THE PARADOXES OF GLOBALIZATION

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1. 'Localization' and 'Globalization'

There are seemingly irresistible impulses and pressures towards the further globalization of corporate strategies. As Bartlett and Ghoshal (1995 : 116) put it, "Global chess... could only be played by companies that managed their world-wide operations as interdependent units, implementing a co-ordinated global strategy". Unlike the traditional multinational strategic approach that was based on an assumption that each national market was unique and independent of others, these global competitive games assumed that a company's competitive position in all markets was linked by financial and strategic interdependence...In industry after industry, companies that operated their local companies as independent profit centres found themselves at a disadvantage to competitors playing the global strategic game of cross-subsidising markets. Companies that found no economic, technological, or market reason to manage their businesses globally were suddenly finding the urgent need to do so for reasons of competitive strategy.

Globalising strategies often gain support from assumptions that they constitute a universal force of unilinear dimensions. The world's desires have not, however, been irrevocably homogenised : globalization is neither inevitable nor unstoppable. If such a proposition were true this homogenization of taste and consumption would inevitably lead to standardization of products, manufacturing, marketing and trade. This saturation of markets, with a few common products gaining enormous profit, is manifested in the "cola culture". Coca-Cola is the world's most famous expression (after OK), has the world's most famous brand name (worth an estimated US $39 billion), and is sold in almost 200 countries. 'Coca-Cola invested billions of dollars into soft drinks infrastructure. Selling soft drinks requires little capital, produces superb returns, demands minimal

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reinvestment and yields huge cash flow', *The Guardian*, 8 February 1997). There is no end to the profit aspirations of such companies. Another similar example is MacDonalds, which, having reached the stage of feeding 0.1% of the US population every day, sees no reason why it should not feed a similar proportion of the world. However, standardization has its limits, and there are important cultural, political and economic forces for local differentiation that have emerged powerfully in recent years to question the logic of globalization.

In a sense this dilemma is the traditional global/local one facing mangers as their enterprises become increasingly international. Farley and Kobrin (1995, 198 : 199) suggest that :

"A global strategy should be conceptualised as a continuum of choices balancing pressures to respond locally with pressures to integrate across borders, and strong pressures to respond to local market differences . . . In reality more multinational firms respond to both sets of pressures simultaneously ; it is their relative intensity that varies. The critical strategic problem facing managers is balancing or trading-off pressure to respond to local differences with those to integrate across borders ; to deal with the costs and risks of technology, for example, by selling relatively standardised products in a large number of markets while responding adequately to differences in national regulation or standards".

The concept of global corporations as roaming stateless organizations, staffed by functionaries who are global citizens, working out of a laptop while living in identical hotel bedrooms in whatever part of the world they happen to be in today, is somewhat wide of the mark. 'Companies can out-source; they can decentralise operations; they can relocate. But when all is said and done, even multinational giants have to put down roots and build strong ties with communities if they expect to excel'(Drache 1996 : 57). Understanding that even multinational corporations have a well defined national identity, increases the importance of winning acceptance in foreign markets.

The Japanese corporations which had successfully ridden the waves of globalization were among the first to appreciate the urgent need to become more sensitive to host country economic and political forces. "If the strategic implications of the globalising trends have

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dominated management thinking in the West, the cultural and political forces for *localization* have become the preoccupation of top-level executives in Japan" (Bartlett and Ghoshal 1995 : 117).

Multinational enterprise relationships with national governments have experienced something of a sea change. To host governments MNCs often represent important external sources of investment, technology, and knowledge that may further national priorities, including regional development, employment creation, import substitution, and export promotion. To the company the government offered access to local markets or resources, and opportunities for profit growth, as well as improved competitiveness. However, a fundamental tension exists between national governments and MNCs in their operating objectives. The multinationals want unrestricted access to resources and markets throughout the world and freedom to integrate manufacturing and other operations across national boundaries, as well as an unimpeded right to co-ordinate and control all aspects of the company on a world-wide basis. Thus, governance of the corporation, especially as a taxable entity, can frequently cut across government of the territories in which it operates, especially as a taxing authority (Bartlett and Ghoshal 1995 : 119) :

"These objectives do not always appear compatible with government priorities to develop prosperous national economies that can hold their own in world competition. The difficulty is that governments conceive of capturing global competitiveness within the national economy, and MNCs think of it in terms of the global system. The logics of action of governments and MNCs differ greatly: the MNC has a bottom line that it can reduce costs and benefits to, while governments have a far more complex and ambiguous set of social and political priorities to deal with ".

As rising import penetration became perceived as a serious economic threat to national economies in the 1980s, even those governments which advocated free trade, such as the United States, began to negotiate voluntary restraint and orderly trade agreements. At the same time the industrial policies of governments became more sophisticated. They sought to prevent the use of 'screwdriver plants' to evade trade restrictions, through simple assembly of products essentially manufactured overseas. Such plants offered low skilled employment, with little local value added,

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and minimal new technology. To prevent this some governments applied investment regulations which defined specific levels of local content, technology transfer, and a variety of other conditions, in an effort to make MNCs increase the extent of their local activities.

