

GLOBALIZATION: REALITY OR MYTH?

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Abstract

The terms Globalization and global business have attracted considerable attention in both academic and non-academic circles worldwide over the past half and one and a half decade. There is a growing realization of many markets becoming global. Free flow of capital, technology and labour and integration of various economies of the world, has overwhelmed all dimensions of work and life the world over. Trade liberalizations have fuelled the opportunities of multiplying the revenues by the firms by selling around the world and reduce their costs by producing in nations where key inputs are cheap. This, however, should not lead us to think that we are living in a purely global economy. Indeed, the vast majority of the multinational enterprises do not have a genuinely global presence, instead focusing primarily on sales within their home region, whether it is the U.S., the European Union (EU), or Japan. They primarily operate in each other's home markets, giving a regional set of activities, which is commonly confused with the globalization. Today, the world's 500 largest multinational enterprises (MNEs) from a total of nearly 35,000 MNEs, account for more than 80 percent of the world's FDI and over half of its trade. They are commonly perceived to be the causes of globalization. Yet a deeper analysis reveals that these MNEs are not really 'global'. Instead they operate from the triad-home-bases of the U.S., the European Union (EU), and Japan. In sum these industrially advanced economies have shaped globalization to further their own interests. Political factors and institutional organizations seem to reinforce business at a regional level rather than at the multilateral level required for absolute globalization.

Key Words: Developed world, Globalization, MNEs, Myth, Production function

Introduction

In recent years, Globalization has emerged as a popular term among academics, policy-makers, businessmen, development professionals, and in the common parlance. The economies of the world have become more integrated in the last few decades largely because national governments have chosen that path. Countries have deliberately reduced trade barriers, liberalised exchange controls, and removed obstacles to direct foreign investment. They have done so because they believe that such policies promote economic growth and national welfare. Thus, the world economy seems to be emerging as a global or transnational economy. Yet, the vast majority of manufacturing and service activities is organised regionally, and not globally.

Concept of Globalization

'Globalization' is a frequently used term, which is almost as frequently misused and presents a problem for scholars across the social sciences who define it from the viewpoint of their own discipline. For an economist – globalization is the sum total of activities of multinational enterprises engaged in foreign direct investment and the development of businesses networks to create value across national borders. Business professionals prefer to define globalization as worldwide production and distribution of goods and services by MNEs.

Sociologists define globalization broadly as political, technical and cultural, as well as economic phenomena. They state that globalization is rapid and revolutionary uprisings and is mainly due to the massive increase in foreign exchange transactions, triggered by dramatic improvement in the information technology; especially electronic data interchange (EDI). At the corporate level, globalization in its true sense is a way of corporate life necessitated, facilitated and nourished by free flow of trade, capital, technology and labour and integration of world. Globalization is an attitude of mind – it is a mind set which views the entire world as a single market so that the corporate strategy is based on the dynamics of the global business environment.

The trouble with this very broad perspective is that the key drivers of globalization, the MNEs, are badly misrepresented. International trade and multinationals have existed for two millennia. Moore and Lewis (1999) find evidence of the existence of MNEs in the ancient world; in the Assyrian, Phoenician, Greek and Roman empires. This aspect of globalization is not recent as alleged by its critics. MNEs are old news.

