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Review Essay

Globalisation: Myth and Reality

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Abstract
The paper takes P Hirst and G Thompson, Globalization in Question *(1996) as the basis for developing some arguments on the globalisation debate. Following a summary of the book, the paper focuses on three points. Firstly the need to divorce the issue of globalism from the issue of liberalism. Secondly, the authors' thesis that very little has changed in the international scene in the last few decades is criticised. It is argued that the major changes are due to the fact that integration is now brought about by the activities of transnational companies rather than through those of uninational companies. Moreover, the paper stresses that trade and foreign direct investment are complementary and they are both controlled by the transnational companies. From this perspective, the major change is seen as due to the fact that the new integration process takes on an ownership rather than a territory configuration. Thirdly, it is claimed that a major qualitative change in the new integration process is due to the dichotomy between those actors in the economic systems that have transnational power and those that do not.*

1. Introduction

Globalisation has become the buzz word of the end of the century. The most common usages of the term are in relation to financial markets and to the activities of transnational companies (TNCs). The discourse on globalisation is often linked, tacitly or explicitly, to liberalism in a variety of ways and in particular the following ones. (i) A close association between globalisation and de-regulation of markets in two respects. Firstly because de-regulation is likely to lead to globalisation and secondly - and conversely - because it is claimed that regulated industries are barred from global markets. This last point is used as an argument for further de-regulation. (ii) Globalisation makes national economic governance unnecessary/ undesirable/ impossible. Globalisation leads to the efficient allocation of market resources world-wide, thus governance becomes unnecessary as markets, in particular global markets, become self-regulating and self-governed. Therefore regulation and government intervention in general, should be minimised. Moreover, governance is impossible for those activities whose territorial span is wider than the one of governmental jurisdiction. (iii) Globalisation increases competition: as markets become global, they also become more competitive and efficient.

This paper is developed by taking Hirst and Thompson's *Globalization in Question* (1996) as a starting point (section two). Section three questions some of the issues raised in the book. Section four presents an alternative view on internationalisation patterns and their implications for governance. Conclusions are in section five.

2. Globalisation in question

The focus of Hirst and Thompson's book is governance and its feasibility in the face of the so-called global economy. They write on the very first page 'A truly global economy is claimed to have emerged or to be in the process of emerging, in which distinct national economies and, therefore, domestic strategies of national economic management are increasingly irrelevant.' This new world has as '...its principal economic actors and major agents of change truly transnational corporations, that owe allegiance to no nation state and locate wherever in the globe market advantage dictates'.

According to Hirst and Thompson (H and T) this world is a myth, and the authors' aim is to dispel the myth. 'The old rationalist explanation for primitive myths was that they were a way of masking and compensating for humanity's helplessness in the face of the power of nature. In this case we have a myth that exaggerates the degree of our helplessness in the face of contemporary economic forces' (p. 6).

The authors emphasise that a high degree of international interdependence/integration is nothing new. Large international flows of goods, people, and financial capital have existed for well over a century and national economies have gradually put in governance mechanisms to cope with these flows and indeed take advantage of them. However, what is new is the fact that integration is increasingly taking the form of foreign direct investment (FDI) rather than trade.

There are, according to H and T, major qualitative differences in this new integration trend which they see as increasingly linked to FDI rather than trade. They analyse this issue in relation to the three main regions clustered around the EU, USA and Japan and make the following points. Firstly they note that: 'Broadly speaking, the intensity of the relationship between the core members and their regional clients is less in the case of FDI than in the case of trade... . This is just another way of saying that multilateral trade integration is lower than is integration in the case of FDI...'(p. 66). They draw two implications from this. One is that '.."protectionist" sentiment on the part of the different trading blocs and major states is likely to be lower in the field of investment than in the field of trade' (p. 66). The other implication is that this situation '...makes investment potentially more liable to genuine multilateral negotiations than is trade... . Given that investment is tending to displace trade as the driving force of international integration, the likelihood of competitive and antagonistically poised trade blocs emerging is reduced if this analysis is correct.' (p. 66) The second major point is that the long-term trend in FDI shows a high geographical concentration with the largest share (some 75 per cent) directed towards developed countries. However, H and T note that, contrary to the underlying trend, the early 1990s have shown an increase in the share of inward flows to developing countries.