At the same time MNCs were beginning to realise the limits to the homogenization of world-wide tastes, with a growing sense of consumers having inherent preferences for a degree of aesthetic and cultural distinction. The arrival of flexible manufacturing systems, including computer aided design and manufacture, enabled the cost effective pursuit of smaller, more highly differentiated market niches wherever they appeared. Flexible manufacturing technologies offer MNCs a viable means to begin to respond more effectively to local consumer preferences, and national government restraints, while sustaining productive efficiency.

2. The Strength of Local Specialization

A paradoxical consequence of increasing globalization is the concentration in different local economies around the world of clusters of world class expertise in specialist industries. This significant local dimension of the globalization phenomena, consists of local economies built upon inter-linked networks of relations among firms, universities and other institutions in their local environment (OECD 1996; de Vet 1993; Storper and Scott 1993). Early specialization is reinforced by the growth of similar firms and institutions to create highly competitive industrial and service clusters. Local geographic concentrations of three broad groups of industrial and service activities have been noted:

- Highly competitive traditional, labour intensive industries are highly concentrated, including textiles and clothing in some areas of Italy and the United States, furniture production, shoes, etc.

- High-technology industries where there has often been a clustering around new activities. Well-known examples include biotechnology in San Francisco, semi-conductors in Silicon Valley, scientific instruments in Cambridge (UK) and musical instruments in Hamamatsu (Japan),

- Services, notably financial and business services, which are

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concentrated in a few big cities, such as advertising, films, fashion design, and R & D activities.

The rationale for the local concentration of specialist economic activity is explained by the OECD (1996 : 52) in the following way :

'There are advantages of being in the same location as similar firms, specialised suppliers and contractors, knowledgeable customers, a good technological infrastructure, and specialist institutions; where a highly skilled labour force is available; and where specialization within firms enables extensive out-sourcing (vertical disintegration) and encourages similar new firms to be set up in the location (horizontal disintegration)'.

Globalization increases the competitiveness of these local economies by attracting in international firms with their own specific advantages, and enhancing established sourcing and supply relations. Local firms individually may respond to heightened competition through improving their innovative performance. Innovation may be extended through developing greater interactions between firms, suppliers, users, production support facilities, and educational and other institutions in local innovation systems. Additonally, they may adopt lean production methods, more efficient management techniques, greater local out-sourcing and increase the use of local production networks, to increase efficiency and spread risks and costs, by taking advantage of local specialization in regional networks and industrial districts. Through building these they can improve production and service links with international firms investing locally. Local firms, particularly if they are highly specialised, will co-operate with international firms seeking complementary resources in the specialised assets of small firms.

The OECD studied the extent to which inward international investment increased or decreased the pattern of specialization and concentration of economic activities. Foreign direct investment has been directed to prosperous regions in the United States, France, Germany and the Netherlands, and more urbanised and core regions in Canada and Spain (De Vet 1993). It was only in the United Kingdom that manufacturing located in peripheral regions attracted above average investment. Globalization measured by incoming foreign investment therefore tends to reinforce regional specialization, accentuating the development of special local

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economies and enhancing the clustering of similar activities.

Globalization is associated with giant corporations, yet in most industrial countries over the last twenty years the share of small and medium sized companies (SMEs) has been increasing, as has their general significance to economic activity. SMEs have been more important in generating employment in service such as construction and transport, and in traditional manufacturing industries. Most SMEs are not very active in international markets, and only about a quarter have any foreign operations. Exporting is the way SMEs connect with the international economy, often acting as suppliers and subcontractors for large global companies in the electronics and car industries. The OECD acknowledges that the outlook for increasing globalization of SMEs with strong internal capabilities, competing on non-price factors such as R & D, innovation, quality, flexibility, specialization and a strong customer base in new areas of goods and services.

4. Globalization Policy Issues

As MNCs reorganise their strategic, production and marketing activities by using new combinations of international investment, trade and collaboration, many policy issues arise concerning how national economies should respond to globalization. For the OECD (1996, 54 : 55) these processes are part of the creation of efficient, highly co-ordinated international industrial systems :

" International expansion has been driven by firm strategies based on their technological and organizational advantages shaped by a number of factors and government policies. Technological factors driving expansion include the rapid growth of knowledge-intensive industries which are foreign investment intensive, use intra-firm trade intensively and collaborate externally in development, the need to recoup growing R & D costs, find highly trained and skilled workers, and organise production more efficiently, underpinned by declining communications and transport costs. Macroeconomic factors include availability of production resources and differences in growth potential and market development in different countries and regions. Government policies significantly influence firm strategies by liberalising capital, investment and trade flows, promoting regional integration and promoting competitiveness. Trade policy and the liberalization of trade and investment are enabling factors

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which have driven global expansion and increased the integration of production and markets".

The present context for business is one of heightened competitiveness due to more optimal location of production and greater firm efficiencies, particularly in intermediate inputs and components, more foreign investment and trade in domestic markets and increased competition in foreign markets, with overall more operations by all kinds of foreign firms in all national markets. Though this economic activity is for the moment concentrated in the advanced industrial countries, firms from the developing world are increasingly competing on the basis of the same high quality inputs, and are becoming closely linked to the existing industrial markets, through international investment, contracting and supply networks in high technology industries, as well as in traditional industries.

