketing subsidiary of which it owns only 10% of the equity is regarded as a multinational.

It is not surprising to learn that on the basis of that broad definition there are no fewer than 64,592 MNCs in the world at the last count having between them at least 851,167 foreign affiliates, an average of 13 each (UNCTAD 2001); many of these MNC's would not have enough affiliates to put them in the category of multinational as alternatively defined by the Harvard Business School (subsidiaries in at least 6 countries). If the *WIR* definition is far too inclusive to define an entity which many say is qualitatively changing the world, it is still important that the number of firms which are thus weakly defined as MNCs rose from around 7,000 in 1960 to nearly 65,000 in 2001. There is no doubt that in some sense that is a sign of more

international or globalized times, although a high proportion of this growing number of affiliates cannot be more than marketing agencies for the products of the parent.

Most of the MNCs defined in this way are not giant companies. The *WIR* figures do not allow any estimate of the average size of the parent companies. The average turnover of their foreign subsidiaries, however, is just under \$22 million, and on average they each produce value added of about \$4 million and employ 62 people (UNCTAD 2002, Table 1.1, p. 4 and Annex Table A.1.3, p. 272). Since nearly 60 percent of the subsidiaries are in developing countries which account for only 30 percent of the stock of foreign capital this implies that the above world average figures should be roughly halved for the developing countries and multiplied by about 6 for subsidiaries in the developed countries, which account for 12 percent of the subsidiaries and nearly 70 percent of the investments. (The missing figures are accounted for by Central and Eastern Europe).

The *WIR* estimates (generalizing from US and Japanese data) that the gross output produced by these subsidiaries (in GDP terms) was equal to a little under 11 percent of the world's GDP in the year 2000. The World Bank (1997a), using a different methodology reached the compatible estimate of 7.5 percent for 1995. The distribution of this output by sectors is shown in Table 5. Employment in their subsidiaries amounts to 1.5–2 percent of the world's active population, which probably means about 4 percent of employed labour.

{TABLE 5 HERE}

These numerical estimates of the importance multinational corporations are neither large nor small in themselves. They are large in relation to recent past experience, much less so in a longer term comparison, and quite small in relation to presumptions common in discussions of globalization.

A common perception about multinational firms is that they are increasingly developing globally integrated production in which the firm produces final products from components which it manufactures in plants in many different countries. There are a number of widely publicised examples of this and a number of spectacular failures of such a strategy. The spread of integrated production implies a rising proportion of international trade taking the form of intra-trade between branches of the same firm. Despite this common view it is extraordinarily difficult to find satisfactory estimates of the importance of this trade. The only authoritative figures seem to be for the USA and Japan between 1983 and 1999 (UNCTAD 1997 and OECD 2002). The *World Investment Report* has estimated that intra-trade in the USA rose between 1983 and 1992 from 33 to 36 percent of exports and from 35 to 40 percent of imports; and in Japan intra-trade rose from 22 to 28 percent of exports and fell from 15 to 14 percent of imports. A more recent survey by the OECD calculates that between 1990 and 1999 US intra-trade rose for exports (from 33 to 36 percent) and fell for imports (from 44 to 39 percent); for Japan there was a sharp rise, however, during the 1990s (from 17 to 31 percent for exports and from 15 to 24 percent). The OECD report speculates that the intra-firm percentage has risen especially fast in trade between a few middle-income countries and richer countries (especially Mexico and the USA due to the maquiladoras). While intra-trade is important and growing it is much smaller than is claimed by widely read writers on globalization who frequently quote much higher figures (ranging up to 92 percent for US trade) with no basis in fact (Reich 1993: p. 114). The figures quoted above suggest that intra-firm transactions may account for about one third of international trade, a figure which has been circulating for at least 30 years, though with very little empirical backing. The figures for the USA are fairly stable, though those for Japan are rising. This fact is connected with the nature of intra-firm transactions. The bulk of this intra-trade is almost certainly not the result of globally integrated production but of the increasing use of marketing subsidiaries by multinational corporations, especially in industries

such as electronics, computers and vehicles; for example, two-thirds of US imports by foreign-based multinationals are of this kind (OECD 2002, p 163).

