View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Acta Economica (Faculty of Economics, University of Banja...

УДК 339.9

GLOBALIZATION, AN ONGOING CYCLE OF THE WORLD'S SOCIOECONOMIC CONVERGENCE AND DIVERGENCE?

Jovo Ateljevic, Ph.D.*

Summary

Globalization is one of the most hotly debated and discussed topics of our time; it is the most influential force in the world today. Among the wider subject of globalization is a plethora of related and interconnected subjects and areas, which together are all part of the phenomena in question. The impression is that recent the developments of information, communications and technologies (ICT) have made the world a 'smaller place' to live in and thus more globalized. This could also be an exaggeration of the current volumes of globalization being experienced, the truth may be that greater affluence and divisions of labour are simultaneously facilitating divergence of cultures, the widespread use of the term 'think global, act local' could be a social and cultural symptom or indicator of the early stages of such a world wide trend. This paper, based on a number of selected references and additional reading, provides a critical account on the globalization and its predictability.

Introduction

Presently the term globalisation is used to describe a number of varied trends, which are thought to be occurring across the world. Disintegration of welfare states, dissolution of national borders and the decreasing ability of nation states to govern themselves with complete control over economic activities, are all cited as important characteristics of this phenomenon. Other factors often referred to include deregulation of national and international business, increasingly rapid, varied and voluminous growth and spread of communication, of international trade and especially growth of foreign direct and other international investment. Thus on, a descriptive level it is generally

* Jovo Ateljevic, Ph.D, University of Stirling, , UK

associated with the breakdown of communication bottlenecks and a trans-nationalisation of economic activities, such as trade, investment and production (Ryer, 2002).

The term has become increasingly popular since the 1970s. It appears at times to be used to explain or describe almost anything and everything that is new in the contemporary modern economy. Often it appears to be used to help explain the trend towards greater integration of countries with outside and in regional trading blocs. For example 'at the outset the EU was characterised both as a structure and a strategy. Globalisation was defined in terms of the volume of trans-territorial transactions since the mid-1970s and the systematic consequences thereof (Burke, 1996).

Such fairly vague, usage can be seen in ways in which the mass media often regard, as apparently unprecedented, degrees of international economic integration and free trade as constituting a 'global' state of affairs. Some observers believe, however, that relatively high levels of such integration and international trading are not new, but merely another phase of ongoing cycles of economic and societal convergence and divergence that the world has been experiencing since Ancient times. In this paper, it is argued that globalisation is just merely one of the many cycles of convergence and divergence that have occurred throughout history.

Evidence for Globalisation as Unprecedented

The term globalisation has no common, widely agreed upon meaning; it is associated with the widening and deepening of international economic interactions (Milberg, 1998). Milberg (1998) suggested that while there was no commonly used and agreed definition of globalisation, what it represented was nonetheless very real, consisting mainly of interaction between and integration of the world's regional and national economies. Finance is also often seen as one of the major driving forces behind the 'globalisation' phenomenon, if not the central one, along with other aspects, such as advances in information technology and many other kinds of engineering for instance. Foreigner direct investment (FDI) is also seen as a major catalyst of globalisation. According to Burke (1996) FDI is also seen as its primary one: Thus, the principal agent for such globalisation in the contemporary global political economy is FDI.

Many academics, politicians and others appear to believe that while globalisation may not be entirely new, it is however achieving far higher levels of economic and societal interdependence and integration 'globally' than ever have been in recorded human history. According to this perspective, contemporary technology, labour markets and financial systems are better equipped and suited to a truly global economy than their historic counterparts. One particularly interesting view was found on the internet. Globalisation is

not just a recent phenomenon. Some analysts have argued that the world economy was just as global 100 years ago as it is today. But today commerce and financial services are far more developed and deeply integrated than they were at that time. The most striking aspect of this has been the integration of financial markets made possible by modern electronic communication (International Monetary Fond, 2004).

Globalisation: an unstoppable force for good?

Those who make such statements as those above appear to believe strongly that globalisation is unstoppable. The reasoning behind this is hard to disregard. The military conflicts in the European continent, in the Pacific Oceania in the 1910s and 1940s, and the various periods of tension between France, Germany, Japan, the UK and the USA and the USSR, of the last century and more, are indicative of the potentially dangerous consequences of protectionism and isolationist measures that countries can choose to adopt. These conflicts brought about widespread deaths, and destruction of infrastructure and productive capacity. A high economic and human price can be paid for the luxury of a segregated world economy. Embracing the outside world through in free international trade and further economic integration can have a plethora of benefits, financial, political and social. It appears that this is one of the most important lessons that can be learnt from the last 60 to 100 years. Economic integration can help to limit the possibility of conflicts over resources of any type arising between nations. But the benefits of openness are not only economic. Whatever its flaws, no one seriously doubts that Europe is better off with the European Union than without it (WTO, 2005).

