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More – yet more – on globalization

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REVIEW ARTICLE

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In Defence of Globalization

Jagdish Bhagwati

(New York, Oxford University Press, 2004), xi + 308 pages

Why Globalisation Works

Martin Wolf

(New Haven, CT and London, Yale University Press, 2004), xviii
+398 pages

Globalisation and Its Discontents

Joseph Stiglitz

(London, Allen Lane, 2002), xvi + 212 pages

Books on globalization continue to abound. As one who wrote one of the earliest volumes on the subject in 1993,¹ I am continually amazed at the ingenuity of scholars, journalists, politicians and business executives to rediscover and recite the actual and perceived costs and benefits of the growing cross-border inter-connectivity of economic activity, and to do so in so many different ways. Surely, I thought, as I came to read the three books under review, nothing more of value could possibly be said.

I was wrong. I should have known better. I should have appreciated that three economists and commentators with such impeccable credentials as Joseph Stiglitz, Jagdish Bhagwati and

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¹ *The Globalisation of Business* (London, Routledge, 1993).

Martin Wolf would not only have something original to say, but also they would do so in a carefully crafted, yet reader-friendly way. Each volume deserves its place on the bookshelves of all those interested in this highly topical, fascinating and challenging topic.

The current round of globalization – as the authors remind us, earlier rounds took place in the late nineteenth and early twentieth centuries and in the late 1950s and 1960s – can be traced back to the fall of the Berlin Wall in 1989; to the renaissance of market economies, spearheaded by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States; and also to the emergence of a new wave of technological advances that culminated in the global embrace of E-commerce in the late 1990s. *Inter alia*, it has been fashioned by a widening and deepening of all forms of international business activity, especially of foreign direct investment (FDI), a dramatic reduction of cross-border transport and communication costs, and ever closer awareness linkages, by way of people’s movement, radio, TV and the printed word. As a result, for good (or bad), what, 60 years ago, were a collection of economically protected, politically independent and culturally distinctive nation States are now, for the most part, better regarded as inter-related parts of a global village.

Of course, there are exceptions to this general statement. Economic globalization is not all inclusive, and some countries have embraced its characteristics more than others. As currently illustrated by the debate on the future of the European Union (EU), national sovereignty and cultural freedom still remain valued assets. Moreover, as Alan Rugman has pointed out in several of his recent writings,² in some respects, regionalization describes the current status of the geography of transnational business activity better than does globalization.

Nevertheless, the expression “globalization” – though it may mean different things to different people – is now part and

² See, for example, Rugman and Verbeke (2004).

parcel of our everyday language, and 25 or so years since its inception in modern guise is a long enough period for us to make a reasoned appraisal of its evolving content, determinants and effects.

This is exactly the purpose of these three volumes, although, as might be expected, each author takes a somewhat different approach to his topic. At the same time, each is trying to lay to rest some of the more popular myths about globalization. Each, too, attempts to assess the costs and benefits of economic inter-connectivity from the viewpoint of various interest groups, and of what might be done to increase its net benefits and to resolve such conflicts as and when they arise. Each is also writing for a general audience and, I believe, is seeking to give the reader both a sense of the complexity of the causes and consequences of globalization, and of the need to assess these in terms of other options of organizing the world's wealth creating activities. Finally, rather than addressing the question "Is globalization a good or bad thing?", Bhagwati, Wolf and Stiglitz have each preferred to identify ways and means of making its existing content and effects economically more productive, socially more acceptable, morally more sustainable, and geographically more inclusive.

Of the three volumes, those by Bhagwati and Wolf are the more similar, both in their subject matter and in their judgement about the rationale for, and consequences of, globalization. Each is fully convinced of its net benefits – Wolf, perhaps, more so than Bhagwati. The latter, in a section of his volume entitled *Globalization's Human Face: Trade and Corporations*, gives more attention to social and cultural issues, including those that have to do with poverty and the interests of women. Wolf's emphasis as, perhaps, befits the Chief Economic Commentator of the *Financial Times* is more directed to the implications of globalization for capitalism in general and the operation of transnational corporations (TNCs) in particular. His assertion that there is "too little" globalization rests on the proposition that it is primarily the misguided policies of national governments and the ineffectiveness of international institutions

that are inhibiting the benefits of international trade and FDI to be spread more widely. However, he, too, is aware that the tools of globalization may be used to promote “bad ends”, and, in this respect, has some pertinent remarks to make about how certain threats to economic prosperity, e.g. those arising from international terrorism and drug trafficking, may best be countered.

Both Bhagwati and Wolf deal cogently and persuasively with some common misconceptions about the effects of globalization on trade, jobs, income distribution, entrepreneurship, knowledge creation and dispersion, and the environment. Both present counter arguments and illustrations to those advanced by the anti-globalization movement. While Bhagwati cites econometric studies as supporting some of the beneficial consequences of globalization, for the most part, both authors rely on casual empiricism to support their arguments. This, more than anything, reflects the paucity of the data on the effects of globalization. However, as is most clearly illustrated in the debate over income distribution, much depends on the definition of the terms used, on exactly what one is trying to measure, and where prices are involved, on which exchange rate one is using to make cross border comparisons.