The Realm of Globalization

Manufacturing today is quite different from the past. In the olden days, when someone talked about manufacturing a product, the idea that immediately sprang to one's mind was that everything would be done "in-house" (i.e., in the factory) – under one roof and in one country – before a product was exported and sold in another country. Times have changed and manufacturing carries a completely different meaning today. Increasingly, production is dispersed across different factories in different countries and, indeed, it is becoming globalised. A single Barbie doll is made in 10 countries – designed in the U.S., with parts and clothing from Japan, Korea, Italy, and Taiwan, and assembled in Mexico. The production function seems to be becoming vertically integrated across the planet. In this amalgamated-global economy, an American might drive to work in a car designed in Germany that was assembled in Mexico by DaimlerChrysler from components made in the U.S. and Japan that were fabricated from Korean steel and Malaysian rubber. She may have filled the car with gasoline at a BP service station owned by a British multinational company. The gasoline could have been made from oil pumped out of a well off the coast of Africa by a French oil company that transported it to the U.S. in a ship owned by a Greek Shipping line. While driving to work, the American might talk to her stockholder on a Nokia cell phone that was designed in Finland and assembled in Texas using chip sets produced in Taiwan that were designed by Indian engineers working at a firm in San Diego, California, called Qualcomm. She could tell the stockbroker to purchase shares in Deutsche Telekom, a German telecommunications firm transformed from a former state-owned monopoly into a global company by an energetic Israeli CEO. She may turn on the car radio, which was made in Malaysia by a Japanese firm, to hear a hip-hop song composed by a Swede and sung by a group of Danes in English who signed a record contract with a French music company to promote their record in America. The driver might pull into a drive-through coffee stall run by a Korean migrant and order coffee and chocolate-covered biscotti. The coffee beans come from Brazil and the chocolate from Peru, while the biscotti were made locally using an Old Italian recipe. This is the world we live in. It is a world where the volume of goods, services, and investment crossing national borders expanded faster than world output every year during the last two decades. It is a world where more than \$1.2 billion worth foreign exchange transactions are made every day. It is a world in which international institutions such as the WTO and gatherings of leaders from the world's most powerful economies have called for even lower barriers to cross-border trade and investment. It is a world in which products are made from inputs that come from all over the world. It is world in which an economic crisis in Asia can cause a recession in the U.S., and a slowdown in

the U.S. really did help Drive Japan's Nikkei index in 2002 to lows not seen since 1985. Referring the Indian stock market scenario, despite very strong fundamentals (relatively) Sensex and Nifty can be seen going nip and tuck with NASDAQ, NIKKEI, HSI and DOW JONES etc., mainly due to FDI and FII flows in Indian markets from the world over. The above mile-post manifests the damn presence of so-called globalization.

The Role of Multinational Enterprises

An MNE is defined as a firm with production and distribution facilities in at least five or six different countries. This definition is based on economics and business strategy. With this type of globalization, MNEs can realize economies of scale and build dispersed production networks. They are able to produce and sell goods and products across national borders, often within their own internal networks of subsidiaries, or in close alliances with partner firms. The very same definition describes the activities of triad-based MNEs operating 'regionally'. The firm-level evidence from research on the activities of MNEs and the empirical data at industry level on MNEs' activities support this regional finding. In addition, strategic management analysis, coupled with fieldwork and interviews with top managers of MNEs, also reveals the triad-based nature of their operations. Table 1 shows the most profitable MNEs are based in the U.S. and European Union.

Table 1: The World's Most Profitable MNEs

| Rank | Company | Home Country | Profit (in billion \$) |
|------|------------------|---------------|------------------------|
| 1 | Exxon Mobil | United States | 25.3 |
| 2 | Shell Group | Netherlands | 18.2 |
| 3 | Citigroup | United States | 17.0 |
| 4 | General Electric | United States | 16.8 |
| 5 | BP | UK | 15.3 |

Source: Fortune, 'Fortune Global 500', July 13, 2005

Triad-Based Production

MNEs dominate international production across major industries such as automobiles, consumer electronics, chemicals and petrochemicals, petroleum, pharmaceuticals, etc. In these sectors there is a very large amount of intra-industry, indeed intra-firm trade and investment. For example, the United Nations Annual World Investment Report estimates that as much as 60 per cent of trade and investment in these sectors is intra-firm. Of that, well over 80 per cent of the world's stock of FDI and over half of its trade is conducted by the very largest MNEs listed in Table 2.