To meet the new international competitive challenges, the OECD (1996 : 55) suggest businesses need to improve their performance by increasing global efficiency, using communications and computing capabilities to co-ordinate development, production and marketing. Both internal and external R & D collaboration and contracting will require expanding. Adopting new organizational methods such as lean production, out-sourcing of production and services, workforce reorganization and training will also be necessary, as will co-ordinating production with marketing, and with R & D and design, to respond more flexibly to changes and fluctuations in demand.

Governments throughout the world have struggled with the policy implications of having to deal with such dramatic and seemingly perpetual industrial restructuring caused by the impact of globalization. The OECD records a broad shift by member governments by the end of the 1980s away from general investment, short term crisis aid, and subsidies for sectors facing over-capacity and structural problems. Industry support expenditure by governments have become more strategic and shifted towards R & D, trade and support for foreign expansion. There was increasing focus on improving the operating conditions for companies and supporting intermediaries who deliver services to business.

As for the future the OECD recommends a series of economic and technical policy measures for countries to make an adequate

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response to the competitive pressures of globalization. These policies consist of improving business operations, improving access to international markets, and improving the environment and infrastructure within which business operations occur. Business performance will be enhanced by : improving investment incentives in intangible assets, particularly human capital; promoting international co-operation in long term generic research; helping innovation by diffusing new product technologies and new production methods ; encouraging incentives for the flow of finance to small firms, and promoting investments in the service infrastructure. Additionally, the OECD recommends the adoption of international best practice; improving management performance, and promoting industrial modernization with targeted programmes for problem areas to help deal with lack of skills, poor technology, and financing barriers.

The policy frame within which the OECD (1996 : 63) makes its recommendations focuses on 'widening and deepening liberalization on all fronts'. What happens to countries and companies that despite their best efforts, for reasons beyond their control, are less able to compete, at least at the present time ? It is doubtful that the older 'industry policies' premised on protection will be useful. The collapse of the East Asian economies during 1997 underscores this point. Today, protectionist remedies are less effective than they may have seemed to be in the past. As the OECD (1996 : 59) argues:

"Production and trade in technology and investment intensive components and sub-assemblies have become increasingly important, raising backward and forward linkages among firms along the production chain. In many cases an 'imported' product contains a higher proportion of local content (intangible and tangible) than a competing 'domestic' product. For this reason attempting to tilt playing fields in favour of 'domestic' firms through discriminatory trade measures such as antidumping duties, voluntary export restraints, bilateral safeguard actions or preferential treatment, aside from being more complicated to carry out, may well become arbitrary and, sometimes even harmful to the economic interests of the country imposing the measure. In addition to the origin of products, the nationality of corporations has become more difficult to ascertain in the wake of investment and capital market liberalization...The relative economic importance of national

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versus foreign firms for the host country - the 'who is us?' issue - is also much less clear-cut than in the past."

5. The limits of globalization ?

Winners and Losers

'In an increasingly interdependent world we must all recognise we have an interest in spreading the benefits of economic growth as widely as possible and in diminishing the risk either of excluding individuals or groups in our own economies or of excluding certain countries or regions from the benefits of globalization' ('Making a Success of Globalization For the Benefit of All', Lyon Group of Seven, Meeting June 1996).

Rodrick poses the question is social disintegration the price of economic integration (1997) The two primary casualties of globalization appear to be low skilled workers in traditional manufacturing countries who either see their jobs slip away overseas, or experience a painful slide in their wage rates as their employers strive to reduce costs. Secondly, and more seriously, whole countries and regions find they have been sidelined by the forces of international trade and investment, and instead of experiencing a growing involvement and benefit from the global economy, may encounter a greater sense of dependence and isolation. Particularly vulnerable are the relatively unskilled and undereducated, especially in labour market systems such as the USA that do not develop very active and interventionist labour market policies :

" In 1979, the average American male college graduate earned 49% more than a high-school graduate ; by 1993 the gap had widened to 89%. The lowest paid 10% of American men have seen a drop in their real wages of almost 20% since 1980... Wage inequality in America has undeniably increased. And many blame information technology and globalization... Over the past decade, America has allowed its minimum wage to fall in real terms to 34% of the median wage (though it is about to raise it). In France, by contrast the minimum wages is close to 60% of the median'(*The Economist* 1996 a : 24)

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Wood reckons that trade with developing countries is the prime suspect for the increase in inequality *within* industrial countries (1994). He estimates that it has reduced the demand for low-skilled workers in rich economies by more than a fifth. In evidence, he points to figures showing that 'between 1970 and 1990 those countries which saw the biggest increase in manufactured imports from developing countries also suffered the sharpest drop in manufacturing's share in total employment' (1994). It must be recognised though that most jobs are still non-tradable sectors. A shortage of truck drivers in America cannot be relieved by unemployed truck drivers from China. And even for the 16% of American workers who make their living in manufacturing, the overlap of production with low wage countries is relatively small. America's main competitors in most sectors are other high wage countries, as is true of most OECD states.

More jobs and skills are entering the tradable sector. As the prospects for those without skills diminish, the opportunities for those with highly specialised skills suddenly become global.

