REVIEW ARTICLE

Globalization reviewed

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Globalization in Historical Perspective

Michael D. Bordo, Alan M. Taylor and Jeffrey G. Williamson, eds. (Chicago, University of Chicago Press, 2003), ix+588 pages

Challenges to Globalization: Analysing the Economics R.E. Baldwin and L. Alan Winters, eds. (Chicago, University of Chicago Press, 2004), 544 pages

Global Governance: An Architechture for the World Economy

H. Siebert, ed. (Berlin and New York, Springer, 2003), 276 pages

As one who has had a lifelong interest on this subject, I was looking forward to reading these three books on globalization. Their specific themes – an historical perspective, an economic appraisal and the governance of the global economy – were ones I was eager to know more about. For reasons that will become clearer as this review article proceeds, and notwithstanding some excellent individual contributions, my intellectual appetite was only partially satisfied; indeed, in the case of two of the three volumes, I was disappointed and frustrated by the tunnel vision and limited analytical perspective taken by the editors.

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Let me start my comments by identifying a number of general characteristics of the three volumes, which, for shorthand purposes, I shall refer to as the *history*, *economics* and *governance* volumes. The first characteristic is that the contents of each contain the results of academic seminars held in 2001 and 2002. Two of these events were organized by the National Bureau of Economic Research (NBER), and the third by the Kiel Institute of Economics. In all, the volumes contain 35 chapters, spanning 1,400 pages. Each of the editors and about two-thirds of the contributors are economists, the balance economic historians, political scientists and legal specialists.

Second, each of the volumes also contains comments from a broader church of specialists, including representatives from the business community, international agencies and civil society. In the case of the NBER seminars, about 55% of the participants were from the United States and the rest mainly from Europe; the corresponding percentage for the Kiel seminar was 50%. Finally, the majority of economists contributing to each of the seminars were specialists in trade, finance and development. Only Richard Lipsey, James Markusen, Gary Hufbauer and Anthony Venables had previously contributed to our understanding of foreign direct investment (FDI) and transnational corporations (TNCs). Interestingly, no international business scholar was a contributor to the three volumes.

Third, broadly speaking, each volume takes a neo-classical economics approach to its subject matter. To their credit, each author presents his or her views cogently and rigorously, and most either eschew anecdotal evidence and casual empiricism about causes and effects of globalization, or are highly critical of them. Where possible, the contributors use well-versed quantitative techniques to back up their propositions and theories.

However, with few exceptions – noticeably in the introduction to the *governance* volume and the *economics* volume – little attention is paid to the role of institutions and institutional capabilities as they affect the pattern, causes or

effects of globalization. Questions such as incentive structures and enforcement mechanisms are generally ignored or regarded as of secondary importance. Almost all the contents of the *history* volume are directed to the ways in which the widening spatial distribution of economic activity has affected the workings of cross-border markets – and mainly arms length markets at that! Very little attention is given to the changing role of non-market actors in affecting the course and content of globalization. There is also little attempt to treat globalization as a systemic phenomenon.

But most of all, I was surprised that so few contributions adequately acknowledged the importance of FDI in the current globalization debate. Admittedly in the economics volume, chapters by Robert Lipsey on the home and host country effects of FDI, by Drusilla Brown, Alan Deardoff and Robert Stern on the impact of transnational production on wages and conditions in the developing countries, and by David Carr, James Markusen and Keith Maskus on competition for FDI in developing countries, tackle some of the costs and benefits of transnationalization. But in the *history* volume, there is virtually no attention given to FDI (it is not even mentioned in the index!) while only Peter Lindert and Jeffrey Williamson touch on the interaction between TNCs and the global inequality of income. How any volume that purports to describe and evaluate globalization from an historical perspective can (completely) overlook or ignore the seminal contributions of Mira Wilkins to our understanding on international business history, I do not know!