All the figures quoted above do not tell us very much qualitatively about the institution of the MNC which so many people think defines our age. The history of the species depends on how it is defined. Observations about MNCs are based on many different definitions. If the MNC is a company which sells its product in foreign markets then there are hundreds of thousands of them and they have been common for centuries. If it is one with marketing subsidiaries abroad, then there are tens of thousands of them and they have existed for many decades. If it is one with production subsidiaries abroad then there are thousands of them and they have existed for many decades. If it is one which practices international integration of production then there are probably a few dozen of them, though they are so often remarked and described that you would think that there were more. If it is one with significant ownership in more than one nation then there may also be a few dozen at the most. If it is a company with more than one basic national origin, then there are probably 2 (Royal Dutch Shell and Unilever) and they have both existed for many decades. If it is a company which is so international in ownership, production and management that it no longer has a basic nation state then we are not convinced that there are yet any: such a beast would be a future mutation (Ruigrok and van Tulder 1995).

There is in our view rather little evidence here for the view that the multinational corporation has suddenly transformed the world. Rather there is the continuation of very long-term tendencies towards industrial concentration going on at a speed of “glacial drift”⁴, and considerable evidence that more and more firms, especially medium and small ones are beginning to operate at an international level.

⁴ The phrase was the conclusion of M.A. Adelman writing in 1951 (The measurement of industrial concentration. *Review of Economics and Statistics*. vol 33, November 1951: pp. 295-6), and was still regarded as appropriate by F.M. Sherer and David Ross in 1990 (*Industrial Market Structure and Economic Performance*. Boston: Houghton Mifflin Company, 1990).

Despite general perceptions to the contrary, the tendency is not so much that some predefined beast - the largest and most famous of the multinational corporations, such as Shell, Nestle, Unilever or General Motors - have been controlling very much more of the world economy, but that the nature of the beast has been changing; globalization has meant more that a growing number of companies have global interests rather than that a given number of companies directly control more of the globe.

(iv) Finance

Our review of the facts about globalization has concentrated on issues of production. There is less dispute about the huge expansion of international financial flows; crossborder bank lending and transactions in bonds and equities grew have grown spectacularly (BIS 1997) . The daily turnover of the foreign exchange market, now more than \$1500 billion, is six times the total gross central bank intervention during the 1992 ERM crisis (Eichengreen and Wyplosz 1993). Such explosive growth of international financial transactions renders exchange rates wholly dependent on shifts in market expectations.

However many such transactions represent reshuffling of existing portfolios and do not increase the degree of internationalisation of ownership of financial assets. The UK case is interesting as a medium sized country with a highly developed, and internationally very integrated capital markets. By the end of 2001 37% of UK company equities were owned abroad as were 18% of UK government bonds. UK life assurance and pension funds held 22% of the assets in the form of foreign equities and bonds. In each case the percentages had increased very sharply over the past twenty years, though households still hold virtually no overseas financial assets. It is still the case, however, that the majority of portfolios are invested in financial assets emanating from the domestic economy and that the majority of domestic financial

liabilities are due to domestic residents. It is possible to envisage a situation where ownership of financial capital is so internationalised, portfolios are so diversified, that clearly identifiable national blocs of capital will cease to be very significant. We are certainly not there yet.

Conclusions

Historical economic trends are often exaggerated. Globalization is one. We do not mean that there has been no important process of globalization going on in the last 50 years. But we are certain that at the present time its extent and significance have been misinterpreted; and in general the misinterpretation has leaned in the direction of exaggeration. The exaggeration has resulted from a number of interpretive tendencies:

- inappropriate statistical measures have been used (for instance, the use of constant price data to measure the importance of trade, or comparison of the turnover of firms with national output figures)
- upward trends have been assumed for variables where very few reliable observations exist (such as the percentage of intra-trade of multinationals in total trade)
- recent and present measures of globalization have been taken to indicate a situation which is historically unprecedented, whereas the world economy might be better seen as restoring normality after long mid-century global crisis rather than changing itself into something completely new;
- the growth of some variables has seemed remarkable in absolute terms while relatively they are much less impressive (as in the case of foreign direct investment)

- little attention has been paid to the analytical reasons for limits to globalization (such as the growing importance of services)
- counter globalization tendencies have been ignored (such as the growing restriction on human migration)
- insufficient argument has been made that recent quantitative changes have resulted in qualitative ones.

This short article has left aside the qualitative questions in order to examine critically some of the commonly held quantitative notions about international economic integration, in the hope that this will do something to clarify what is today surely the central debate in international political economy. We do not wish to suggest that globalization is neither large nor important. But we do wish to say that a look at the quantitative evidence shows that it is a gradual rather than a sudden process and that it has not in general reached unprecedented levels. Exaggeration on both these scores will lead to inappropriate interpretations and political reactions to globalization.