Winner-take-all markets are spreading to more and more occupations, such as lawyers, doctors, bankers, academics and chief executives. In such jobs the market pays individuals not according to their absolute performance, but to their performance relative to others... What has changed is that new technology and globalization have expanded the market for skills from a local into a global one, increasing the opportunity for the rich to become even richer (*The Economist* 1996a : 33).

Super-competitiveness

Classical trade theory assumed that capital and technology were not readily mobile between countries. As a result developed countries made capital-intensive, high-tech products, while developing countries were confined to low-tech, labour intensive activities. But a global capital market has given poor countries better access to capital, and technology has become more transferable. Information technology allows knowledge to be codified and diffused across borders more rapidly, making it easier for developing countries to catch up. Intelligent organization is no longer just the preserve of clever countries.

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On the surface…the mix of lower wages and first-world technology would appear to make third world economies super-competitive. It is inevitable, goes the argument, that there will be a massive shift of production and jobs from high-wage countries to low-wage countries... The only solution, argue people such as Ross Perot, Pat Buchanan and James Goldsmith, is for rich countries to close their borders to imports from developing countries . . . But the idea that low-wage countries with access to the latest technology will be able to undercut workers in almost every industry in developed countries is based on two misunderstandings. The first is about the link between wages and productivity. International trade tends to equalise labour costs per unit of output, so differences in wages between countries reflect differences in average productivity in their traded sectors. Low wages in developing countries currently go hand in hand with lower productivity. A study by Stephen Golub (1995) found that in 1990 wages in manufacturing in Malaysia were only 15% of those in America; but then average productivity in manufacturing too, was only 15% of America's. In part this reflects simpler machinery (because labour is cheap relative to capital), but inferior infrastructure and education in poor countries also play an important part. Differences between countries in average unit labour costs are much smaller than differences in wages alone suggest (*Economist* 1996a : 34).

The Economist, at least, still has confidence in the virtues of the trade theory of comparative advantage :

"Even if China could make everything more cheaply, America would, by definition, still have a comparative advantage in some products. So long as some differences between countries persist, such as the skill of labour forces, which unlike technology cannot easily move abroad, the law of comparative advantage continues to hold. China's comparative advantage will tend to lie in low-skilled, labour intensive industries and America's in knowledge-intensive products that take advantage of its relative abundance of skilled labour".

This comparative advantage of the developed countries however may well be slipping away in significant sectors of service employment. Some people fear the new supercompetition because the growth of information technology and intelligent organization "allows previously untradable services to be traded just like steel or

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shoes. This is because the increasing codification of knowledge reduces the need for physical contact between producers and consumers. Any activity that can be conducted through a screen and a telephone, from the writing of software to running a secretarial service, can be carried out anywhere in the world". Routines can be cheapened further by greater routinization of existing tasks ; the re-engineered tasks can then be moved to places where wages are cheaper. The transaction cost associated with doing so do not appear to be great : satellites and computers can ensure virtual linkage. "Firms in the rich world have out-sourced all manner of things to developing countries - from computer programming and airline revenue accounting to processing hospital patients records and insurance claims. More than 100 of America's top 500 firms buy software services from firms in India, where programmers are typically paid less than a quarter of the American rate" (*The Economist* 1996a, : 34).

Despite the attention drawn to the wages, and the associated cost of taxes, issue by journalists and politicians, the truth is that MNCs do not, by and large, invest where wages and taxes are the lowest. If they did the theory of comparative costs would work far better than it does. The reasons are self-evident: wages are often a minor cost-factor in MNC calculations ; greater transaction costs are associated with the presence or absence of densely embedded networks for business in particular locales. Additionally, domestic linkages institutionally frame businesses in embedded relationships with universities, financial institutions, government institutions, and so on. Government-business relations typically have an exclusive rather than open character and can be an important component in building national competitive advantage (Porter 1992).

Competitive advantage increasingly depends on knowledge. While rich industrial economies continue to enjoy an advantage in knowledge intensive industries through the depth of institutional embeddedness of their industries in complexly interdependent business systems, the location of these industries as a 'first world' preserve is drawn increasingly into question. So is the presumed distribution of skills. In newly industrialised countries such as South Korean and Taiwan R & D as a share of GDP shadows OECD averages, but is developing faster (admittedly from a lower base)…

As *The Economist* concludes, "in future, workers with intermediate

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skills in rich countries knowledge intensive industries will also face fiercer competition from the Asian tigers as they move upmarket in response to increased competition from cheaper countries such as China" (*The Economist* 1996a, 34 : 37).

An emerging danger is that competitive advantage in the future will open up the possibility of global domination more rapidly than it was ever achieved in the past. Brian Arthur (1996) argues that in a growing number of industries there is a natural tendency for the market leader to get further ahead, causing a monopolistic concentration of business.

New knowledge based industries tend to have several things in common. High fixed costs, such as R & D but low variable costs, being industries that are heavy on know-how, but light on material resources, for example, pharmaceuticals. They have network externalities, for example, in terms of an operating system where the more widely it is used the more the software is likely to become the industry standard. Strong leading firms have a firm grip on the market and a lock-in effect on customers. Increasing returns magnify the market leaders advantage. By cutting its price the leader can grab a bigger share of the market, earn bigger profits and spend more on R &D than its rivals, sharpening the edge still further. While economists have been aware of the possibility of increasing returns for a long time, they have believed them to be rare in practice. However, information technology, and the general shift of economies from processing tangible goods to processing information and ideas, now introduces increasing returns to scale in a growing number of industries, according to Arthur (1996).

