The Limits of Economic Globalization

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Since the 1990s in an attempt to understand the nature and effects of the socio-economic changes that the world had long been undergoing since the 1970s, the phenomenon of globalization has been widely discussed in the social science and outside intellectual circles. Anthony Mcgrew has stated that,

"Globalization refers to the multiplicity of linkages and interconnections that transcend the nation-state (and by implication the societies) which make up the modern world system."(Macgrew, 1992, p.65)

Usually used in descriptive manner the term encompasses many process and structures, therefore implying a variety of meanings. The definition of globalization is vast and complex, and it is beyond the scope of this essay to attempt to revise and criticize it.

This essay is concerned with economic globalisation; within the political economy debates, globalization is used to refer to the process of integration and interdependence of national economies under a single world economy. Globalisation is also perceived as a political project of the US for the expansion of free market, liberal democracy, and internationalisation of neoliberal policies. (Kiely, 2007)

There are some categories within the international economy such as production, capital flows, trade, and labour migration that enable the measuring of the extent in which countries are interdependent and integrated into a world economy.

Bearing in mind that economy is just one dimension of a complex phenomenon called globalization, the objective of this essay is to evaluate the following statement: "Economic globalization is currently more limited than many realise." This will be done from contemporary and 19th century perspectives. It is important to note that, it is not the aim of this essay when comparing the contemporary globalisation against 19th century globalisation to reject the qualitative and quantitative changes of the current phase, but to locate the current economic process into a longer historical perspective of development of capitalism and the world economy. Moreover, it is important to stress that economic globalization is not a new phenomenon as usually claimed.

This essay holds the sceptical view that contemporary economic globalisation is not without precedent, and in some respects is currently less integrated and interconnected, therefore more limited. (Gilpin, 2001, Hirst and Thompson, 1999)

This can be argued in comparison with the free trade multilateral system of the 19th century economic globalization.

To develop this argument, firstly it will follow a brief debate between the globalist and sceptical views about contemporary economic globalization, at the same time an attempt will be made to criticize the main claims of the globalist view, and to put forward some of the arguments for a sceptical view of contemporary economic globalisation.

Drawing on that discussion, to show that there is nothing new about contemporary globalization, it will be analysed the historical context of 19th century economic globalization and the role played by Britain. This is important to locate contemporary economic globalization in a longer historical perspective. After that, some contemporary patterns within the international economy such as the Multinational Corporations activities (MNCs) and Foreign Direct Investment (FDI), labour migration, regionalisation and concentration of trade will be analysed comparing them against similar patterns in the 19th century economic globalization.

The activities of the Multinational Corporations and Foreign Direct Investments are often said to be the vectors of globalization. The former is said to have heralded the globalization of production contributing to a phase of increased interdependence, and is often seem as a novelty. There is also the idea that these companies are 'footloose' and that they can relocate to any country that offers great advantages to them. It will be argued that internationalization of business activities is not something peculiar to the contemporary phase of economic globalization, and it is an illusion to think of them as 'footloose' as the Multinational Corporations maintain a clear home base.

It is well known that capital flows is a pattern that contributes to integration in the international economy. Foreign Direct Investments, one of the practices conducted by MNCs has been increasing since the last three decades but its direction has been highly concentrated, and it is often used to finance mergers and acquisition of local companies in the recipient countries by the MNCs. In addition, the role of Foreign Direct Investments is exaggerated as it contributes only to 5.2 per cent of world investments; the majority of capital to be invested has to be sourced nationally. When compared against 19th century perspectives contemporary pattern of capital flows is more concentrated and less integrated. During the 19th century Britain acted as the lender of the world, the direction of capital flows for this period shows a more even geographically distributed pattern than nowadays contributing to greater integration.

Secondly, concerning labour migration and the creation of an international labour market it can be argued that, if an open international market for labour existed it was in the 19th century. Labour migration is another pattern used to measure integration; in comparison with 19th century perspectives, currently integration of labour market is more limited and less integrated as labour migration is restricted and even rejected.

Thirdly, one peculiar and interesting pattern of today's economic globalization, namely regionalism contributes for the argument that trade activity is more concentrated and segmented than it used to be in the open multilateral system of the 19th century. It will also be argued that the trend of regionalization of trade activity is an obstacle to a more liberalized and multilateral system of trade. Again when this trend is compared against 19th century perspectives it can be concluded that contemporary economic globalization is more limited than some may think.

Globalist and sceptical debate

The great debate about globalization has focused on questions of how to measure economic globalization, and assess the novelty of the phenomenon. This has been done trough examination of international trade, foreign direct investment, and labour migration amongst others, in order to demonstrate the increased interdependence and integration of the world economy. (Held et al.1999)

Within the debate there have been more disagreements than agreements between those of globalist view and those of sceptical view. It is important to be aware of the heterogeneity in both views, despite in this essay homogeneity is assumed in order to better analyse the arguments against and for economic globalisation.