But perhaps I do – or at least a clue to the approach of the history volume is in the interpretation of the term, "globalization". In their introduction, Michael Bordo, Alan Taylor and Jeffrey Williamson ask the question "What do economists mean by the term globalization?" Their answer: "Typically their agenda is defined by between country integration in three markets" (p. 1). Then, they go on to identify commodity, labour and capital markets and to examine, in subsequent chapters, the implications of the increasing transnationalization of these markets and its reasons and effects. At the same time, no mention is made of extra market modalities

of cross-border commerce, by notably TNCs internalizing such markets, nor of the role of national governments and international agencies affecting the spatial allocation of economic activity.

I must admit that the relatively scant attention given to TNCs and FDI – and, for that matter, cross-border non-equity alliances – by mainstream economists over the past two decades has consistently puzzled me. It somehow does not square with the fact that, in 2002, for example, the value of sales of companies accounted for by their foreign affiliates was twice that of exports (UNCTAD, 2003, p. 3); or that, over the period 1980 to 2002, the significance of the world's combined inward and outward FDI stock to its gross national product rose on average from 13% to 44% (UNCTAD, 2003, p. 278). Could it be that, apart from some notable exceptions such as Keith Maskus and James Markusen, international economists *still* regard the firm as a black box and, by so doing, pay little heed to firm specific and institutional variables affecting the allocation of scarce resources and capabilities?

Another search through the index of the three volumes reveals that, out of several hundred references, the Nobel Laureate Douglass North is mentioned only three times. Two other Laureates – Joseph Stiglitz and Amartya Sen, who have done so much to incorporate ideologies and values into the objectives and strategies of economic decision makers – fare only slightly better. Stiglitz is cited once in the *history* volume, twice in the *economics* volume and twice in the *governance* volume; the corresponding references for Sen are zero, four and zero.

Even more to my surprise (indeed consternation!) the work of UNCTAD — most certainly the leading international organization regularly producing facts about and analyzing the determinants and the impact of TNCs in the world economy—is given short shrift in the *economics* volume (except in the Lipsey and Everett chapters) and completely ignored in the other two volumes. The absence of any explicit acknowledgement of UNCTAD by authors in the *governance* volume is particularly

surprising as the annual World Investment Report and most contributions to the triannual journal Transnational Corporations have always paid special attention to the ways in which the interface between TNC activity and the policies of national regimes and the role of supranational entities can be made more productive and socially acceptable. Could it be that the contributors regard the publications of UNCTAD as simply assembling and reinterpreting the work of others? If so they cannot have studied them very carefully!

Earlier in this review, I identified the somewhat narrow interpretation of globalization taken by the history volume. The same criticism cannot be directed to the other two books. Indeed both are keen to identify both the actual and the perceived upsides and downsides of globalization. In their introductory chapter to the economics volume, Kimberly Ann Elliott, Debayani Kar and J. David Richardson set out well the key concerns of the critics of globalization and urge economists to embrace more fully these in their model building and empirical research. Examples include issues relating to public "goods" or "bads", values, education, corporate social responsibility and institutions. While I was heartened that several authors in the economics volume recognized the increasing role of nongovernmental organizations in influencing attitudes towards, and behaviour as a result of, globalization, I was disappointed that, apart from a useful general discussion on the role of international economic institutions by Elliott, Kar and Richardson in the economics volume, so little attention was given to the kind of international policy options identified by Stiglitz in his recent volume (Stiglitz, 2002).1

As might be expected from its title, the *governance* volume does its best to address these issues. It too starts off (in this case with excellent and sympathetic chapters by Horst Siebert and

¹ In this volume, Stiglitz offers some trenchant criticisms of the recent roles of the World Bank and the International Monetary Fund (IMF) in helping to make the forces of globalization less volatile, more inclusive and socially acceptable. Much of his disquiet arises from the influence which he perceived (his interpretation of) the Washington Consensus as still having on the workings of the IMF.