Table 2: The World's 500 Largest MNEs

| Country/Bloc | Number of MNEs in 2005 |
|----------------|------------------------|
| United States | 171 |
| European Union | 155 |
| Japan | 100 |
| Canada | 12 |
| Switzerland | 11 |
| South Korea | 9 |
| Australia | 7 |
| China | 16 |
| India | 5 |
| Brazil | 4 |
| Other | 10 |
| Total | 500 |

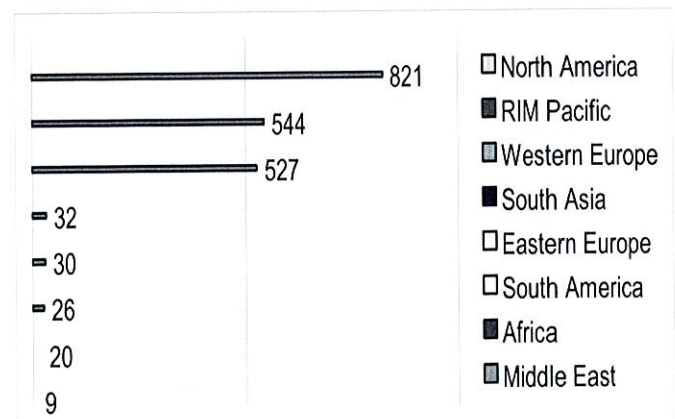
Source: Fortune, 'The Fortune Global 500', July 25 2005

A second mistake in globalization thinking is to equate the innovative production and intensive global marketing of MNEs with the development of a homogenized global culture. While the success of MNEs in producing goods and services has increased worldwide consumption (or materialism) there is little evidence that the end result of triad-based MNEs is a global culture. Rather, we observe an increase in standards of living offering consumers greater choice, as MNEs respond to the growth of divergent tastes with niche products and services.

Regional Production and Marketing

The MNEs listed in Table 2 are the vehicles for increasing global interdependence, yet they are also strongly based in the triad of U.S., the EU, and Japan – 426 of the top 500 come from these regions. These triad blocs are in some danger of becoming even more protectionist, since they all adopt non-tariff barriers to trade and investment to limit access to their internal markets and/or give preferential access to certain partners in return for reciprocal advantages. Examples of non-tariff barriers include rules of origin, discriminatory health and safety codes used to keep out agricultural products, new environmental regulations in the EU and NAFTA, exempted sectors from the principle of national treatment (such as culture, education, health etc.), poorly administered anti-dumping and countervailing duty laws, and so on. Figure 1 that shows the leading 2000 multinationals distributed by region further substantiates the dynastic presence of the triad-home-based MNEs.

Figure 1: Forbes 2000 Region Wise



Source: Forbes, October 2005

The extent of non-tariff barriers in the triad serves to limit access to their home base markets. Many U.S. restrictions are aimed at Japanese and European competitors, and vice versa. Three strong regional trading and investment blocs have developed. The world automobile industry is not really globalised. As I have argued, well over 85 per cent of production and sales take place in each of the three separate triad markets, using intra-block networks of suppliers and distributors. Agreements like the North American Free Trade Agreement (NAFTA) build on over 35 year of the U.S.-Canadian automobile managed trade. The regional nature of the auto industry is replicated in chemicals, petrochemicals, steel and other major industrial sectors. The name of the game is market access on a regional, rather than a global basis. While this is good news for triad-based MNEs, it makes life difficult for MNEs from non-triad economies, since they need access to a triad market even to start global strategy.

This leads to a re-interpretation of the wave of mergers and acquisitions (M&A) going on. The M&A are largely intra-triad with some inter-triad ones for market access reasons.

World's tops 25 MNEs (In terms of revenue) are listed in Table 3 are based in the triad-home region of the U.S., EU and Japan.

Table 3: World's Top 25 MNEs, 2005
(In terms of revenue)