The authors then go on to explore the locational pattern of the large MNCs/TNCs[2] from the major developed countries and reach the following conclusions. 'International businesses are still largely confined to their home territory in terms of their overall business activity; they remain heavily "nationally embedded" and continue to be MNCs rather than TNCs. This means that it is not beyond the powers of national governments to regulate these companies' (p. 98)[3]. A chapter on the developing countries calls for intervention in order to achieve a fairer share of resources, including FDI, between the developed and developing countries.

The last three chapters, prior to the concluding one, are about governance, the need for it and the feasibility of it. The authors make interesting concrete suggestions on this topic. They highlight five levels of operation of governance: (a) governance between major nation states particularly at the level of Europe, Japan and the USA; (b) governance through the creation and strengthening of international regulatory agencies such as the WTO; (c) governance within large economic areas integrated by trade and investment (such as the EU or NAFTA); (d) governance at the national level and (e) governance at the regional level within nation states. The nation state is central to all levels of governance; '...there are three key functions it can perform which stem from its role as orchestrator of an economic consensus within a given community.' (p. 146). The three key functions are the following: (i) the construction of a *distributional coalition* which involves the orchestration of consensus around sustainable distribution of incomes (wages, dividends) and expenditure (consumption versus investment); (ii) the *orchestration of social consensus* around major goals and in which there is a balance between collaboration and competition; (iii) '...an adequate balance in the distribution of its [the state's] fiscal resources and its regulatory activities between the national, regional and municipal *levels of governments.*' (p. 147).

Hirst and Thompson see the state as a 'pivotal institution' for the creation of the conditions for 'effective international governance' (p. 170). They make three main points in support of this view. The first one is the fact that the international economy is not a globalized economy. This means that the state can still play a significant role in governance at both the national and international level. Secondly, governments will become involved in a new role: 'states will come to function less as "sovereign" entities and more as the components of an international "polity"' (p. 171). Thirdly, though the state has less control over international markets and communication media, it still 'remains a controller of its borders and the movement of people across them' (p. 181).

The authors are keen to develop a view of governance that embraces a variety of institutions other than those of the state. Chapter eight contains an interesting discussion on the rise of national sovereignty in history. The authors note that the strong relationship between authority and territory - the nation state - is a relatively new concept. Prior to the seventeenth century, 'Political authorities and other forms of functionally specific governance (religious communities and guilds, for example) had existed in complex and overlapping forms that made parallel and often competing claims to the same area ... . Some would claim that the period of the domination of the nation state as an agency of governance is now over and that we are now entering a period when governance and territory will pull apart: different agencies will control aspects of governance and some important activities will be ungoverned. This is questionable, but the nation state's claim to exclusivity in governance is historically specific and by no means foreordained' (p. 171)[4]. Thus governance can take place at various levels and under the responsibility of various regional, national or international institutions. The nation states and their governments have a pivotal role as 'suturers' of various levels of governance and policies. Moreover, the nation states '..are still of central significance because they are the key practitioners of the art of government as the process of distributing power, ordering other governments by giving them shape and legitimacy' (p. 190).

The advocates of the extreme globalisation thesis[5] - as H and T put it - or rather of the thesis that globalisation equals *laissez-faire* - as I prefer to put it - maintain that governance is unnecessary and un-feasible because of global markets and their underlying forces and because of the activities and strategies of TNCs. In this view, governance would be the preserve of the global markets themselves. Hirst and Thompson deny this thesis mainly because they deny that the economic system has become global.

3. Globalisation: some issues and questions

The book makes a significant contribution in the development of arguments about the need for governance and indeed makes some very useful concrete proposals. Particularly interesting is the discussion on the various layers of institutions and levels of policy, and on the concept of the nations' governments as the 'suturer' and legitimiser of these various layers and levels. However I found myself in less agreement on the thinking and process by which they arrived at the conclusion about the need for governance.

The book is centred around governance at the macro level and its relationship with globalisation. As mentioned in section one, a possible interpretation of the relationship between macro governance and globalisation is that governance is unfeasible/undesirable/ unnecessary because of globalisation. The authors reject this view on the basis that globalisation is just a myth, it does not exist: we are faced with MNCs not TNCs identified according to their specific definitions. They never really question the link between globalisation and *laissez-faire*. Their book is about questioning globalisation not about questioning the link between globalism and liberalism.