These claims that such openness of trading and continued integration is a force for good and that today's apparently unprecedented proportions of world trade and integration have never before been experienced, and not only that, they are also responsible for peace and stability throughout the developed world, appear to be very plausible. To take a more reasoned view, if we compare the different economic prosperity of the Balkans to that of the EU in the 1990s, during civil war in Yugoslavia, it is easy to see why such beliefs have permeated so prolifically throughout the world, as war and instability, due to protectionist policies, do seem to be unpleasant experiences for all parties involved in these conflicts. No one can doubt that the economic integration brought about by the EU and the initial step taken towards European integration by the signing of the European Coal and Steel Community (ECSC) Treaty signed by the original European Common Market 'six' of France, Belgium, Germany, Luxembourg and the Netherlands, has helped to build growth and that it was central in bringing about today's levels of economic prosperity and stability to the continent.

Worldwide and Regional Economic and Social Integration as Proof of Globalisation

It is the very integration and regional convergence outlined previously and the interdependent character of globalisation that makes it so influential and which may therefore also make contemporary conventional perceptions very difficult, if wrong, to oppose and dispel. The world is seemingly shrinking as a result of globalisation. Compression of time and space in the last fifty years is often referred to, using terms such as the global village and the ever shrinking world. Clearly technical changes have made for easier and faster communication, travel and financial transactions. According to Hoogvelt (1997) compression of the world is the real experience of the way that interdependencies are being created in the economies of the world to such an extent that, today, the way we live our lives on this side of the globe has immediate consequences for people on the other side of the globe.

Hoogvelt suggested that there is much more connectedness between the lives of people who will never meet each other, like people in East Asia who work in factories that make Nike trainers and the people in the affluent countries who wear them while jogging, although the power of the economies of the developed countries is massively greater than those of the rest. In a variety of ways, economic activities exert a powerful catalytic force, often called ‘globalisation’ in order to refer to Western culture impacting the rest of the earth in ways that lead to greater worldwide cultural homogeneity (Asgary and Walle, 2002). Examples of this type are in abundance, that interdependence, integration, internationalisation and all of those factors already mentioned, which amount to the term globalisation, are all very influential and their influence is then, it would seem, proof of the phenomenon’s (globalisation’s) existence.

Global Trade

Steingraber (1996) estimated that global trade had increased by 225% from what it was in 1981, now almost 25 years ago. Many academics would agree with this appraisal and argue that statistics such as this are undeniable factual evidence that the levels of global trade and integration being experienced today are unprecedented. However they might concede that while levels of ‘globalisation’ may be higher than ever, international trade is not itself a new phenomenon. Steingraber (1996) also believed that the what is commonly referred to as globalisation is an issue in itself, which was and is simply a more elaborate form of global or international trade and is therefore a crucial factor in the growth of the wider ‘globalisation’ phenomenon, which is convergence of culture and technology as opposed to simply more integration

forms of trade and economic interdependence. It is also seen as by him as having unstoppable momentum. If the views of Steingraber are it correct, ‘globalisation’ is probably hard to ignore, but what exactly does it involve? De Wilde (1991) characterised globalisation as three worldwide economic and technological trends. These were, the cumulative effect of IT, worldwide media and the rise of integrated telecommunication and info-metric systems; the development of global capital markets with the ability to move resources in response to opportunity; and, the generation of export-orientated business strategies as the global market becomes accessible to entrepreneurs everywhere.

In light of such facts, it appears that the ‘global shift’ towards an ever more integrated world and global economy is unprecedented, and that it is also arguably the most important trend underpinning any correct understanding of the world’s economy and the three main and the other trading blocs and the other countries that constitute it.

Globalisation: a Real Phenomenon

All the evidence thus far considered have gone some way to describing what globalisation is and shown evidence to support the view that it is a phenomenon consisting of unprecedented levels of worldwide integration and interdependence. It has not however explained why having a proper understanding of the subject matter is important when gauging whether today’s globalisation’s levels of growth and worldwide integration, are indeed really unprecedented. It is important to have an overview of the characteristics of world trade in order to properly understand a single nations place within the global economy (McAuley, 2001). In the opinion of McAuley and to a lesser extent Steingraber (1996), today’s world is characterised by global trade and large flows of labour and capital. However in addition to these factors globalisation does have certain negative characteristics such as shocks and adjustments according to Daniels and Radebaugh. The ‘Asian crisis’, between 1998 and 2000, south East Asian ‘Tiger’ economies into disarray due to devaluation of so-called ‘hard ‘ and ‘soft’ regional currencies. ‘This resulted in a liquidity crisis in both hard currencies such as the U.S. dollar and soft currency the local currency of each country, such as the Thai baht (Daniels and Radebaugh 2000:132). For this and other financial and fiscal reasons due to investment trends linked to industry location and FDI, it is imperative to understand how the developed world’s economy works.

