

A photograph of a person climbing a large, dark rock formation. The person is wearing a light-colored t-shirt and blue pants, and is reaching up to touch the rock. The background is a bright blue sky with scattered white clouds. The rock formation is massive and craggy, with a large overhang on the left side.

# globalization in question

third edition  
fully revised and updated

Paul Hirst, Grahame Thompson and Simon Bromley

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To Paul Quinten Hirst: 20 May 1946–16 June 2003

# **Globalization in Question**

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THIRD EDITION

Paul Hirst, Grahame Thompson and  
Simon Bromley

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First published in 2009 by Polity Press

Polity Press  
65 Bridge Street  
Cambridge CB2 1UR, UK

Polity Press  
350 Main Street  
Malden, MA 02148, USA

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ISBN-13: 978-0-7456-4151-5

ISBN-13: 978-0-7456-4152-2(pb)

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# Preface

When Paul Hirst and I embarked upon the first edition of *Globalization in Question* in the mid-1990s we had firmly in our sights the then emerging debate about the 'end of the national state'. Globalization, it was suggested, had fatally undermined the possibility of sensibly deploying the category of the nation-state, since national frontiers were no longer a reality that made sense. Unconstrained market forces and transnational political movements were imposing their own logic on the global system, sweeping away the constraints of national politics and creating a new political and economic order beyond the control of traditional nation-state-centred actors.

As the third edition is published thirteen years later, it is perhaps surprising that this fundamental issue still remains at the heart of the debate over globalization. Paul Hirst and I were designated 'sceptics' in this debate: we wanted to reassert the possibility of continued domestically based regulatory initiatives that could have an impact, and the possibilities of managing the international order that placed the nation-state at the centre of such a multilateral governance system. At its heart, this argument still forms the central one of this new edition, though newly nuanced and updated to take account of events that have often shaken the world since. And this restatement of the argument has been aided by my new writing colleague Simon Bromley, who now becomes the third co-author with this edition. When Paul Hirst died suddenly in June 2003, he and I were then actively planning a third edition. His death interrupted that project and it was put on hold for several years. Needless to say, I was delighted when my work colleague Simon Bromley agreed to become a co-author as the thought of finally generating the third edition re-

emerged in early 2007. In our conversations Paul had always been a great champion of Simon: he recognized his sharp intellect and incisive analytical skills. Broadly speaking Simon has concentrated on redrafting the more 'political' chapters dealing with the state capacities and governance issues, while I have concentrated on the historical and more 'economic' ones. This more or less mirrored the original division of labour between Paul and myself.

But we both take collective responsibility for the final product. All chapters have been closely scrutinized for necessary changes and consistency. Most of them have been extensively revised or entirely rewritten, though some more so than others. Chapter 1 lays out the broad thesis of the book and characterizes various senses of globalization that have appeared in the debate. In addition, we have responded to the criticism that our characterization of strong globalization represents a 'straw man' and we have redrafted the contents section. Chapter 2 has been extensively updated and extended. Chapter 3 has been widely pruned, but what remains is more or less as before, though updated. Chapter 4 has been completely revamped and updated. Chapter 5 has been effectively rewritten as a new chapter, while chapter 6 is a completely new addition. Chapter 7 is also a substantially new chapter and chapter 8 has been extensively rewritten to take account of current debates. At the end of chapter 1 the substantive concerns of these chapters are outlined in more detail.

All in all, we think this represents a substantial update of the argument and introduces extensive new empirical material that backs up that argument. The book has always been centrally concerned with providing *evidence* for its arguments, not just assertions of them, and this approach has been adopted again. Too often wild claims are made about the processes and effects of globalization without

these being grounded in adequate empirical justification. Of course, empirical evidence is never neutral and always requires judgement and interpretation, but as a minimum careful generation and scrutiny of evidence is absolutely vital.

This edition was being prepared during a time of some important changes and events in the international system. We are perhaps seeing several developments that are straining against the conception of a stable and truly globalized system. There has been a growth of populist left movements in Latin America that threaten a withdrawal from the full extent of globalization's programmatic embrace. In addition, Russia has begun to reassert its independence from 'global forces' as it takes advantage of high energy prices and increased demand. The idea that China and India are going to bow down and roll over before the full rigours of the global, liberal marketplace is hardly credible. And the USA is taking an increasingly unilateral line on many aspects of global relationship and governance. As far as trade policy is concerned, the apparent collapse of the Doha Round of negotiations puts in doubt the centrality of the WTO and further trade liberalization as an end in itself (rather than as a means to an end).