We do not believe that any specific political conclusions follow from this article. But it does suggest some very general points. The main one is that the exaggeration of the degree of globalization has given rise to (or been used to justify) a sense of impotence among many on the left. Globalization seems to explain why national political plans always go wrong: it is because the national state has lost independence due to globalization. The future of left politics, therefore, seems to depend uniquely on the possibility of building an international political movement to combat globalized capital and the de facto international state. And since to many that prospect seems very difficult and distant so the implication is political impotence for the foreseeable future. In our opinion this fatalistic perspective would be wrong even

if globalization has advanced much further than we believe it has. It is not true that the consolidation of the national state rendered local institutions powerless and local politics redundant. No more should globalization render the politics of smaller units including the national state redundant. But changing global structures will tend to alter the political areas in which local or national autonomy exists. There is no reason to suppose that it will eliminate their importance.

Nonetheless, any degree of globalization (including that which existed before it became a buzz word) does seem to us to demand greater internationalization of political perspectives and action, whether it be international trade union action in relation to multinational corporations or international cooperation of progressives over human and civil rights, especially when these have a clear international dimension, such as questions of asylum rights, immigration rights and so on. There is a marked imbalance between the globalization of the movement of money and things and the opposite tendency in the movement of people. It seems to demand some redress: people should be able to move more freely and at the same time they should find it easier to acquire democratic rights when they do move. Globalization demands now (as it always has done) that the concept of citizenship, both from the point of view of rights and from the point of view of participation in the political process, also be globalized. The concept of international citizenship has begun to be discussed but it lags far behind the development of the ideological justification for the globalization of money and capital markets. None of this seems to us new but globalization at any pace makes it more urgent. It is not an alternative to national or local political action but a complement to it.

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Table 1 Exports as % of GDP 1913-94

Current prices	1913	1950	1960	1974	1989	1999
USA	6	4.6	5.2	8.5	9.4	10.7
EU	22	16.7	19.1	25.9	28.0	32.1
Japan	20	11.8	10.7	13.6	10.6	10.4
OECD	16	10.5	12.3	17.0	18.0	22.1

Source: OECD 2001 for 1974 and later years; linked to OECD, *National Accounts of Member Countries* ; figures for 1913 assume that the differences as compared to 1950 are equal to those estimated by Maddison for Merchandise Exports only (1991: Table F7).

Table 2 Product Composition of OECD Imports

	Food	Materials	Energy	Machinery	Other Manufacturing
1964	18	16	11	19	34
1974	12	11	22	21	34
1989	9	6	10	34	41
1998	8	4	7	40	41

Source: OECD 2001: Tables 12 and 13.

Table 3 Import Penetration of Domestic Markets for Manufactures 1913-99

percentage	1913	1950	1963	1974	1989	1999	From “South” 1999
USA	3	2	3	6	14	21	9
Japan	34	3	4	5	5	6	5
Europe	13	6	11	17	21	29	8

Note: the figures represent imports as a percent of apparent consumption (production plus imports less exports). Data for Europe are simple averages of UK, Germany, France and Italy

Source: 1913-63 Batchelor et al 1980: table 3.3; 1974-1999 authors’ calculations from OECD Stan Database, 1998 and 2001 editions. There are minor breaks in the series after 1950 and after 1963 and for Germany after 1989. The figure for imports from South (non-OECD plus Korea and Mexico) are derived from totals for 1999 and share of South in 1996 reported in Landesmann et al 2000..

Table 4a Foreign Direct Investment, 1990–2000

% of Gross Domestic Investment	WORLD		Developed countries		USA		Japan		European Union	
	90–95	96–2000	90–95	96–2000	90–95	96–2000	90–95	96–2000	90–95	96–2000
Inward	4.1	12.6	3.6	12.8	4.3	12.4	0.1	0.5	5.5	21.8
Outward	4.8	10.2	5.5	15.2	6.1	8.8	2.2	2.1	7.7	30.5

Source: UNCTAD 2002: Annex Table B.5.

Table 4b Foreign Direct Investment, 1990–2000

% of Gross Domestic Investment	DEVELOPED						DEVELOPING					
	1990–95	96	97	98	99	2000	1990–95	96	97	98	99	2000
Inward	3.6	4.8	7.4	11.0	16.5	22.0	5.7	9.1	11.1	11.4	13.4	13.4
Outward	5.5	7.3	8.9	13.9	20.1	25.0	2.5	3.8	4.0	3.1	3.5	5.8

Source: UNCTAD 2002: Annex Table B.5.

Table 5 National and “global” production (percent of total world GDP)

	Sector:	Agriculture	Industry	Services	Total
Location of output:					
National		5	26	61	92
Global		0	5	2	7
Total		5	31	63	100

Source: World Bank 1997a and 1997b.

Note: national production is production by enterprises in their own country, “global” production is production of foreign owned enterprises. Totals do not equal 100 due to rounding.