Mc Auley (2001) referred to the above element of global economic instability in a very general manner. According to him ‘economies are like corks bobbing on the ocean’. To draw comparisons with the world’s financial markets and the ‘ocean’ has to merit that both tend to be unpredictable. The

above point suggests why full understanding of globalisation and world trade is important for understanding who maintains the most control over such matters as FDI allocation and attraction methods. According to Carr, Horitope and O'Connor (1980) the top 100 global retailers own a fifth or 20% of the world's market share and continue to absorb many local competitors. From this statement it is clearly evident, why the developed world, where most of these retailers are based, is occupied primarily in responding and adjusting to these events. They account for 75% of all industrial research and development in economies of the Organisation for Economic Cooperation and Development (OCED) and they dominate the international trade in technology payments (Chang, 2003).

FDI and MNEs: Catalysts of Globalisation

Since the 1970s FDI has been growing at a historically high rate. However most of this investment has been between the world's wealthier, mainly Western countries, referred to next as the North. Thus the the bulk of the stock of FDI is among the world's wealthier countries (the North) (Michie, and Smith 1999). In addition to this, however, a new trend has begun that is apparently characterised by increased degrees of investment from the richer North to the poorer South. The most astounding change is the rapid increase of flows to Asia, which increased its share of the world's stock of inward FDI from 10% to 17% between 1980 and 1996. Note the spectacular rise in China and Hong Kong, which has increased its share of the world's stock of inward FDI from 0.4% in 1980 to 5.5% in 1996' (Michie and Smith, 1999). This is a very general overview of what has been happening. However the main points made do represent the basic theme in terms of FDI flows North to South. According to Michie and Smith, the amount of FDI going into the developing world is increasing rapidly with major shifts in the destinations for FDI. In the past there had been strong domination of FDI flows by the Triad/G3, meaning Japan, NAFTA and the EU and most of the investment made by companies was mainly 'North-North'. Chang (2003) tended to agree quite strongly with the summary of the current situation given by Mitchie and Grevie. Chang asserted that since the early 1980s the amount of FDI has been expanding four times faster than international trade, and that from the start from the start of the 1970's, the total output of MNEs has surpassed the amount of international trade occurring worldwide. Other sources bring their own views on this subject into the discussion, those views being backed by research that strengthens Chang's point of view that 'FDI in developing countries has increased dramatically in recent years, for example, from $36.9 billion to $56.3 billion between 1991 and 1993; see Hutton 1995, suggesting that more and more countries are being drawn into the process of globalisation' (Chang, 2003).

From Chang's assertion above it is evident that globalisation is in fact spreading from the developed world countries to at least some degree and that the main catalyst for this spread of global trade is nowadays the FDI made by large Multinational and Transnationals evident from much of Chang's research is the fact that while trade has been accelerating, FDI has matched this growth fourfold. Taken together all these apparently real and undeniable facts seem to paint a picture of an ever more integrated world economy, in which interdependencies, integration between the world's economies and an ever advancing agenda of mutual co-operation and development between the 'rich West' is beginning to spill over into the poorer South and East. Other observers of the international business world reaffirm the main points made above. It is documented in various textbooks and in the business world itself that most multinationals nearly always operate in host countries through FDI (Daniels and Radebaugh, 2001).

This phenomenon, which many have described as 'globalisation', is not an egalitarian process in all respects. Nevertheless its recent form can be only regarded as a stage in that process, and on the whole the process discussed in this section and the interpretations of so many observers and analysts, make it seem a force for a more peaceful and prosperous future for humankind. For example Mc Auley (2001) wrote that globalisation has now begun and that it is an unstoppable force. The challenge now was to make it work for as many people as possible. This sort of appraisal seems to be both optimistic and realistic in its conclusions about the current economic state of the world.

Factors driving Globalization

Scholte (2000) argued that globalisation is occurring at many levels and in many different ways. However it is the free flow and ease of movement of finance, especially of large national and 'supranational' currencies like the Pound, the U.S. dollar and the Euro, which act almost like lubricants, of the global economy by the ways in which they facilitate rapid and efficient international transactions.

'Global communications, global markets and global production have all promoted, and been facilitated by, a fourth area of global activity, namely, in relation to money. For one thing, the American dollar, the „Japanese" yen, the „German" mark and other major „national" currencies have undergone a significant degree of de-territorialisation. They circulate globally being used anywhere on earth at the same time and moving (electronically and via air transport) anywhere on earth in effectively no time (Scholte, 2000). While Scholte argued that 'money' is the main force behind globalisation, Levitt (1983) saw technology as the main driver of it. Levitt uses the term creator of globalisation. Levitt is here referring to the growing use of I.T. across the

world and to the job creation accounted for by such companies and as Microsoft and HP which invest huge sums of monies and relocate ‘core’ activities to places like the Republic of Ireland in the EU, resulting in unprecedented growth (in this case) in the Irish Republic’s economy and increases in the standard of living. Whether the future may be less or more financially rewarding, time will tell. At the height of its 20-year economic boom occurring between 1982 and 2002 the Republic of Ireland, for example, was the recipient of large volumes of FDI, where non-labour-intensive activities were relocated mainly to the Dublin county area, and when some of core activities of the large MNCs like HP and Apple were relocated there. Apple’s and HP’s European Middle East and Africa headquarters are now both Dublin-based. It is probably also even more surprising that even Orange UK’s head quarters, a foreign country operation of Orange’s, is actually based in Dublin in the Republic of Ireland, as opposed to the country whose markets it is principally targeting.