All this has developed over the past few years alongside a serious disruption of the international financial system with the 2007 'credit crunch'. This saw essentially national regulatory systems reasserting their traditional roles as guardians of the 'lender-of-last-resort' function to shore up their domestic economies. The credit crunch may also have begun the erosion of exotic financial engineering developments associated with hedge funds, private equity and 'structured investment vehicles'. All of these were argued to have emerged from the liberalized and 'global' financial markets of the 1990s and early 2000s. In their place is developing the next problem for the international

financial system: sovereign wealth funds. But these also speak to a potential new phase of investment intentions based upon national interest and state control.

None of this should lead us to expect any sudden undoing of the international system, however. But these developments may delay any further genuine globalization. The 'global system' - such that it is - has always been at heart an *international* one. That, anyway, is the argument of this book. Nevertheless, and given this, the underlying sentiment the book expresses is summed up in a slogan that it would do well for all to heed as far as the international system is concerned: 'always expect the unexpected'. Never think that what has gone on in the past, or what seem to be well-entrenched trends and directions of the present, will necessarily extend into the future. This is a basic sceptical and pragmatic lesson which, it is hoped, will be reinforced with the publication of this third edition.

*Grahame F. Thompson*  
September 2008

# Abbreviations

AB	Appellate Body (of the WTO)
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
B2B	business to business
B2C	business to consumers
BIS	Bank for International Settlements
BWS	Bretton Woods system
CIS	Commonwealth of Independent States
DM	Deutschmark
EEC	European Economic Community
EMS	European Monetary System
EMU	European Monetary Union
EU	European Union
FDI	foreign direct investment
FTA	free trade agreement
FTAA	Free Trade Area of the Americas
GATT	General Agreement of Tariffs and Trade
GCC	global commodity chain
GDP	gross domestic product
GPC	global production chain
GVC	global value chain
HDD	hard disk drive
ICT	information and communication technology
ILE	interlinked economy
ILO	International Labour Organization
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
LDC	less developed country
M&A	merger and acquisition
MDC	more developed country
MENA	Middle East and North Africa
MNC	multinational corporation

NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NGO	non-governmental organization
NIC	newly industrializing country
NIE	newly industrializing economy
OECD	Organization for Economic Cooperation and Development
OTC	over-the-counter
R&D	research and development
RULC	relative unit labour cost
S&A	subsidiary and affiliate
SWF	sovereign wealth fund
TFP	total factor productivity
TNC	transnational corporation
UNCTAD	United Nations Conference on Trade and Development
WSA	World Systems Analysis
WTO	World Trade Organization

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# 1

## Introduction: The Contours of Globalization

All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependency of nations.

(K. Marx and F. Engels, *The Communist Manifesto*, 1850, repr. in *Marx and Engels Selected Works*, London: Lawrence & Wishart, 1968, p. 39.)

The inhabitant of London could order by telephone, sipping his morning coffee in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises in any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial

municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality.

(J. M. Keynes, *The Economic Consequences of the Peace*.  
London: Macmillan, 1919, pp. 6-7)

## **The basic argument**

Globalization has become a fashionable concept in the social sciences, a core dictum in the prescriptions of management gurus, and a catch-phrase for journalists and politicians of every stripe. It is widely asserted that we live in an era in which the greater part of social life is determined by global processes, in which national cultures, national economies, national borders and national territories are dissolving. Central to this perception is the notion of a rapid and recent process of economic globalization. A truly global economy is claimed to have emerged or to be in the process of emerging, in which distinct national economies and, therefore, domestic strategies of national economic management are increasingly irrelevant. The world economy has globalized in its basic dynamics, it is dominated by uncontrollable market forces, and it has as its principal economic actors and major agents of change truly transnational corporations that owe allegiance to no nation-state and locate wherever on the globe market advantage dictates.

This image is so powerful that it has mesmerized analysts and captured political imaginations. But is it the case? This book is written with a mixture of scepticism about global economic and political processes and optimism about the possibilities of control of the international economy and about the continued viability of national political strategies. One key effect of the concept of globalization has been to

paralyse radical reforming national strategies, to see them as unfeasible in the face of the judgement and sanction of global markets. If, however, we face economic changes that are more complex and more equivocal than the extreme globalists argue, then the possibility remains of political strategy and action for national and international control of market economies in order to promote social goals.