Unfortunately, one cannot help feeling that it may be enough for someone to bring in more evidence of globalism - or indeed of a strong tendency towards increase in globalism - to lead to the conclusion that governance is unfeasible/unnecessary or in the process of becoming so. Their whole construct could then easily collapse.

Moreover, there are many problems with their arguments and I will mention some of them in this section. In the next section, I put forward what I consider to be the key features of modern economic systems where MNCs/TNCs are the dominant players in economic activity. In this context, the following issues will be reconsidered and it will become clearer why I see problems with them and why I do not consider the link between globalism and *laissez-faire* as inevitable.

1. They concentrate predominantly on the relative amount of activities of the MNCs/ TNCs within home country/core region. The internationalisation issue is seen as one of dichotomy between home/core versus foreign activities with hardly any discussion of other internationalisation elements such as the overall geographical spread of activities by companies.

2. Their data in chapter four gives a snapshot at one point in time. They do not analyse patterns through a long period of time and thus fail to give the reader a dynamic analysis of internationalisation.[6]

3. The authors acknowledge that considerable amounts of integration/internationalisation now takes place via FDI rather than trade

and that this is considered to be the main qualitative change in internationalisation. However, the relationship between FDI and trade is not properly explored.

4. They see conflicts of interests between countries which are large recipients of FDI (the developed countries) and those that are not: the standard North-South divide. They do not seem to see how transnationalism may generate further divisions and conflicts by giving extra power to some players and thus leaving other players within the nation state with relatively less power.

4. An alternative view on internationalisation patterns and their implications for governance

The rapid changes in the internationalization and integration processes that are taking place manifest themselves in quantitative and qualitative patterns which are, of course, closely linked. On the more quantitative side, H and T may be right in claiming that the majority of MNCs' activities are still home-based. However their snapshot analysis does not allow us to consider properly trends through time. When long-term trends are considered, the picture may look somewhat different.

Table 1 shows that over a thirty year period there has been a decline in the share of affiliates located in the UK and an increased share in other developed countries.[7] Hirst and Thompson's analysis by core regions does not capture the fact that the overall network spread of operations by country has increased as is clear from table 2. It shows that between 1963 and 1990, the largest UK TNCs in manufacturing and mining have increased their geographical network of operations very considerably: in 1963 only 20 per cent of companies had a network in more than 21 countries; by 1990 the corresponding percentage had increased to 72. Similar results are shown by the analysis of values of UK outward FDI for manufacturing and services (Ietto-Gillies, 1996).[8] Moreover, the research activities by TNCs may also show a different trend from the one presented by H&T. The OECD (1994) reports some evidence that '..the proportion of R and D carried out by foreign affiliates is tending to increase steadily. ...' (p. 63)

On the quantitative side, there is little doubt that the degree of internationalization has been increasing rapidly: greater spread of activities, more collaborative agreements, large and increasing cross-countries flows of investment incomes, FDI over and above trade. Indeed FDI and trade are not substitutes as H and T seem to imply all along. They are, to a large extent, complementary. The complementarity between trade and FDI may be due to the ability of TNCs to exploit foreign production locations as further platforms for exports into new countries; it is also due to the fact that, whenever companies follow strategies of international vertical integration, they need to move the components - often on an intra-firm basis - from country to country for further processing and, finally, for market sourcing. Hirst and Thompson seem to take the large share of trade as signifying that all is as in the past. However, in the past, trade originated mainly with uninational companies (UNCs). Now some 80 per cent of trade originates with TNCs and the volume and pattern of trade has become almost a by-product of the volume and structure of FDI. Thus the TNCs' power and stake in the international economy have increased in parallel with both FDI and trade. In fact the dichotomy integration via trade or via FDI is a misplaced one. What is more

Table 1: Affiliates of the largest UK TNCs in manufacturing and mining by main areas. Percentage distribution, 1963-90

Country/areas	Years			
	1963	1970	1980	1990
UK	60	54	53	50
AICs (excl. UK)	29	35	37	38
Developing countries	11	11	10	12
Total	100	100	100	100