I.T. and the design and manufacture of software and hardware, like the types, which Apple, HP and Compaq provide, for example, are classed as being part of a global industry. To be part of a ‘global industry’, such as I.T and software design, a company must also be more dynamic competitive in order to succeed in a more integrated world economy, and thus help perpetuate a more competition-driven global industry.

The increased threat from foreign competition seems to be driving companies to become globally competitive. This increase in competition appears to be a result of increased levels of connectedness due to technical progress and the so-far apparently continuing trends of deregulation and integration of world markets, outlined already in this chapter.

Hamel and Prahalad (1989) believed that it was more than merely vision that caused many of the leading global companies of the previous two decades (the 1970s and the 1980s) to begin with ambitions that were out of proportion to their resources and capabilities. It was the prospect of increasing their market share by expanding to the international platform of competition. The benefits of competing internationally and succeeding seemingly created an obsession with winning at all levels and then sustained that obsession over 10 to 20 years' of quests for ‘global leadership’ in the markets in which the companies were most strongly focused. Therefore it is the desire of a company to achieve ‘global competitiveness’ along with factors such as technology, innovation, quality, productivity and overall effectiveness, which has seemed to bring about actual global competitiveness of MNCs.

Countries and companies that are competing in international markets and which are open to international competition, need to compete with ‘global strategies’, not just incorporating foreign trade but also incorporating foreign investment, into their strategic investments and activities. Therefore nations

with strong international economic presences, need to provide a competitive advantages for their home companies. To do this they need to form strong home bases for their companies to compete internationally from. Porter (1986), referred to this as a Global Platform. He felt that it was in the home nation of a company where its essential competitive advantages could be created and maintained, through the catalyst of attractive levels of lowered corporation tax and other similar financial incentives. Porter believed that a country in which a company was based would only be an advantageous platform for it to be based in, if it created the best climates for firms to achieve competitive advantage in the industry in which the companies in question primarily operated.

The strategic implications for such companies as HP and Apple focused largely around the need to be very internationally adaptable and innovative. High levels of competition, even for the richest nation states and their 'home-team' companies that are based in or close to their borders, are challenging the adaptability of these richer regions and countries. Much of the aforementioned competition being is due mainly to increases in the levels of integration of the world's markets, as already outlined. Such increased competition is found mainly in the G3 trading blocs and their surrounding dependent regions.

As the pattern of international competition shifts towards globalization, there are many implications for the strategy formulation of previously unchallenged and dominating MNCs. In a globalized industry, functions of finance, marketing, business and government relationships change, configurations of the global market in which a company/country may operate. All of the influences discussed above, have been attributed mainly to the effects that globalization has on national economies and namely their attitudes and policies regarding foreign investment, and to what their home companies need to do to respond to this competition. From the evidence presented by various researchers and commentators, globalization does present itself as an undeniable and un-ignorable force in the inter-nationlised economy. As markets deregulate, and regions, nations and trading blocs and economies continue to integrate, the occurrence of such convergence, is on course to continue. The only question that can be asked is, if the proportions of convergence now being witnessed are in fact unprecedented and if they have never been experienced before in history, how can it be directed in a way that works best for largest numbers of the world's population.

Globalisation and Convergence II: The Arguments Against

The word globalisation is used widely by the mass media, and it is not uncommon to hear observers of many kinds speaking of unprecedented degrees of economic and cultural integration being experienced in recent times. This is an assertion of a now popular perspective, which sees barriers to trade and the

movement of populations as increasingly belonging to the past. 'Globalisation has become a fashionable concept in the social sciences, a core dictum in the prescriptions of management guru's, and a catch phrase for journalists and politicians of every stripe' (Hirst and Thompson, 1999: 1).

At the core of this theory is the view that globalisation is a process characterised by the current rapid growth in world trade, deregulation of markets and the spread of ever-closer ties between countries and economic regions such as trading blocs and customs unions. It claims that the world is dominated by an emerging or recently emerged and truly global economy, one where national strategies for economic growth and management and have been marginalized in terms of their relevance to this new world economy. Various observers believe, as well as IT technology, and culture, that for many globalisation has become the latest in long line of the vague 'buzz' words, which have been concurrently used to describe that explain the complicated modern international economy. From the statements above, the term globalisation seeks to describe a particular vision or interpretation of the world's current trend of development, one in which all the societies, cultures, polities and economies have come closer together, in some senses (Keilety and Marfleet, 1998).