Jagdish Bhagwati) with an analysis of how economists might best respond to the anti-globalization movement. Bhagwati, in particular, in a section entitled "Why globalisation is socially benign, but good is not good enough", acknowledges the need to make better use of dialogue and moral suasion to emphasize the social benefits of globalization. Like other contributors – and this reviewer – he ardently believes that responsible globalization is part of the solution, and not the problem, of many of the world's economic ills.

There are several other good chapters in the governance book. Ann Florini emphasizes the importance of the need to give voice to, and respect, the views of civil society. In particular, she emphasizes that the critical issue at stake is not whether civil society groups should be participating in the debate but how. Sylvia Ostry, in her usual incisive way, suggests ways in which the governance of the World Trade Organization might be improved to meet new challenges of enlarged membership and new issues, e.g. FDI and intellectual property rights. Barry Eichengreen (who also has a chapter in the *history* volume) argues that the best way to limit global financial crises is to increase transparency on the part of the lenders and borrowers, and for international financial organizations to be reformed. (Surprisingly, however, he offers no comment on the merits (and demerits) of the Tobin tax.) Other contributions include those that examine the links between globalization and environment, problems of how national governments may best retain their fiscal manoeuvrability in an era of global competition, and on the institutional challenges facing host governments in developing countries if these are to provide the public services needed for economic restructuring.

In several places, and in each of the three volumes, I felt that globalization was being used to describe sometimes the global market place, sometimes global capitalism and sometimes as a generic term to describe the extent and depth of connectivity between economic agents across national boundaries. In my own book, *Global Capitalism at Bay?* (Dunning, 2001), I tried to distinguish between these terms, as their implications and the policy responses to them are likely to be very different. Certainly

this distinction could, I think, have been more clearly made in the *history* and *economics* volumes. More specifically, I think each of the volumes would have been much improved had they more specifically addressed issues arising from the globalizing of national capitalist systems and of how the gains from integrating markets, information flows and business decisions need to be reconciled with the demands of cultural differences and subsidiarity, both at a country and a firm levels.

Although – as will have been seen – I have several qualms about the content and methodology of these publications, and particularly the lack of acknowledgement afforded to international business scholars, who have done so much to advance our understanding about the cross-border operations of firms and their interactions with governments,² I believe that readers of *Transnational Corporations* will gain many new insights from a close study of these volumes. In particular, the chapters entitled "Globalization in history: a geographical chapter", and a panel discussion on "Globalization in interdisciplinary perspective" in the *history* book, and those already referred to in the *economics* and *governance* books will, I think, particularly appeal to those interested in the policy responses to FDI and TNC activity.

Finally, occasionally, we are given some glimpses into the future. Gary Hufbauer's chapter in the *governance* volume, "Looking 30 years ahead in global governance" sets out an imaginative and, I believe, realistic vision of the future economic and political scenario facing all stakeholders in the globalization process. In particular, he foresees a growing attention being paid to security issues, global warming, poverty, oil and culture, financial crises and trade and investment. He envisages a revitalization of several international organizations and the growing power of what he terms super-regional trade

² To give just one figure: there are 2,800 members of the Academy of International Business who have produced tens of books and hundreds of articles on the issues discussed in these three books over the past decade. Yet there are only eight references to four of these scholars in the whole of the three volumes.

arrangements, including one centred on China. Indeed, he concludes that the relationship between China and the United States could well set the global stage in which the extent, character and effects of cross-border commercial transactions will operate in 30 years time.

Finally, in his comments on Hufbauer's chapter, Robert Lawrence argues for a broader conception of global governance to incorporate international civil society. His concluding words are worth repeating and as they are ones that most readers of *Transnational Corporations* would surely endorse:

"In sum therefore, in my view the most important item on the agenda for global governance is aligning the mission, means and legitimacy of international organisations in a world in which international governance has become increasingly complex because the central players are no longer organized neatly within the border of national states" (p. 274).

Has this not been the scenario – have these not been the issues – that UNCTAD (and the UNCTC before it) and, indeed, the scholars of international business, have been actively addressing for the past two decades?

References

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