Subject to these caveats, both Bhagwati and Wolf present their subject matter in an attractive and reasoned way. Perhaps, understandably, both tend to generalize their findings, although both – and especially Bhagwati – do recognize that, when viewed contextually and in the short run at least, there may be losers in the *process* of globalization. Particularly, this is likely to be so when it is driven by technological change. The loss of jobs of those employed at call centres in the United Kingdom and the United States as a result of new technology enabling such activities to be more economically undertaken in India is a case in point.³ Bhagwati pays more attention to the responsibilities of national governments and to the institutional architecture undergirding globalization if it is, in his words, “to be made

³ For a detailed examination of this issue see UNCTAD (2004).

better” than does Wolf. But this may be a matter of emphasis, rather than a different perspective, of the two economists. Certainly, my own predilections follow more closely those of Bhagwati. I firmly believe that globalization (or indeed regionalization) should not reduce the role of national governments. Rather, I consider that governments should realign the incentive structures and enforcement mechanisms over which they have control or influence so as to ensure that the wealth creating organizations within their jurisdiction can fully exploit and capture the benefits of globalization, while satisfying the localized needs and aspirations of their constituents.

I would further argue that this last challenge is particularly relevant to the impact of globalization on the poorest developing countries, especially those in sub-Saharan Africa. Neither Bhagwati nor Wolf gives as much attention to this issue as I would have liked. How does globalization affect the economic and moral responsibility of the rich to the poverty stricken countries? How does it change the balance between aid, loans, trade, foreign portfolio and direct investment? Is there a need for a more holistic approach to the reconfiguration of the institutions and incentive structures both in developed and developing countries to “making poverty history”? Does globalization not lay bare the need for more partnerships between its main stakeholders – firms, investors, consumers, civil society, national governments, supranational entities – to further a whole range of development goals? Here, I believe the thinking and recommendations of Armatya Sen in his book *Development as Freedom*,⁴ and of Stiglitz in a chapter in my own edited volume *Making Globalisation Good*⁵ are especially relevant. To be fair, however, Bhagwati, in particular, is well aware of the inappropriateness and/or inadequacies of the wealth facilitating institutional structure and implementing organizations in the poorer developing countries. I only wish that, in the final section of his book on governance, he would have identified some of the changes required of these as a result of the impact made by

⁴ Published by Oxford University Press, 1999.

⁵ Oxford University Press, 2003 (paperback edition, 2004).

globalization on the human environment, including traditional cultures, ideologies and norms of doing things.

What of the actual or perceived downsides of globalization? Clearly, both Bhagwati and Wolf, while acknowledging there are downsides, believe that these are primarily contextual and not systemic. However, both authors recognize that extra-market organizations need to work together with the main wealth producing entities to ensure that the inevitable uncertainties, volatilities, shifting distributions of economic power, and challenges to sovereignty posed by it, are best reconciled. Neither authors underestimate the magnitude of this task. Both, too, accept that achieving it, in a world made up of individuals and organizations from different cultures and mindsets demands a consensus of beliefs, not only about the objectives of globalization, but also on the content and form of national and supranational incentive structures, and of how the main wealth creating organizations set, or respond to, these goals and institutions.

Both Bhagwati and Wolf present their own agenda for making globalization better. In the final chapter of his volume, Wolf sets out a ten-point plan, directed primarily to governments and supranational entities. By and large, he recommends a more focused, more efficient, more integrated approach to maximizing the benefits of the closely inter-connected global economic environment of the early twenty-first century. Although, elsewhere in the volume, he has something to say about the role that corporations, investors, consumers and workers may play in this task, such a “bottom-up” approach does not appear to be top of his agenda.

Bhagwati also mainly addresses his recommendations to governments and supranational agencies, though he recognizes that a “shared success” in a more efficient and fairer globalization requires the inputs from both firms (and particularly TNCs) and a whole cadre of NGOs. But unlike Wolf, he pays more attention to the need for institutional upgrading and restructuring both at the national and supranational levels;

to issues of poverty, trade liberalization and adjustment mechanisms; and to advancing a medley of social goals.

Between them, the Bhagwati and Wolf volumes cover all the major issues raised in the globalization debate. I liked both books a great deal, even though I wished that more emphasis had been given to policy issues influencing the role of TNCs, both in shaping the kind of economic connections now spearheading the globalization process, and in determining the form, extent and spatial distribution of the net benefits arising from their activities.