| Rank | Company | Home Country | Revenue (in million \$) |
|------|------------------------------------|---------------|-------------------------|
| 1 | Wall-Mart Stores | United States | 287,989 R |
| 2 | B P | UK | 285,059 |
| 3 | Exxon Mobil | United States | 270,772 |
| 4 | Royal Dutch/Shell Group | Netherlands | 268,690 |
| 5 | General Motors | United States | 193,517 |
| 6 | Daimler Chrysler | Germany | 176,687.5 |
| 7 | Toyota Motor | Japan | 172,616.3 |
| 8 | Ford Motor | United States | 172,233 |
| 9 | General Electric | United States | 152,866 |
| 10 | Total SA | France | 152,609.5 |
| 11 | Chevron | United States | 147,967 |
| 12 | ConocoPhillips | United States | 121,663 |
| 13 | AXA | France | 121,606.3 |
| 14 | Allianz | Germany | 118,937.2 |
| 15 | Volkswagen | Germany | 110,648.7 |
| 16 | Citigroup | United States | 108,276 |
| 17 | ING Group | Netherlands | 105,886.4 |
| 18 | Nippon Telephone & Telegraph Corp. | Japan | 100,545.3 |
| 19 | American Intl. group | United States | 97,987 |
| 20 | Intl. Business Mechanics | United States | 96,393 |
| 21 | Siemens | Germany | 91,493.2 |
| 22 | Carrefour | France | 90,381.7 |
| 23 | Hitachi | Japan | 83,993.9 |
| 24 | Aassicurazioni Generali | Italy | 83,267.6 |
| 25 | Matsushita Electric Industrial | Japan | 81,077.7 |

Source Fortune, 'The Fortune Global 500', July 25 2005

Table 4, which reports world's leading 30 TNCs, ranked by foreign assets, also defies the existence of full globalization. These TNCs not only operate from the triad-home-region of the U.S., the EU and Japan but also 16 out of them maintain their respective TNI* (index of transnationality) ranging from as below as 23.5 to as high as 50. This low degree TNI substantiates that a good number of leading MNEs have local presence in terms of assets, sales and employees.

Table 4: The World's Leading 30 TNCs, Ranked by Foreign Assets, 2002

| Rank | Company | Home Economy | Foreign Assets (million \$) | TNI |
|------|--------------------------|----------------|-----------------------------|------|
| 1 | General Electric | United States | 229 001 | 40.6 |
| 2 | Vodafone Group | United Kingdom | 207 622 | 84.5 |
| 3 | Ford Motor Company | United States | 165 024 | 47.7 |
| 4 | BP | United Kingdom | 126 109 | 81.3 |
| 5 | General Motors | United States | 107 926 | 27.9 |
| 6 | Royal Dutch/Shell Group | Netherlands/UK | 94 402 | 62.4 |
| 7 | Toyota Motor Corporation | Japan | 79 433 | 45.7 |
| 8 | Total | France | 79032 | 74.9 |
| 9 | France Telecom | France | 73 454 | 49.6 |

| | | | | |
|----|-----------------------|---------------|--------|------|
| 10 | Exxon Mobil | United States | 60 802 | 65.1 |
| 11 | Volkswagen | Germany | 57 133 | 57.1 |
| 12 | E.On | Germany | 52 294 | 40.2 |
| 13 | RWE Group | Germany | 50 699 | 43.4 |
| 14 | Vivendi Universal | France | 49 667 | 65.7 |
| 15 | Chevron | United States | 48 489 | 58.2 |
| 16 | Siemens | Germany | 47 511 | 62.3 |
| 17 | Electricité de France | France | 47 385 | 29.3 |
| 18 | Fiat Spa | Italy | 46 150 | 49.1 |
| 19 | Honda Motor Co Ltd | Japan | 43 641 | 70.5 |
| 20 | Suez | France | 38 739 | 78.1 |
| 21 | BMW AG | Germany | 37 604 | 53.7 |
| 22 | Eni Groupe | Italy | 36 991 | 49.9 |
| 23 | Daimler Chrysler | Germany | 35778 | 23.6 |
| 24 | Telefonica SA | Spain | 35 720 | 50.0 |
| 25 | IBM | United States | 34 951 | 50.8 |
| 26 | ConocoPhillips | United States | 32 094 | 33.8 |

Source: UNCTAD/Erasmus University Database

Regionalization and Business Networks

While in some sectors such as consumer electronics this view of globalization is correct, in many others the evidence does not support it. For example, in both automobiles and chemicals over 90% of products produced in each of the triad region are sold within that region. There is no global car. Instead there are U.S., European and Japanese bases for automobile production followed by paints and plastics business of the chemical sector and regional triad based steel producers. Indeed most manufacturing activity is regional not global. Data indicates that in terms of out put (goods and services produced and sold) and input (number of employees and financing) well over 90 per cent of MNE manufacturing is intra-regional rather than global.