Source: Ietto-Gillies (1996), table 2, p. 202

Table 2: UK largest TNCs in manufacturing and mining. Network of affiliates abroad. Total and percentage, 1963-90

		Companies with networks in					
		< 6 countries		6-20 countries		21+ countries	
Year	Total no. of TNCs	Total	%	Total	%	Total	%
1963	44	10	23	25	57	9	20
1970	46	0	0	14	30	32	70
1980	56	1	2	20	36	35	62
1990	63	2	3	16	25	45	72

Source: Ietto-Gillies (1996), table 1, p.200

appropriate is to consider a dichotomy between integration via activities of UNCs (predominantly through trade) or via activities of MNCs/TNCs (through trade and FDI as well as other forms of business activities and international flows).

When internationalization is predominantly or entirely through trade - that is whenever integration is through the activities of uninational companies - than a residence/territory principle applies by which the location of the company, the generation of its profits, its production, the employment it creates, the balance of payments effects it may give rise to, are all territorially consistent. With international production and FDI, integration follows an ownership principle: the ownership of assets forms the basis for international integration. The ownership interests of companies span over many nations. Moreover, because of the ownership configuration, there is a divorce between various aspects of production some of which are related to the national territory (such as production, employment, FDI-related trade) and others (such as profits and some balance of payments effects) to ownership. It follows that, in the integration process based on the ownership principle, the interests of players responsible for most productive activities do not necessarily coincide - territorially - with the interests of the overall country-nation-State.

Hirst and Thompson note the historical relevance of the coincidence of territoriality and authority of the State. Similarly, we might consider the era of national capitalism as the one in which there was territorial coincidence between ownership and residence in terms of the overall economic activities. This era is now over. Thus, the need to consider the possible divergence between the boundaries of the state and of institutions of governance is due to the fact that the activities of MNCs/TNCs have already brought in a divorce between the territorial sphere of operations and interests of MNCs/TNCs and that of the nation state and other players within it. The pulling apart of governance and territory noted by H and T is echoed by and connected to the pulling apart of ownership and territory[9].

In summary, a relevant qualitative feature about FDI is not so much that it shows a growth rate and a geographical pattern different from trade, but that it leads to integration that has an ownership rather than territorial/residence configuration. Hirst and Thompson stress the North-South dichotomy in the distribution of FDI and advocate a more even distribution as a step forward towards narrowing the gap between developed and developing countries. The inequalities between developed and developing countries are of the utmost importance for both sets of countries. However, it may be naive to think that they can be solved by a different geographical pattern of FDI. This is for various reasons and in particularly the following ones: (i) large and increasing amounts of FDI are through mergers and acquisitions rather than through organic growth and creation of new productive capacity. The privatization programmes of the 1990s in developing countries are indeed one of the reasons for the recent increase in FDI in these regions[10]. (ii) Excessive concentration on the benefits of inward FDI ignores the redistribution of resources that takes place through the flow of investment earnings going in the opposite direction to the FDI flows. In many host countries - particularly in the developing countries - the outflow of earnings far outstrips any new inflow of FDI.

There is a different type of dichotomy totally overlooked by H and T: the asymmetrical position in which different players in the economic system find themselves. In the integration based on ownership configuration, we have institutions (the MNCs/TNCS) whose interests, strategies and co-ordination span over many nations. However, other actors in the economic system do not have such characteristics and power. This means that their position is weakened by their comparative lower level of international integration. This may apply to governments themselves, to labour organisations, to consumers, to uninational companies. While TNCs are able to plan, organise and control internationally, these other players in the economic system have not been so successful, at least so far. In this sense, the key issue is not whether there is globalisation in the extreme form, because there is not - other than possibly in some financial markets - but whether the quantitative and qualitative changes in trends and patterns of internationalization and integration is such as to create strong imbalances between the various players. I believe this to be the case.