Globalisation, as outlined in the above definitions, is apparently a factor affecting all our lives and, it is claimed, it is occurring at levels unprecedented and never before experienced in by the regional economies, trading blocs and nation states of the world. While the above definition of globalisation is popular and generally accepted by many political observers, politicians, media organizations, and academics, it is also and it is also a 'distorted' image of some very real facts. Thus, if the theorists of globalisation mean that we have an economy in which each part of the world is linked by markets sharing close to real-time information, then that began not in the 1970s but in the 1870s' (Hirst and Thompson, 1999). Here Hirst and Thomson (1999) were arguing that while it was clear that globalisation of a kind or has been happening, it also happened long before the term 'globalisation was introduced. The basis of their argument in this respect that between 1870 and 1913 global markets were linked much more closely through the Gold Standard' system. In this system nation states currency were pegged to gold values, whereby a certain amount of currency was equal to a certain amount of gold.

The Gold Standard from 1870 to 1913

According to Eichengreen, the gold standards appeal can be traced back to the once held belief, that it provides price and exchange rate stability than any other system. From the 1870 to1913 in the Gold Standard era, the use of gold was indeed seen as a more reliable and transparent method of currency

and exchange rate management than the current method of floating currency on the stock markets. There, in lay its appeal, simplicity and stability. Use of the Gold Standard was a particularly effective method for ensuring that a nation's currency was credible in international markets. At the time when membership of the British Empire was seen as an important factor when ensuring the stability and credibility of a country's currency, it seems that this was not as vital to achieving market credibility as some observers at the time believed. As it was not a necessity to have membership of the British empire, and neither was it a preferential attribute or precondition in order for a country to gain access to London's capital market before 1914, as adherence to the Gold Standard was seemingly enough in itself to enhance the creditability of a nations currency in the world markets of the period (Obstfeld and Taylor 2003).

The facts above are in agreement with other historians' views, that there was a very high decree of economic integration and globalisation before the First World War (Obstfeld and Taylor 2003). These, and, Hirst and Thompson, and others, have argued that in comparison with today's level of integration of global markets and economies, the 1870 to 1914 era was more integrated and thus the world's economy, in reality was more 'global' then, compared to today's level of 'globalisation'.

The 'Gold Standard' from 1914 to 1924 and from 1925 to 1931

Apparently the form that the Gold Standard adopted form 1925 to 1931 was significantly less effective in assuring market credibility of its users than its pre-war predecessor was. Evidently it can be gathered by looking back, that the type of global convergence in the bond market prior to 1914, as caused by the Gold Standard, came to be replaced by quite different and less integrative forces afterwards (Obstfeld and Taylor, 2003). Hirst and Thompson (1999) seemingly concur with this view that the Gold Standard really was not reintroduced successfully after the First World War (1918). They argued that, it is often thought that there have been just two regimes in the twentieth century, the Gold Standard and the Bretton Woods system, the former breaking down in the inter war period and the latter in the post-1973 period' (Hirst and Thompson, 1999: 33).

The Second World War, Europe and the Marshall Plan

'World War Two left in its wake economic as well as human destruction throughout Europe. European political leaders realised that they needed to forge greater cooperation' (Daniels and Radebaugh 2001: 235).

In the aftermath of the Second World War the main Continental European economic and military powers and their neighbouring states were largely left in tatters. Leaders of France, Germany, Italy and the three Benelux countries (Belgium, Netherlands and Luxemburg) all decided that unpredicted volumes of integration and cooperation between these Six were needed. To sustain the initial step towards economic restructuring the USA's Congress passed a bill allowing for a $13 billion aid package called the Marshall Plan, to be given to the UK and to the European countries worst affected by the Second World War. Daniels and Radebaugh (2000) captured the theme of the Marshall Plan initiative with their summary of the way in which it was implemented. The Organisation for European Economic Cooperation (OEEC) was created. It was responsible for overseeing the implementation of the Marshal Plan. The OEEC carried out the Marshall and also sought to improve currency stability, combine Europe's economic strengths, and provide the necessary economic growth. The Marshall Plan in 1947 (in Europe) and the similar Dodge Plan (in Japan) were both pivotal to the re-establishment of the world trading to volumes comparable to pre-1914 levels. These plans gave the USA complete fiscal control and liability for Japan's currency as well as for West Germany's economy.