What Happens to the Losers?

If the aim of international competition is to win, only a few can be winners. A real danger is that the losers are excluded and abandoned to their situation. The winners come together and increasingly integrate with one another. Where such processes occur within societies serious consequences may result in terms of increased poverty, unemployment, alienation and crime. But the consequences are of a higher order of magnitude when the processes of exclusion and alienation involve countries and whole regions of the world.

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A new divide in the world appears, coinciding with the emergence of globalization. De-linking is the process through which some countries and regions are gradually losing their connections with the most economically developed and growing countries and regions of the world. Rather than participating in the processes of increasing interconnections and integration that are constructing the new 'global world', they are moving in the opposite direction. De-linking concerns almost all countries of Africa, most parts of Latin America and Asia (with the exception of countries from South East Asia) as well as parts of the former Soviet Union and Eastern Europe (Petrella 1996, 78 : 79).

The share of world trade in manufactured goods of the 102 poorest countries of the world was 7.9 per cent of world exports and 9 per cent of imports. Ten years later, these shares had fallen to 1.4 per cent of exports and 4.9 per cent of imports. Conversely the share of the three regions of the Triad increased from 54.8 per cent to 64.0 per cent of world exports and from 59.5 per cent to 63.8 per cent of world imports. Petrella characterises these trends in terms of a process, occurring over the last twenty years, that has gradually reduced "the exchanges between the richest and fast-growing countries of North America, Western Europe and Pacific Asia and the rest of the world — Africa in particular". What is alarming, he suggests, would be if this trend were to extrapolate into an equivalent period into the future, because "the share of Africa, the Middle East, Latin America, Russia and Central/Eastern Europe (39.2 per cent of world trade in 1970 and 26.4 per cent in 1990) would be reduced to 5 per cent in 2020". Such an occurrence, should it materialise, would be a "de-linking" of the less from the more developed world. The Triad would compose the core of an increasingly globally integrated world economy from which the countries outside the Triad blocs would be excluded. One can only speculate on the political consequences of such a new global division : they are unlikely to be integrative for the world system as a whole (Petrella 1996, 80 : 81).

6. The Exaggerated Death of the Nation State

At the very time political action may be necessary to remedy some of the more destabilising impacts of globalization on the world system the significance of the nation state has been considerably

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weakened. The largest twenty multinational corporations have a turnover in excess of the GNP of most nation states. The onset of globalization questions profoundly the traditional role and viability of the nation state. National institutions have lost some of their principal importance whereby they represent a genuine shared community of economic interests concerning such matters as public finance, trade policy, wealth creation, and civil rights. Kenneth Ohmae (1993 : 78) insists the nation state "has become an unnatural, even dysfunctional unit for organising human activity and managing economic endeavour in a borderless world... it defines no meaningful flows of economic activity". The reasons for this are evident in the seeming triumph of markets over politics : as Drache (1996 : 32) insists, "efficiency has become the universal belief of all major corporations and most leading industrial powers. In their view, capital has to be free to move across national boundaries if the world economy is to recover its past *élan.* Firms have to reorganise their production to take advantage of the new opportunities. People are expected to accept new employment conditions to accommodate to a world where business is no longer bound by national borders". This is the underlying belief of those who argue for free trade. Bhagwati (1988 : 33) defines this as a covenant between governments and markets such that "the logic of efficiency has to determine the allocation of activity among all trading nations".

In a world where the rules of international trade are being redefined, and traditional protectionism is not an option, states have to make a choice between the prospects of free trade with associated costs, or developing the conditions for managed trade. Many countries have sought to join a trade bloc, whilst building a regulatory environment which offer incentives for economic growth through institutional arrangements that protect national economies from international economic disorder (Tyson 1992). Meanwhile there is a push to dismantle existing social programmes in the advanced industrial countries, coming from businesses concerned about the need to change cost structures to compete internationally. Governments find it difficult to reconcile their existing social programmes for health, education, and retirement with the demands of footloose business to make their economy more competitive. What is in danger of being lost is, in Drache's (1996 : 44) words, "any viable notion of social responsibility - the institutional capacity for the achievement of a more equitable society". Also at risk are those many fibres of a civil society, its "social capital", that

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enable a market economy to operate efficiently.