One indicator of internal integration across countries by TNCs is the level of intra-firm trade. This is estimated to be around one third of total trade (UNCTAD-DTCI, 1995, table 1.13, p. 37).[11] Large and increasing intra-firm trade is, of course, only an indication of internal planning and co-ordination. More inference can be drawn from direct studies of behaviour of companies. One such study is the survey of companies conducted by the Industrial Relations Research Unit (IRRU) at Warwick University in 1992. The survey relates to companies employing 1,000+ people and with at least two operating sites in the UK. An analysis of the results of this survey is in Marginson et. al. (1995). Using a variety of indicators, the researchers find evidence of significant internal co-ordination across countries, with a particular focus on the organisation of personnel and industrial relations.

Companies that have access to comparatively higher levels of knowledge of the conditions in different sites, that can plan and control activities across many countries, have advantages over other players. They can use these advantages to develop strategies towards rivals, labour, governments. Cowling and Sugden (1987:48) point out that TNCs have detection power which they use to their advantage particularly in relation to rivals. 'Detection not only requires the interpretation of information but also its collection and its being made available to decision-makers'. A similar point is made by Gray (1990 p. 84) who writes: 'The availability of cheap global information provides a new dimension to the age-old problem of employer-employee relationship and strengthens the hand of the employer'. Dunning (1980) in his eclectic approach to the explanation of international production, considers multinationality as one of the elements that enhances ownership advantages. Some specific advantages of multinationality towards labour are considered in Ietto-Gillies (1992: ch. 14).

My conclusion would be that, whether we accept the new buzz vocabulary of globalisation or not, we cannot and should not close our eyes to the fact that international integration is now largely the prerogative of large companies; that this trend is increasing and likely to go on increasing; that other players in the economic system are left behind in the new trend and thus have relatively less power vis-à-vis the MNCs/TNCs.

Does this mean that governance is unnecessary or undesirable? No. On the contrary it is more called for in order to empower the other players with countervailing power. Transnationalism gives power and the current distribution of transnational power is very unequal. This is a problem in itself. Hirst and Thompson seem to think that states and governments still have considerable say and power over their citizens. They seem to place value on a kind of negative aspect of what governments can do: control the movements of people across frontiers. We should instead consider the possibility of governments empowering labour with a transnational organisation and consumers with countervailing information and power. Thus governance becomes necessary in order to empower other players in the economic systems as well as in order to achieve other economic and social objectives.

Is governance feasible? Can a supra-national governance institution be developed? Can collaboration between governments and institutions from various countries be achieved? There are various elements that militate in favour of positive answers to these questions. The first one is the fact that the ownership integration may be more likely to lead to co-operation between governments. Companies which own part of their assets in foreign countries will want their assets protected either through the processes of international politics or through force. One of the most relevant trends in FDI is that it tends to cluster in developed countries both on the inward and outward side: many developed countries are, indeed, both home and host to

FDI or are rapidly becoming so. This may have been the source of the collaborative stance we have seen among developed countries in the last few decades. It may also have been one of the reasons for the post-World War 2 peace among the developed countries.

Another reason is the fact that, in a world in which international oligopolistic players are large and few, it is possible for governments to talk directly to targeted companies. A stronger awareness of the policies, strategies, plans by the two sets of players - governments and TNCs - may facilitate the implementation of strategies and may help to lower uncertainty barriers on both sides (Doz, 1986). The wide degree of locational choice by TNCs and the relative foot-looseness (mainly ex-ante, at the planning stage of new investment) it generates, may increase the degree of uncertainty in nation states creating difficulties for government policies. Similarly, uncertainty in the macro environment may hinder TNCs' activities. Indeed, one of the aims of governance should be to create a stable macroenvironment in which the degree of uncertainty faced by business is reduced. It may, therefore, be in the interest of the corporate sector as a whole as well as of other players in the economic system, to achieve a lower degree of uncertainty through effective governance at the industry and macro levels.[12]

These developments make transnational governance more feasible at least among the developed countries. If it is possible to orchestrate different layers and levels of governance within an increasing internationalised world economy (as H and T show) and if, indeed, the new internationalisation based on ownership contains strong seeds for more international collaboration and governance (as it is claimed in this paper) then the link between globalisation and *laissez-faire* is misplaced.

5. Conclusions

Hirst and Thompson question the extent of globalisation in order to arrive at the conclusion that governance is both possible and necessary. What they do not seem to question is the alleged link - prevalent in most discourse on globalisation - between liberalism and globalism.