Japan: The Second World War, the Dodge Plan and the Outbreak of the Cold War

According to Kosai it was due to the Cold War in the few years after the Second World War ended, that the Dodge Stabilization Policy (known as the Dodge plan) was implemented in 1949, after Japanese manufacturing and mining had nearly come to a complete standstill. The USA's National Security Council so-called 13/2 resolution of 1950 was concerned with the security and economic recovery of Japan. The USA wanted Japan to become a bulwark against communism in the South Pacific. This resolution formalised the major shift in America's basic policy towards Japan, removing many restrictions that had been imposed and decreeing that Japanese economic recovery would be expedited (Nakamura 1981). Soon after this in 1949, Joseph Dodge introduced the Dodge Plan. It was a deflationary measure, which cut aid to Japan and encouraged international competition and recovery of Japan's economy, which would hopefully come about as a result of the Japanese's own efforts.

Not all of the consequences of the Dodge Plan were positive. Damage done to the Japanese economy by the Dodge Plan was severe as regards mining and manufacturing productivity, due mainly to such outside influences as the devaluation of Great Britain's pound. All these nation and economy building activities had to be undertaken in the view of the USA, to avoid repetition of the divergent protectionist nightmare of the 1930s. Thus the reasoning behind

such initiatives as the Dodge and Marshall Plans was to return as much as was possible to the levels of world trade and economic integration enjoyed in the pre-1914 period of the Gold Standard. These initiatives would eventually lead to the establishment of the quasi-dollar/gold standard system, which came to be known as under the Bretton Wood's agreement of July 1944.

Bretton Woods: the Quasi-Gold/Dollar Standard of the 1960s-1970s.

By the late-1960's the Bretton Woods-managed world order which had been established under US informal imperial rule began to be challenged both by some western European states, and by the international capital markets. Although most Western countries agreed to the adoption of the Bretton Woods system, by the 1960s most European countries of economic and political importance began to challenge, what had now moving towards *de facto* US imperial rule. World capital markets also began to challenge the domination of the USA by making speculations against the dollar, the currency, which had been the equivalent to what Gold Standard was from 1870 to 1913. Both challenges were apparently examples of how the Bretton Woods, was damaged by its own success. It had reached its aim of re-establishing worldwide economic integration; however a spill over effect of this was the substantial growth of US capital internationally. Eventually this success caused its eventual collapse. Under the Bretton Woods system, as Hoogvelt (1997). the US had succeeded in re-establishing the unity of the world market and this had encouraged a phenomenal transitional expansion of US capital. Hoogvelt argued that the subsequent Bretton Woods system had primarily been an initiative to rebuild the world's economy and to re-establish the degrees of global economic integration, which existed before 1914, by reunifying the world's economies into one 'world market'.

This post-1945 re-unification of the world's national economies seems to have been a type of 'neo-Gold Standard', which unfortunately lacked stability of the original Gold Standard, but which was the best that could seemingly be managed in the circumstances. 'Under the Bretton Woods system, control of the money supply in Japan was completely subordinate to the goal of maintaining a fixed nominal exchange rate of Yen 360=$1' (Flath 2000: 129). If the USA decided to tighten its monetary policy, Japan was then forced to mirror this action by adopting a similar in relation to its monetary policy. This also was the case for many other national currencies under the Bretton Woods scheme. However as has been shown, it would not last forever.

The Collapse of Bretton Woods

Under the Bretton Woods arrangements the US dollar became a global currency, thus by the early 1970s the value of dollars circulating outside the USA exceeded the value of gold stocks held by the American central bank. In these circumstances the Nixon Administration halted dollar-gold convertibility in 1971 (Scholte, 2000). Soon after the Bretton Woods scheme collapsed, most of the world's major national economies floated their currencies on the foreign exchange market. For example the Japanese yen, a currency that some would argue the most tightly linked of all to the dollar previously, was floated on the international/foreign exchange market soon after the collapse of the Bretton Woods system in 1971.When the Yen was floated on the international stock exchanges in 1973, this changed the balance of payments role for ever. Then in 1973 the yen was put on a floating exchange basis. That was the end of the balance of payments' role as a check on expansion. This had marked the end of the Gold Standard's era in 1973 of currency supremacy.

Multinational and Transnational Companies: Truly Global?

MNEs global activities are seen to be initially beneficial to the host country but eventually over time the investments become more favourable to the home government. As initially beneficial as many of the immediate affects of MNCs investing in other countries are, it is often short-lived. In fact many MNCs and TNCs, are rarely based outside the home nation i.e. the country of the companies' origins. Claims about large MNCs that move freely and without prejudice in today's, 'global' world are at best slight exaggerations and at worst major distortions of the facts. Many observers indeed believe that we now live in truly global market, where capital is moved easily worldwide. This as with many of the core beliefs of globalization theorists, is not a complete untruth but a distortion and exaggeration.