The globalist view, argues that since 1950s trade has grown dramatically leading to an interdependent world economy, the activities of the MNC (Multinational Corporations), the latter seen as the vector of globalization, has internationalized production and capital flows across borders and it has been contributing to the process of integration. These developments are seen as leading to an unprecedented era of a globalized economy. The weaknesses of this view are the failure to locate current economic globalisation in a broader historical context, and to recognize structural limits to a real globalized economy such as the trend of regionalization of trade activity.

Secondly, those of globalist view tend to see globalisation as established, inevitable and irreversible. As history has shown us process of economic globalization is not inevitable and irreversible, they are products of structural changes in the way the international economy is organized. In addition, the interwar's period is an example that the process can be reversible and determined by political and social forces, as it is also the case of the slowing down of economic globalization since the terrorist attacks of 11/09.

On the other hand, the sceptical view claims that, contemporary economic globalization is often exaggerated and it is not without precedent. Economic globalisation is not unprecedented; 19th century international economy was also linked by intense flows of trade, capital, labour and means of communication.

Authors who argue along these lines tend to point out for trends that put current economic globalisation into question, such as growing regionalism, concentration of trade, and barriers to labour migration. It is often asserted that the global economy was more integrated and interconnected in the years from 1870 to 1914. As Hirst and Thompson have argued: "In some respects, the current international economy is less open and integrated than the regime that prevailed from 1870 to 1914." (Hirst and Thompson, 1999, p.2)

The sceptical view locate current economic globalization in a broader historical perspective, at the same time that does not aim at rejecting certain changes within the international economy, it asserts that current changes are not unprecedented and emphasize certain aspects in which economic globalization today is less integrated than that of the 19th century. Arguing that we live in an era of 'globalizing economy' opposed to a fully globalized economy advocated by globalists; the sceptical recognizes that certain current trends impose limits to a perfectly globalized economy. (Gilpin, 2001)

Contemporary trends in light of the 19th century economic globalisation

The history of globalization is long, and the latter has taken many different forms. However, the history of modern capitalist globalisation started in the 19th with British imperialism.

Although, economic globalisation in the 19th century and contemporary economic globalisation are historically different, and now as in the past it has taken different forms, the economic globalisation of the 19th century remains the example of modern globalisation against which enables us to compare the current phase. (Macgrew, 2008, p.209)

As it is well known, trading activities; the mechanism of exchange between two parties is as old as history, but the history of capitalism not only as a simple system of trade rather as a distinctive mode of production can be traced back to the 19th century. As Colas (2007) has argued,

"It was with the globalization of capital under nineteenth-century British hegemony that the world market emerged as a distinctive social domain governed by a specific form of exchange-what the influential social theorist Karl Polanyi called 'the price-making market'". (Colas, 2007, p.72)

According to Polanyi 'the price-making market' differed from previous forms of exchange based on reciprocity, under the former rents could be extracted from land, the production of food became dependent on a competitive market, and 'labor turned into a commodity free to be purchased in the market'. (Cited in Colas, 2007, p.72) This kind of market is driven by profit and constant capital accumulation that need to be reinvested.

It can be said that the 'price-making market' process started in England in the sixteenth century with the 'enclosures' of the fields and it was consolidated under the British hegemony in 19th century. For that reason, it is impossible to write about capitalism and the development of the international market without mentioning the industrialisation of England and its national and international implications.

In the 19th century England possessed the right conditions for the development of an industrial economy. Although, it can be argued that technology advances were also present in other European countries, availability of capital and the social conditions needed for industrialisation were present only in Britain. England had long profited with the triangular trade with the colonies generating capital to be invested, and the enclosures of the common fields dismantled the traditional relations of production providing the mobilization of work force to be absorbed by the industries.

The era of the advent of the industrial revolution saw an unprecedented increase in world trade and growing international economic integration into an open and multilateral economy system reinforced by British hegemony and facilitated by the adoption of the gold standard. Analysing the advent of industrialisation Marx and Engels have captured the globalizing logic of capitalism, as they pointed out:

The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere. (Marx and Engels, 1998, p.39)

Marx also in his various works has pointed out the uneven character of capitalism and its tendency of capital concentration. This seems to be the dominant logic of a capitalist economy; globalization is marked by uneven expansion and concentration of capital and trade. For this reason it is not surprising that the 19th century economic globalization as well as the current phase of economic globalization have been characterized by this uneven process.