The pressure for a down-sizing of the state seems universal. Even after the great waves of privatization that have swept the world, as Drache (1996 : 54) contends "it is premature to announce the death of the nation state. Countries remain in charge of the essential part of their national sovereignty : law making and jurisprudence ; macro-economic policy, including money, finance and taxation". Can these pressures for a smaller state be associated simultaneously with a responsible rethinking of the role of the state in a global economy ? In addition most of the social and economic programmes of national governments though they have been subject to severe efficiency drives, and a transformation in management, resourcing, and method of delivery, are still in existence. Considerable evidence, from many different countries, suggests the emergence of a new paradigm of public management, one that is results-oriented rather than inward-looking, one that sees the state role as that of an enabler rather than provider (Clarke 1994). It is less the death of the state that we are witness to but more the decline of politics as compared to markets, and the increasing incursion of the former on the latter. Additionally, the claims of some of the losers on state resources, such as the unemployed and the poor, may be in the process of being diminished, but other claims remain strong. Among the willing clients of national governments are the multinational corporations themselves, as Petrella claims, who, despite employing the rhetoric of the market enterprise, expect rather a lot from the state. Multinationals expect states to cover the costs of basic infrastructures (funding of basic and high risk research ; universities and vocational training systems ; to promote and fund the dissemination of scientific and technical information and technology transfer ; to provide tax incentives for investment in industrial R & D and technological innovations, as well as guarantee that "national" enterprises from the given country have a stable home base as well as privileged access to the domestic market via public contracts (defence, telecommunications, health, transport, education, social services). Some multinational firms also require industrial policy, particularly for those in the high technology strategic sectors (defence, telecommunications, data processing) that protect designated sectors of the domestic market from international competition, as well as support and assistance (regulatory, commercial, diplomatic and political) for local companies in their

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efforts to survive in international markets.

Often these expectations will be represented in terms of a logic of capital mobility. That is, if the local state does not provide the required sweetners, mobile capitalism will simply exit the scene and set-up where the benefits sought can be ensured. The thesis is overstated because in terms of the important criteria of share of assets, ownership, management, employment and the location of R&D, home bases remain important. Very few firms are genuinely transnational in these respects (Weiss 1997: 10, citing Hu 1992). With Petrella (1996) and Weiss (1997), we can conclude that the proponents of strong globalization eroding state capacities oversell the proposition : they emphasise the extent and the novelty of international investment while underrating the capacities of states to adapt and to innovate around their specific national institutional frameworks. Globalization is itself in part a consequence of these adaptations and innovations, especially in the cases of the most successful NICs of East Asia, such as Japan, implementing internationalization strategies. These are particularly evident in the development of global financial markets.

8. Global Financial Markets

International financial flows and foreign currency exchanges now dwarf the value of international trade in goods. The global financial system has become extremely volatile and very complex. The implications of this for the global economy are enormous, because financial services are circulation services, they are fundamental to the operation of every aspect of the economic system. Each element of the production chain depends upon necessary levels of finance to keep the chain in operation. This is true not just true of manufacturing but of all intermediate and consumed services in the system (Dicken 1992 : 358). The intensified competitiveness of international financial markets is due to four interacting forces :

- *Market saturation :* From the late 1970s in both the commercial banking and retail sectors it was clear that market saturation was being reached in the mature economies.

- *Disintermediation :* With rising inflation accompanied by rising

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interest rate charges corporate borrowers became more inclined to make investments or raise capital without going through the intermediary channels of the traditional financial institutions, preferring the commercial paper market for short term funds, and the bond market for long term financing.

- *Deregulation of financial markets :* The close regulation of financial markets by national governments was abandoned and led to the opening up and liberalization of new geographical markets, new financial products, and changes in pricing policies.

- *Internationalization of financial markets :* The growth in international trade increased the demand for commercial financial services on an international scale, and the spread of multinational operations has created a demand for other international financial services. Finally, increased institutionalization of saving creates an enormous pool of administered investment capital seeking the best return on an international basis (Bertrand & Noyelle 1998).

The progressive deregulation of financial services is the most important development in the internationalization of the financial system, playing a major role in eliminating distortions and reducing ineffective controls. This process is a fundamental part of the changes associated with the strengthening of regional trading blocs. The European Commission's proposals for integrating financial services are intended to ensure the free flow of capital between all member states, with free trade in all financial services within the Community, and the standardization of banking technology. The UK "Big Bang" of 1986 removed the barriers which previously existed between banks and securities houses and allowed the entry of foreign firms into the Stock Exchange.

Innovations in telecommunications and in processing technologies have transformed the operation of financial services and helped a proliferation of financial product innovations: "the number of financial markets has proliferated in the 1970s and 1980s as "financial engineering" (the invention of new financial instruments) has become an important art form of the late twentieth century". New forms of intangible financial product are created, new markets emerge such as "those in options and futures (which trade in forward contracts in commodities, money and shares) and equities (which trade in stocks and shares) have taken their place alongside

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the Eurodollar and Eurobond markets as important global markets" (Thrift 1989 : 38). The array of new financial instruments providing new methods of lending that facilitate greater spreading of risk, increase the diversity of international financial markets. The global integration of financial markets becomes possible, as time and space collapse and the potential for virtually instantaneous financial transactions is created in loans, securities and more innovative financial instruments (Dicken 1992 : 364).

The deregulation and internationalization of financial markets creates a new competitive environment. 'Deregulation and financial innovation... became a condition for survival of any world financial centre within a highly integrated global system, co-ordinated through instantaneous telecommunications. The formation of a global stock market, of global commodity (even debt) futures markets, of currency and interest rate swaps, together with an accelerated geographic mobility of funds, meant, for the first time, the formation of a single world market for money and credit supply' (Harvey 1992 : 161). The global integration of financial markets brings many benefits to the participants, in speed and accuracy of information flows and rapidity and directness of transactions. However, instantaneous financial trading means that shocks felt in one market communicate immediately around the world's markets, making the global financial system sensitive and volatile as a result of the telecommunications revolution, as demonstrated in the stock market crash of October 1987, or the South East Asian monetary collapses of late 1997. How near to the 'edge of chaos' the international financial system has moved is an open question (Cohen 1997, 27 : 9). The speculative basis of much of the system suggests that those protective mechanisms that exist have simply rescheduled a global financial crisis rather than prevented it (Harvey 1992 ; Niederhoffer 1997).