Thus, claims about the footloose nature of TNCs are also often exaggerated. There are many industries where investments involve a large amount of sunk costs that restrict the mobility of the firms involved (Chang 2003). It seems that many TNCs are limited in the scope of their transnational operations in the true sense of the word, whereby most of the core activities stay in the home country or are moved to neighbouring countries and other developed countries where the company has large economic interests to consider, like the need to be in close proximity to major markets. One specific form of this behaviour is when USA-based companies are found to be basing their headquarters in Canada to cut costs, and because the currency speculation opportunities from the strength of the US$ against the Canadian$ for example. It thus follows, in addition, at most TNCs, the top decision makers are home

country nationals. Hirst and Thompson also asserted their position on this subject, stating that when core activities are relocated, they are more often than not moved to other developed ‘Western’ countries in, Europe, North America, or Japan primarily. Thus many of the large MNCs are not international in the true sense at all, choosing to locate core business activities in their home country or neighbouring ones, especially in countries with low psychic distance. So, and as the reporter of a survey by the *Economist* puts it, ‘generally speaking, what [TNCS] have done is to extend their bases into neighbouring countries’ (*The Economist*, 27 March, 1993, pp.15-6).

FDI the Triad/Group of 3 and Group of 8: The True Nature of the Global Economy

Foreign Direct Investment appears to be generally regarded, at least by most mass media commentators, as a positive thing for a country to receive in terms of economic growth and job creation. Spillovers of technical know-how are seen as some of the many short-term and positive effects that FDI bring to poorer countries and regions. So it…‘it is often assumed that FDI brings benefits to host country’s through productivity spillovers from MNEs (Rodriquez-Clare, 1996). However many countries, which are recipient of FDI, do not appear to benefit anything like as much as these point suggest. Often the effects of FDI are very much short-term positive ones, and are very often much smaller than the equivalent volume and quality of spillovers found in the industrial and more developed countries of the world, those of the Group of Eight (G8) and especially the Triad or the Group of Three (G3).

This said, the effects of spillovers can be and often are much more dramatic in the short term for Newly Industrialised Countries (NICs) and Less Developed Countries (LDCs). Nevertheless most FDI is between the industrial and developed nations. Generally speaking, the bulk of the investment flows have been ‘North-North’, a shorthand expression for movements from one industrialised country to another’ (Robock and Simmons 1989). Since FDI between developed countries currently accounts for 75% of total FDI, while only 25% is accounted for by less developed countries this? According to Robock and Simmons, this is known as the ‘North-South’ flow. The effects of MNEs in the developed countries are likely to be relatively smaller than those in those NICs, such as those of South Korea, Taiwan, Thailand, and Singapore contributed 25% to world GDP in the early 1990’s as compared to 4% in the 1960s’ (Parker 1998: 14).

The effect that a MNE can have on the latter two country types mentioned above is probably in most cases more substantial, than say for instance the effect that a large degree of FDI would have on a country like Canada. Until fairly recently Canada had around half of its capital employed

and controlled by foreign companies, especially so in the oil and gas industry, 'by 1984, foreigners controlled only 45% of the capital employed in the oil and gas industry, down from 75% in the mid 70's' (Robock and Simmons 1989: 29). Canada was also until recently the most heavily invested in country in terms of financial direct investment, this caused negative side-effects like the one illustrated above, this scenario is especially true if a MNE's on local operations employ the best local resources natural or otherwise.

Thus, in many cases FDI can lead to frustration of development for a host economy, stunting entrepreneurial growth and curtailing innovation and eroding a country's competitive potential. The following statement by the OECD seems to suggest that 'MNEs have become an integral part of the international economy, bringing investment and technology as well as tax revenues to their host countries. On the other hand the rise of this corporate activity has resulted in public concern at the effect of businesses on the people and the environment of the countries where they operate. From the various sources drawn from, an especially the above statement, it seems evident that most of FDI by MNCS and TNCs in to LDCs is in mainly labour-intensive areas of production, and where costs can be lowered through investment abroad and outsourcing. Most of the core activities of MNCs tend to be based in the home countries as opposed to being based in LDCs and NICs. Often FDI in the latter will have negative long-term effects on them.

Conclusions

From analyzing the various information gathered and synthesized it is apparent that the current volumes of integration being experienced in world markets and national economies is neither unprecedented, and nor is it completely global. The reality of the situation that presents itself, in light of these facts is that countries of the richer more developed West, namely the Triad, both receive and invest the substantial majority of all the FDI. They are also apparently the net beneficiaries in many instances of FDI, reaping the large financial rewards they do through economies of scale and cheap labour opportunities, which are presented in the forms of tax holidays world wide, that many developing national economies offer them. The following quotation below clearly and concisely illustrates exactly the point made above, the bulk of FDI occurs among the developed countries only a handful of developing countries take part in the trans-national investment story (Dicken 1998). It does then appear that, in the case of investment the flows have been particularly intense between North America and Western Europe.