However, it can be argued that 19th century international economy was more integrated into a more multilateral and open system compared with the current phase. Contemporary economic globalization has been more uneven and unequal compared to the 19th century globalization; in addition the current phase in certain aspects is less integrated and interdependent than it used to be in 19th century. Let's analyze integration and interdependence it in terms of the Multinational Corporation Activity, usually seen as a new trend in the international economy and as the vector of globalization, Foreign Direct Investments, labour market and the pattern of regionalisation. The analyses will be done from 19th century and contemporary perspectives. We shall move to that below.

Multinational Corporation Activities and Foreign Direct Investments

The emergence of MNC in the post-1960 era, and subsequently in 1971-3 the collapse of the Bretton Woods system semi-fixed exchange rate regime , saw an increased reorganization of production and the expansion of foreign direct investments (FDI) overseas. Both trends are often thought as heralding a dramatically integrated and interconnected world economy. (Hirst and Thompson, 1999)

Foreign Direct Investments is a practice conducted by Multinational Corporations; the latter is any company with clear national base that possess productive capacities abroad. The reorganization of production on an international scale is an evidence of interdependence in the world economy, although contrary to what is commonly thought the majority of MNCs are very well rooted to a national base. Lilienthal was the first to use the term MNC to such companies back in the 1960, after that the concept became widely used. (Fieldhouse, 1986)

However, the internationalization of business activity is not new, it can be said it began in the 1850s; the American company Singer back then was one of the first to hold and assembly factory abroad. (Hirst and Thompson, 1999)

Capital flows is another trend that shows to what extent the economy is integrated, they contribute to the growth of trade and real income in the world economy, nowadays they can take the form of FDI under the agency of MNC. In the 19th century Britain acted as the major source of supply of capital followed by France, and later Germany. From 1830 to 1870, 27 per cent of foreign investments went to Europe, 24% to North America, 19% to Latin America, 16% to Asia, 9% to Africa, and 5% to Oceania. (Kenwood and Lougheed, 1999)

Since the 1990s there has been an increase in the amount of FDI, the latter in 1995 contributed to only 5.2% of world investments, and its inward flows amounted to 10.1% of world GDP. Still the majority of capital to invest has come from national sources. (Hirst and Thompson, 1999) In spite of the increase of FDI in the recent period, the direction of the flows has been highly concentrated. As Kiely states,

(…) figures for the year 1999-2000 show that FDI inflows to the developed world constituted 80 per cent of total

FDI and the proportion going to developing countries constituted only 17.9 per cent. (UNCTAD, 2002b, p.5 cited at Kiely, 2007, p.132)

Current patterns of capital flows show more geographical concentration than an evenly distributed pattern around the world. Comparing current trends with the data from 19th century, the latter was more distributed geographically contributing to a greater integration of countries under an international financial system than nowadays. Analysing this aspect, contemporary globalization is more limited than that of the 19th century. Another important difference is that in the 19th century long-term capital was dominant, capital inflows were used to stabilise the currencies, maintain the political *status quo,* and investments on extraction of raw materials of the receiving countries. Nowadays, there has been a shift to short-term capital; the vast bulk of FDI is used by the Multinational Corporations to finance mergers and acquisitions of local companies in the recipient countries.

Labour migration

The current period of liberalisation and reductions of barriers applies for trade, services, goods, capital among others but does not apply for the movement of labour across borders. Concerning the movement of labour, what we see today is the opposite. There has been a growing imposition of policy restriction by recipient countries, namely the developed states of the North, to the movement of labour, dramatically increased after the events of 11th September.

The middle of the 19th century according to Hobsbawm (1977) *"marks the beginning of the greatest migration of peoples in history",* it can be said that in that period of history an integrated and open market for labour existed, the same cannot be said about current globalisation. In the current economic globalisation, we have not yet seen the rise of an international market in labour migration.

During the 19th century Europe provided the vast majority of labour to new areas such as the Americas, compensating the vacuum left by the prohibition of slave trade. The Americas suffered from scarce labour, the US, Brazil, and Argentina received the vast majority of immigrants from Europe. Although to measure immigration for this time is difficult, it is estimated that 46 millions left their countries during 1821-1915, and the Americas received more than 85 per cent of flows of people. (Kenwood and Lougheed, 1999)

The great movement of labour were due to the socio-economic transformation brought about by industrialization, men were uprooted from their traditional socio-economic relations of production. The majority of people to emigrate did it for overwhelmingly economic reasons; they constituted rural population and artisans that saw their economic and social life transformed by industrialization and the imperatives of the market. The concentration of labour generated by these events soon became a matter of policy of state, for that reason immigration in the 19th century was accepted, encouraged, and financed by states with a number of unemployed population and by recipient states in need of labour.