While the Bhagwati and Wolf monographs touch upon the role of supranational entities as they have so far influenced the process of globalization, and on what might be done to make this role more economically effective and socially acceptable, it is Stiglitz who devotes most of his attention to this issue. Of the three authors, he is the most sympathetic to those who are sceptical about the benefits of globalization. In particular, he questions the extent to which the proponents of free market liberalization, such as those supporting the Washington Consensus, have delivered their promises of increased economic well-being to such transition economies as Russia. At the same time, Stiglitz observes that those countries that have most fully exploited the opportunities offered by globalization, notably China, have done so *without* much help from such organizations as the International Monetary Fund and the World Bank. The Republic of Korea's recovery from its economic crisis since the mid 1990s was also largely domestically orchestrated. How was this possible? According to Stiglitz, it was because they strengthened and restructured their domestic institutional architecture in a way that helped both their indigenous firms and the foreign affiliates in their midst to become more important players in the global economy.

In writing his volume, Stiglitz had the benefit of both excellent scholarly credentials (he was the joint winner of the Nobel Prize in Economics in 1991) and unrivalled experience as a consultant and adviser to a large number of developing and transition economies. The message of his volume – and one that

he preached while he was Chief Economic Adviser to the World Bank – is that, to benefit fully from all the advantages of economic interdependence and the complexity of today’s human environment, there must be a drastic change in the mindsets and institutional mores of the main supranational designers of globalization. At the same time, a restructuring of institutions in developing countries, particularly in respect of property rights, banking regulations, the legal framework and a whole range of enforcement mechanisms is required.

Stiglitz has comparatively little to say about the role of TNCs in the development process, but even here (on pp. 68/70) he is more concerned than either Bhagwati or Wolf about their possible adverse affects, e.g. with respect to crowding out local competitors, engaging in monopoly pricing and insufficiently using their ownership advantages to improve local working conditions. He also has a good deal of advice to offer host developing countries about upgrading their domestic institutions and sequencing their strategies and policies towards market reform and industrial restructuring. He strongly believes in encouraging local entrepreneurship, the ownership (or part ownership) of key resources and capabilities for development, and multi-stakeholder involvement in the decision-making process. In short, Stiglitz, while learning from experiences of developed countries, wants developing countries to evolve their own brand of global economic involvement, and to create or redesign their own institutions to further this objective.

But Stiglitz’s main contribution to the globalization debate rests in his trenchant criticisms of the leading supranational agencies in advancing the economic and social goals of many developing countries. Perhaps, the main butts of the criticism are directed to first (as he sees it) the “one-size-fits-all” philosophy of the Fund and the Bank, and second to the lack of appreciation of these organizations that, to promote efficient and socially acceptable markets, a sound legal, commercial, social and moral architecture – suitable to the particular cultural heritage and belief systems of the countries and regions in question – needs to be in place.

Chapter headings “Broken promises”, “The East Asia crisis”, “How IMF policies brought the World to the verge of global meltdown?”, “Who lost Russia”, “Unfair trade laws and other mischief”, “Better roads to the market” give a glimpse to the main thrust of Stiglitz’s discontent with the present state of globalization. In a nutshell, the main charge he levels at the trio of supranational agencies (the Fund, the Bank, World Trade Organization) is that, in one way or another, they have failed to restructure their institutions and policies from those designed 60 years ago to avoid a repeat of the self-inflicted wounds arising from the economic protectionism of the inter-war years to those more appropriate to the opportunities and challenges of globalization of the twenty-first century.

Each of Stiglitz’s recommendations for reform, set out in chapter nine, is designed to promote this objective. Sometimes, these are directed to changing the governance and voting rights of the international organizations; sometimes to reconfiguring the focus of their activities; sometimes to meeting the need for new organizations, e.g. to reach for a (realistic) global consensus on such issues as the environment, climate change, health and poverty alleviation; sometimes to streamlining administrative procedures; sometimes to understanding better the importance of partnership and a division of ownership of resources, capabilities and institutions between supranational agencies and domestic organizations in individual countries; sometimes to reconsidering the principles and terms of conditionality attached to aid or loans; sometimes to tackling the question of debt and carbon emissions;⁶ sometimes to appreciating the moral and ethical challenges posed by the global spread of capitalism; and perhaps, above all, to promoting better-managed and more flexible institutions that take account of the fact that we live in a dynamic and volatile planet, and one in which there is constant tension between the benefits of international economic integration and the desire of people and national (or regional)

⁶ Now, in the summer of 2005, Governments have taken a major step forward on debt by the decision of the G8 wealthiest countries at their annual meeting at Gleneagles (Scotland).

organizations to retain their individual identities, and freedom to choose their own destinies.

Each of these three books is to be warmly recommended. Between them they identify and evaluate most of the successes and failures of globalization. However, they differ in their attributions of these successes and failures. For example, neither Bhagwati nor Wolf castigates the three supranational entities for their part in the downsides of globalization to the extent that Stiglitz does. But for the readers of *Transnational Corporations*, each volume provides essential material for a better understanding of the conditions under which TNCs may contribute to the economic and social needs and aspirations of the citizens of the countries in which they operate; and also those that both home and host countries need to take into account when reconfiguring their attitudes and policies towards both inward and outward FDI as a means of enhancing their domestic productivity.

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