In the service sector, which now employs 70 per cent of people in North America, Western Europe and Japan, the lack of pure globalization is even more apparent. Except for professional service provider (such as consultants, film stars and business school professors) well over 95 per cent of all employees in the sector are local not global. For example, virtually all health care workers are location bound by either national or regional professional regulatory or accreditation bodies. Regions have cultural attributes and political borders which are stronger than the economic forces of globalization.

There are no global drugs. Instead MNEs have to satisfy national state regulations in order to sell locally; centralized production and worldwide distribution are not possible for pharmaceutical MNEs. Managers of MNEs are likely to make major mistake if they believe their business is global when it is regional. The managerial consequences of the lack of absolute globalization have led to the need for regional triad based strategies by MNEs. For example, more than 70 per cent of all the automobiles produced in the U.S. are built in U.S. factories owned by Japanese and European MNEs. In Europe the story is the same, as it is in Japan. In the specialty chemical sector, over 90 per cent of all paint is made and used regionally by triad-based MNEs. The same goes for steel, heavy electrical equipment, and much of the rest of the manufacturing sector, including energy and construction. Only consumer electronics and high value-added goods with low per unit transport costs can approach being global. In sum these advanced industrial

countries have shaped globalization to further their own interests. World's largest non-financial TNCs (table 5) for having 72% to 98% share of their foreign affiliates within Europe and North, South, and Latin America also testify to the existence of regional globalization.

Table 5: The World's Largest Non-financial TNCs: Percentage Share of Foreign Affiliates in Each Region, by Home Economy, 2002

| Region Home Eco. | No of TNCs in the Economy | European Union | Other Western Europe | North America | South America | Latin America | Total |
|---------------------|---------------------------|----------------|----------------------|---------------|---------------|---------------|-------|
| U.S. | 27 | 52.61 | 4.41 | 7.39 | 6.34 | 5.95 | 76.7 |
| France | 14 | 61.08 | 3.88 | 10.04 | 4.35 | 1.32 | 80.67 |
| Germany | 13 | 58.56 | 4.55 | 10.97 | 3.40 | 2.53 | 80.01 |
| UK | 12 | 45.77 | 2.93 | 26.32 | 2.91 | 2.31 | 80.24 |
| Japan | 7 | 35.39 | 1.50 | 25.98 | 5.56 | 3.66 | 72.09 |
| Netherlands | 5 | 36.83 | 2.17 | 34.75 | 5.33 | 2.07 | 81.15 |
| Italy | 3 | 66.66 | 5.24 | 6.56 | 10.11 | 4.15 | 92.72 |
| Spain | 3 | 40.37 | 0.85 | 15.21 | 32.43 | 9.69 | 98.55 |
| Finland | 2 | 51 | 4.40 | 4.49 | 4.40 | 1.74 | 66.03 |
| Ireland | 1 | 67.14 | 7.71 | 22.11 | 0.41 | - | 97.37 |
| Sweden | 1 | 59.52 | 2.86 | 14.59 | 6.67 | 4.76 | 81.73 |

Source UNCTAD

Conclusion

We do live in a world, which seems to becoming more and more economically interdependent through international trade, financial flows, and direct investment across borders. It has been widely believed that markets and firms are becoming increasingly global. MNEs are the engines of international business but they think regional and act local. They operate from the triad-home-bases of the U.S., European Union, and Japan, at the hub of business network in which clusters of value-added activities are organized. The process of globalization is a triad and management driven one. The success of regional and bilateral agreements and the failure of multilateral agreements, such as the Organization for Economic Cooperation and Development's (OECD) Multilateral Agreement on Investment (MAI) and the lack of progress at the WTO level in setting new agenda for trade and investment liberalization, are signals of the problems of globalization and the power of closed regional/triad blocs. To size up, globalization, which was supposed to benefit all the countries and raise the welfare of the people living therein by accelerating the pace of socio-economic growth of under-developed economies proved a myth; it never really occurred anyway.

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