The current trend of restrictions on movement of labour is not likely to change in the near future. Hirst and Thompson have asserted that,

Even a rapid and sustained expansion of the world economy is unlikely to significantly reduce the multiple barriers to the movement of labour. Other than in the context of regionally developing free trade agreement of the EU type, freedom of labour movement still remains heavily circumscribed. Even the NAFTA explicitly excludes freedom of movement of persons, though there is de facto freedom between Canada and the US, and enormous illegal flows between Mexico and the US. (Hirst and Thompson, 1999, p.29)

Nowadays the migration of labour has become a problem of national security of some of developed states of the North, restrictions and surveillance is implemented to contain the movement. In comparison with the 19th century the integration of the labour market is restricted and even rejected, it cannot be said that there is an open international market for labour. During the 19th century there existed an open international market for labour; the integration of the labour market was greater and encouraged for a number of reasons that has been said above.

Regionalization

Since the 1990s the integration and interdependence of regions has been growing, thus forming regional blocs of trade, to name a few; North America Free Trade Area (NAFTA), European Union (EU), Mercosur, and Association of East Asian Nations (ASEAN). This scenario called regionalism is often suggested to be an indication of a move towards regionalisation and segmentation of trade activity rather than its globalization and integration into a multilateral system of trade.

For the more optimists the formation of regional blocs is compatible with globalization and promotes trade liberalisation. There is also the claim that in some ways regionalism overcome one of the problems faced by the World Trade Organization (WTO) the difficulty to accommodate divergent interest of various nation states; with fewer actors on board it is easier to negotiate and form consensus. In theory under the WTO principle of MFN (Most Favoured Nation) any tariff reduction granted to one particular country has to be applied to all countries.

On the other hand, some view the pattern of regionalization as a form of protectionism blocking the way for a more multilateral system of trade and generating concentration of trade rather than a more geographically distributed pattern. In practice that is what has been happening, countries increasingly carry trade under preferentional arrangements. According to Hirst and Thompson (1999), regionalization has become the strongest feature of the international economy rather than globalization, and the former in practice has been undermining the latter. Analysing the international flows of trade between 1980 and 2001, the authors have pointed out for the increasing regionalization of trade instead of a more dispersed pattern, and the intensification and concentration of trade among North America, Europe, and East Asia. (Hirst and Thompson, 1999)

In comparison with 19th century international economy, trade in that period were more liberalised and integrated into a multilateral system than current economic globalization. As Hobsbawm has asserted:

An all embracing world system of virtually unrestricted flows of capital, labour and goods never actually existed, but between 1860 and 1875 something not too far removed from it came into being. (Hobsbawm, 1977, p.140)

In addition, Hobsbawm also pointed out that during the 19th century even the most geographically remote parts of the world were directed integrated into the international economy. (Hobsbawm, 1977)

It would be fair to say that the current pattern of regionalisation of trade activity is a very strong feature in contemporary economic globalization if not even a stronger feature than globalization itself. Regionalism is a form of protectionism based on preferential arrangements, and has been blocking the way to a more liberalised and multilateral system of trade. In this respect when comparing with 19th century perspectives trade activity is less integrated and interdependent than it was in the past.

Conclusion

This essay has attempted to evaluate the sceptical claim that contemporary economic globalization is more limited than we think. It did so in light of 19th century economic globalization and contemporary economic globalization.

Firstly, it was briefly analysed the globalist and sceptical arguments about globalization, holding the view that contemporary economic globalization is often exaggerated and it is not unprecedented.

Secondly, trying to demonstrate that contemporary economic globalization is not new this essay analysed the historical context in which the international economy became globalized in the 19th century after British industrialisation and under British imperialism. Following this discussion some contemporary patterns of the international economy that are more limited than 19th century economic globalization were analysed, such as the reorganization of production under the MNCs activities, FDI, labour migration and regionalism.

The latter has been said to be a strong feature of contemporary economic globalization, and it is an obstacle to a more liberalized multilateral system of trade. Trade nowadays is vastly carried under preferentional arrangements and it is highly concentrated. Internationalization of production and business activities under the MNCs are not something peculiar of the current phase of economic globalization, and the role of FDI in the international investments is exaggerated and much more concentrated than the capital flows of the 19th century. Regarding labour migration and the international labour market, it can be said that it was more integrated and open in the 19th century, contrary to that the current phase has been witnessing restrictions and the emergence of barriers to labour movement around the world.

Finally, it can be argued that contemporary economic globalization is often exaggerated and there are some current patterns that are more limited, less integrated, and interdependent in comparison with 19th century economic globalization, especially the period from 1870 to 1914.

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