It is not so much the concentration of power in financial institutions that matters, as the explosion in new financial instruments and markets, coupled with the rise of highly sophisticated systems of financial co-ordination on a global scale. Harvey (1992 : 194) suggests "the financial system has achieved a degree of autonomy from real production unprecedented... carrying... into an era of equally unprecedented financial dangers'. The Eurodollar financial market in "stateless" money expanded from $50 billion in 1973 to $2 trillion by the time of the crash of 1987, thus approaching the size of

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the money aggregates within the United States. Harvey notes how the economy of whole cities has been transformed : "New York lost its traditional garment trade and turned to the production of debt and fictitious capital instead... The biggest physical export from New York is now waste paper". It was this financial speculation and fictitious capital formation, much of it unbacked by any real growth in production, which President Bush from time to time described as voodoo economics (Harvey 1992, 331 : 335). Even the Japanese industrial system, which created the strongest economy of the late 20th century, was not powerful enough to withstand the damaging collapse of speculative activity in the Tokyo Stock Exchange which saw 60 per cent of the value of the Nikkei wiped out between 1990 and 1995 (Cohen 1997).

The increasing powers of co-ordination possessed by the world's financial system emerged to some degree at the expense of the power of nation states to control capital flows, and hence their own fiscal and monetary policy. The breakdown in 1971 of the Bretton Woods agreement whereby the price of gold and the convertibility of the dollar were fixed, acknowledged that the United States was no longer able to control world fiscal and monetary policy single-handedly. The inflation-budgeting it used to fund the Vietnam War turned the world's largest creditor nation into a debtor. The subsequent adoption in 1973 of the flexible exchange rate system was a response to massive speculative currency movements against the dollar that occurred after the collapse of the Bretton Woods agreement and during the death throes of US involvement in Vietnam. Since 1975 the major industrial powers have sought, through the IMF or through collective agreements to intervene in financial markets, winning back a degree of collective state control lost by individual countries (Harvey 1992, 168 : 70). However, it is clear that on many occasion since, despite such agreements, states have been at the mercy of the financial discipline of international capital flows, and many governments have had occasion from time to time to quickly rewrite their political programmes in the face of strong capital flight from their country. Despite lectures from national leaders like Malaysia's Mahatir, at times when confidence in a national currency is tested it is evident that the definition of a weaker nation state is that it can no longer hold the line.

The domination of U.S. firms in the 1960s and 1970s expansion of transnational banking was a reflection of the focal role of the United

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States in the post war international financial and trading system. But European, and later Japanese, banks have increasingly internationalised their operations. As in other areas of economic activity, the rise of Japanese banks has been dramatic, as the nation accumulated financial surpluses. In 1985 the Japanese displaced the Americans as the largest holders of international assets, and by 1987 held US $1.4 trillion compared with the $630 billion held by the US (Harvey 1992 : 166). However the bursting of the speculative bubble in Japan damaged the banks, and they were heavily exposed in the South East Asian collapse at the end of 1997. The continuing losses of the Japanese banks suggest they have not been entirely successful in finding a new role in the international financial community .

Meanwhile the structural dislocation of the international financial system from the international economic and production system that, ostensibly, it is there to service, proceeds relatively unchecked. During the 1980s in the UK there was an explosion in asset-backed lending, particularly commercial property and personal mortgages, with a view to gaining short term profit supported by asset-price inflation. Lending to the property sector rose 800 per cent in real terms, while that to manufacturing increased by only 50 per cent (CBI 1992 : 22). In the United States a similar lack of supportive relationships developed between investors and industry, as Michael Porter has observed in a research project on corporate investment, sponsored by the US Council on Competitiveness. It is possible that as pressure mounts for US capital investors to become as involved in industry as their Japanese counterparts, the reverse is occurring in the Japanese investment system, as Carl Kester has recently revealed.

7. Corporate International Financial Manœuvres

In the absence of any reform in the structure and operation of the capital investment market for industry, and as companies become integrated into international financial operations and structures as a necessary consequence of engaging in international trade, it is unsurprising that much corporate activity becomes concerned with international financial manoeuvres, making it increasingly difficult to tell where commercial and industrial interests begin and strictly

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financial interests end. As David Harvey (1992 , 162 : 163) argues :

"This confusion has been particularly associated with the growth of what is now called 'paper entrepreneurialism'. Tremendous emphasis has been put in recent years on finding ways other than straight production of goods and services to make profits. The techniques vary from sophisticated 'creative accounting' through careful monitoring of international markets and political conditions by multinationals, so that they can profit from relative shifts in currency values or interest rates, to straight corporate raiding and asset stripping of rival or even totally unrelated corporations. The 'merger and take-over mania' of the 1980s were part and parcel of this emphasis upon paper entrepreneurialism, for although there were in some instances where such activities could indeed be justified in terms of rationalization or diversification of corporate interests, the thrust was more often than not to gain paper profits without troubling with actual production. Small wonder as Robert Reich (a Harvard economist, formerly President Clinton's Labour Secretary) observes, 'that paper entrepreneurialism now preoccupies some of America's best minds, attacks some of its most talented graduates, employs some of its most creative and original thinking, and spurs some its most energetic wheeling and dealing'. Over the last fifteen years, he reports, the most sought after and most lucrative jobs to be had in US business lay not in the management of production but in the legal and financial spheres of corporate action".