Following a summary of H and T's book, this paper focused on three points. Firstly on the need to divorce the issue of liberalism from the one on globalisation. The two are not and should not be linked together. Their alleged link is only a political expedient by those who want to see deregulation and laissez-faire capitalism fully established. Secondly, the authors' thesis that very little has changed in the international scene, is criticised. My view is that, though globalisation in the extreme form and of all or most markets, has not happened, it is wrong to assume that all or most is as it was decades ago. There are some major quantitative and qualitative changes in the new integration. On the quantitative side some evidence of long-term trends in the network spread of activities of MNCs/TNCs is given. Moreover, I stress the fact that trade and FDI should not be seen as alternative integrating processes. In the era of MNCs/TNCs, FDI and trade are complementary: thus they reinforce each other as integrating tools in the hands of MNCs/TNCs. In this perspective, a major qualitative change in the new integration is the fact that internationalisation takes place mainly by ownership configuration rather than by residence/territory configuration. However, it is claimed that this leads to a stronger potential for international collaboration in governance at least among the developed countries. This potential can be further reinforced by the fact that both TNCs and governments may have a common interest in operating in a low-uncertainty environment. Thirdly, it is claimed that the major qualitative change in the integration process at the hands of MNCs/TNCs is not so much the dichotomy between different areas - the North-South divide - but the dichotomy between different actors in the economic system: those that have transnational power - the large international companies - and those that do not. Among the latter are labour and labour organisations, consumers, UNCs and governments themselves.

Is globalisation a myth? No it is not: it is a reality. However, the supposed link leading from globalisation to liberalism is a myth. Governance is both necessary and feasible. Hirst and Thompson have made a very useful contribution in giving concrete suggestions for different levels and layers of governance.

Endnotes

1. South Bank University, London. The author would like to thank Howard Cox, Hugo Radice, Roberto Schiattarella, the editor and two anonymous referees of this journal for useful comments on earlier versions of the paper.

2. Hirst and Thompson distinguish between MNCs and TNCs according to whether the company is '...based on one predominant national location (as with the MNC)' or is '...genuine footloose capital, without specific national identification and with an internationalized management, and at leas potentially willing to locate and relocate anywhere in the globe to obtain either the most secure or the highest returns.' (p. 11)

3. Radice, 1996 points out some inconsistencies in H and T's analysis including the 'flexible' definition of home base. Home is sometimes considered to be the country/state, sometimes the region.

4. There are echoes of this position in the international political arena. For example, the Irish President, Mary Robinson is reported to have stated that 'countries can no longer say that how they treat their inhabitants is solely their own business'. (Fintan O'Toole, 1996).

5. Hirst and Thompson cite Omahe 1990 and 1993 and Reich, 1992. While I agree with their inclusion of Omahe, I am less sure about Reich.

6. To be precise there are two snapshots as the different sets of data used refer to 1987 and 1992-93. However, the data sets are not comparable, thus trends cannot be ascertained even for this rather short and recent period.

7. It can be claimed that companies based in the UK do not need to open new affiliates in order to invest at home and that new affiliates are more likely to be opened in countries new to investment by UK companies. This, of course, applies also to those foreign countries which are traditionally host to UK FDI. Therefore, the possible bias may not affect, significantly, the underlying trend.

8. It would, of course, be useful to have estimates of the changes in the geographical spread of TNCs' activities for other countries as well. However, to my knowledge, no comparable work exists for other countries. Vernon, 1979 estimates the changes in the spread of activities for the largest 316 US and

European TNCs between the 1950s and 1970s. The Commission of the European Communities, 1976 contains information from which the geographical spread of affiliates of all TNCs from many countries can be calculated though for one year only: 1975.

9. The territorial non-coincidence between the nation states/governments and the TNCs is lucidly analyzed in Murray, 1971.

10. Details of the levels and patterns of privatizations and FDI in developing countries are in Sader (1995).

11. The world's estimates of intra-firm trade are based on extrapolations from US data, because there are no reliable data on intra-firm trade, particularly on the import side, for most countries.

12. The relevance of diminishing the degree of uncertainty for the cost of capital and hence for the level of investment is highlighted in Meltzer, 1988. See also Ietto-Gillies, 1992: 186-9.

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