Claims made in the above quotation, by Sir Leon Brittan, were referred to by Chang (2003) in his book 'Globalisation of the European Integration', in it the Vice President of the European Commission asserted that the ratio of FDI

and trade, is 'evening' itself out, with his reference to increased capital flows to Asia don't 'stand-up' to closer investigations the assertion by former vice president of the European Commission, that '[o]ver half of the world FDI now goes to developing countries' (Brittan 1995: 3). It thus appears that while globalisation as it is referred to be a dynamic and influential force it is also not an unprecedented worldwide phenomenon that cannot be explained or contrasted with any degree of comparability to anything that has preceded it or is likely to follow it. Therefore as above discussion suggests the evidence purporting that this is a unique level of global integration and economic interdependencies is on the whole rejected. The paradox confining many analysts of globalisation is that while the changes upon us seem revolutionary, much of the data suggest that what we are experiencing is, in fact, not unprecedented.

As a final point, maybe Globalisation is just merely one of the many cycles of convergence and divergence that have occurred throughout history. It appears that many countries converge when there are a few dominant empires or hegemonies, and then diverge when there is not just one or a few dominant powers in the world.

References

1. Asgary, N.; Walle, Alf H.: **The Cultural impact of Globalisation: Economic Activity and Social Change' Cross-cultural Management**, 9 (No 3): 58, 2002
2. Parker, B.: **Globalisation and Business Practice: Managing across Boundaries London: Sage**, 1998
3. Burke, T.: **Japan and the Globalisation of European Integration' Aldershot**, Dartmouth, 1996
4. Carr, M.; Horstrop, A.; O'Connor, D. **The new era of global retailing**, Journal of Business Strategy, 19 (3), 1998
5. Chang. Ha-Jaoon: Globalisation, Economic Development and the Role of the State London: Zed, 2003
6. De Wilde, J.: **How to train managers for going to global**, Business Quarterly, 55(3), 1991
7. Dicken, P.: **Global Shift, Transforming the World Economy,** London, Paul Chapman Publishing, 1998
8. Eichengreen, B.: **The Gold Standard in Theory and History** London, Methuen, 1985
9. Flath, D.: **The Japanese Economy**, Oxford, New York, USA, Oxford University, 2000

10. Hamel, D.; Prahalad, J.: **Strategic Intent**, Harvard Business Review, May-June, 63-76.Boston, MA: Harvard University Press, 1989
11. Hirst, P.; Thompson, G.: **Globalisation in Question**, Oxford: Blackwell, 1999
12. Hoogvelt, A.: **Globalisation and the Post Colonial World: The New Political Economy of Development**, London, Macmillan, 1997
13. Keilety, R.; Marfleet, P.: **Globalisation: and the Third World**, London, Routledge, 1998
14. Kosai, Y.: **The Contemporary Japanese Economy**, London, Macmillan, 1984
15. Levitt T.: **The Globalisation of Markets** Harvard Business Review, May-June, 92-102, Boston MA: Harvard University Press, 1983
16. McAuley, A.: **International Marketing: Consuming Globally, Thinking Locally**, West Sussex: Wiley, 2001
17. Michie, J.; Smith, G.: **Global Instability**, London: Routledge, 1999
18. Milberg, W.: (1998) **Technological Change, Social Policy and International Competitiveness**, working paper on Globalisation, Labour Markets and Social Policy'. New School for Social Research, New York: New York (1994) **Globalisation and the State**, in, R. Miliband and L.Panitch (eds) **New world Order?** The Socialist Registrar 1994 London: Merlin Press.
19. Nakamura, T.: **The Postwar Japanese Economy**, Tokyo: University of Tokyo Press, 1981
20. Obstfeld, M.; Taylor, A. M.: **Sovereign risk, Creditability and the Gold Standard: 1870-1913 versus 1925-311,** The Economic Journal, 113 (April), 241-275, 2003
21. Porter M.E.: **Competition in Global Industries**, Harvard Business School Press, 1986
22. Robock, L.; Simmons, J.: **International Business and Multinational Enterprises**, Boston, MA: Irwin, 1989
23. Rodriquez-Clare, A.: **Multinationals, linkages and economic development**, **American Economic Review**, 86(4), 852-873, 1996
24. Rugman, A. M.; Lecraw, D. J.; Booth. L. D.: **International Business**, Singapore, McGraw Hill, 1986
25. Ryer, M. J.: **Capitalist Restructuring, Globalisation and the Third Way: Lessons from the Swedish Model**, London, Routledge, 2002

26. Scholte, A, J.: **Globalisation; a Critical Introduction**, New York: Palgrave, 2000
27. Steingraber, F.G.:() **The new business realities of the twenty first century**, Business Horizons, 39 (6), 1996
28. Yip, G S.; Pierre M. Loewe; Michael Y. Yashino: **How to Take your Company to the Global Market**, **Columbia Journal of World Business**, 37-47, 1988
29. **The Economist**, March 27, 1993.
30. **The Economist**, October 14, 2004.
31. URL [http://www.imf.org]
32. URL [http://www.wto.org]
33. URL [http://www.oecdobserver.org]