The global economy has in many ways become dominated by an economy of signs representing capital flows, rather than an economy of things. Of course manufactured and other tradable products and services are important, but at the core of the key decision-making in the contemporary globalised economy, are intangibles, such as trust in a currency's future value, and bets hedged against those judgements of trust. What makes these possible are the instantaneous representational possibilities afforded by a wired world.

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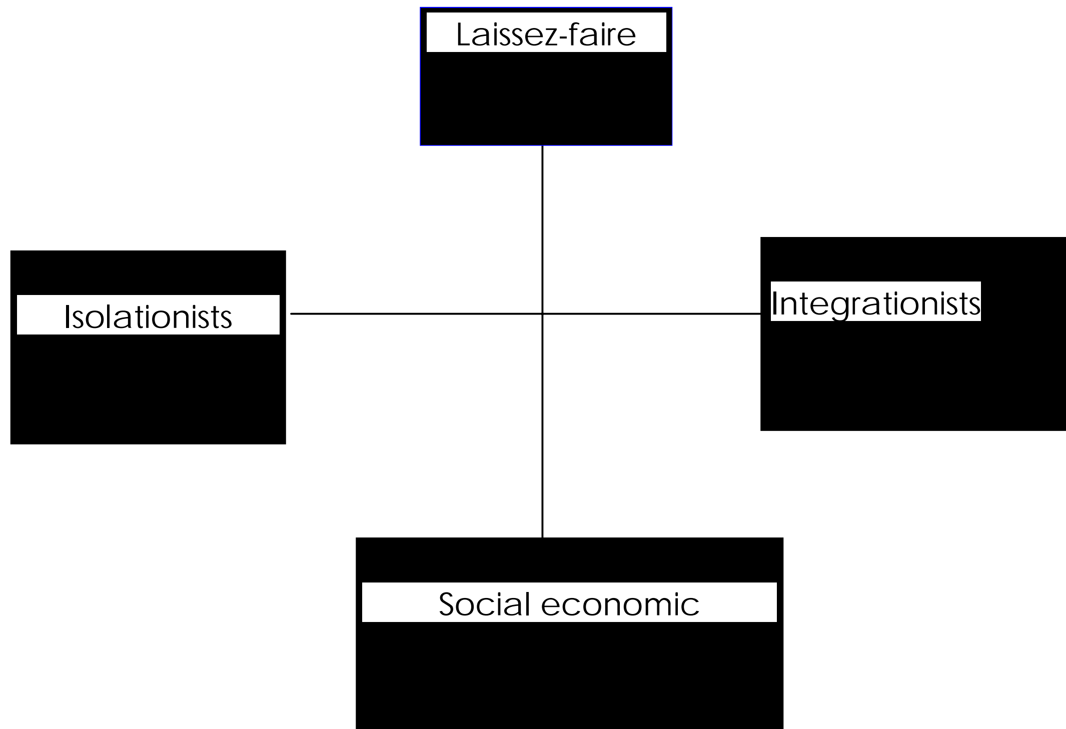
8. Conclusions : The Political Response to Globalization

The political response to how open markets and technology are combining to integrate the world :



Source : Thomas Friedman, The New York Times.

Attitudes toward the overwhelming political and economic forces for globalisation range as Thomas Friedman of *The New York Times* noted from enthusiastic integration, to determined isolation, and from a belief the free market will resolve all resulting tensions, to a commitment for comprehensive social, economic and environmental regulation (Figure 3.10). The continuing impulse of markets and technology to integrate the world will require a considered response. Elements of each of the diverse motivations noted by Friedman may be found in the ideologies and practices of companies as well as governments. Representing the integrationists are the liberal international organisation such as the IMF, World Bank,

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World Trade Organisation and OECD, who stress the inevitability of further globalisation and the significance of the role of international agencies in fostering understanding and agreement. In the isolation wing, Ross Perot and other, particularly US business people, who yearn for the days of national self-sufficiency and international trade supremacy, are simply failing to recognise that the world has moved on. Among the optimists are those such as Kenichi Ohmae and the *Economist*, who are seduced by the opportunities of winner-take-all global markets, if only free trade can become a reality.

Finally there are those including more enlightened organisations and companies, that acknowledge the irresistible force and many attractions of further internalisation, but insist on a considered range of regulation to sustain communities, economies and the environment against the most damaging effects of globalisation. It is this response to globalisation that we find the most acceptable basis for dealing with the most profound economic and political phenomenon at the turn of the millennium. That is recognising the significance of enhanced international opportunities involves improving investment in internal and collaborative research and development, investing in human capital, and ensuring world class processes and state-of-the-art products and services in order to compete. But also that new international opportunities bring new responsibilities, and respecting international social and environmental regulations, and the integrity of different cultures is an essential prerequisite to becoming a global corporate citizen.

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