We began this investigation, originally in the early 1990s, with an attitude of moderate scepticism. It was clear that much had changed since the 1960s, but we were cautious about the more extreme claims of the most enthusiastic globalization theorists. In particular it was obvious that radical expansionary and redistributive strategies of national economic management were no longer possible in the face of a variety of domestic and international constraints. However, the closer we looked, the shallower and more unfounded became the claims of the more radical advocates of economic globalization. In particular we began to be disturbed by three facts. First, the absence of a commonly accepted model of the new global economy and how it differs from previous states of the international economy. Second, in the absence of a clear model against which to measure trends, the tendency casually to cite examples of the internationalization of sectors and processes as if they were evidence of the growth of an economy dominated by autonomous global market forces. Third, the lack of historical depth and the tendency to portray current changes as unique, without precedent and firmly set to persist long into the future.

To anticipate, as we proceeded, our scepticism deepened until we became convinced that globalization, as conceived by the more extreme globalizers, is largely unfounded. Thus we argue that:

- 1 the present highly internationalized economy is not unprecedented: it is one of a number of distinct

conjunctures or states of the international economy that have existed since an economy based on modern industrial technology began to be generalized from the 1860s. In some respects, the current international economy has only recently become as open and integrated as the regime that prevailed from 1870 to 1914.

2 genuinely transnational companies appear to be relatively rare. Most companies are based nationally and trade regionally or multinationally on the strength of a major national location of assets, production and sales, and there seems to be no major tendency towards the growth of truly global companies.

3 capital mobility has only recently begun shifting investment and employment from the advanced to the developing countries, and here it is just a very few of the emerging economies that are benefiting. Foreign direct investment (FDI) is still highly concentrated among the advanced industrial economies, and the Third World remains marginal in both investment and trade, a small minority of newly industrializing countries apart. As we show below, however, the emergence of India and particularly China represents a disruption to this imagery, though as yet it has not significantly shifted the centre of gravity from the already advanced countries.

4 as some of the extreme advocates of globalization recognize, the world economy is far from being genuinely 'global'. Rather trade, investment and financial flows are concentrated in the Triad of Europe, Japan/East Asia and North America, and this dominance seems set to continue. In fact, the growth of supranational regionalization is a trend that is possibly stronger than that of globalization as normally understood.

5 these major economic powers, centred on the G8 with China and India, thus have the capacity, especially if they coordinate policy, to exert powerful governance pressures over financial markets and other economic tendencies. Global markets are thus by no means beyond regulation and control, even though the current scope and objectives of economic governance are limited by the divergent interests of the great powers and the economic doctrines prevalent among their elites.

These and other more detailed points challenging the globalization thesis will be developed in later chapters. We should emphasize that this book challenges the strong version of the thesis of economic globalization, because we believe that, without the notion of a truly globalized economy, many of the other consequences adduced in the domains of culture and politics would either cease to be sustainable or become less threatening. Hence most of the discussion here is centred on the international economy and the evidence for and against the process of globalization. However, the book is written to emphasize the possibilities of national and international governance, and as it proceeds issues of the future of the nation-state and the role of international agencies, regimes and structures of governance are given increasing prominence. But in addition, given one of the intriguing (but also infuriating) aspects of the globalization debate is that the term 'globalization' seems to have an almost infinite capacity to inflate - so that more and more aspects of the modern condition are increasingly drawn under its conceptual umbrella - we have taken the opportunity in this introduction to expand our discussion a little beyond the book's central focus on economic globalization and governance. Globalization is now a term with such a wide embrace that it seems incumbent upon us at least to comment on some of these matters. This we do below, but

mainly only in so far as it serves to clarify what this particular book is *not* about.

## Challenges and responses

The third edition of this book is very much a product of the previous two editions. While its basic thesis remains substantially the same – that is, there is an exaggeration of both the extent and the significance of ‘globalization’ – things have moved on from the previous two editions. In this edition we have tried to capture many of these developments without undermining the basic thesis, to which, as will become clear below, we still hold. Of course, if this volume were being entirely written afresh in early 2008 we would no doubt recast it somewhat differently, and in the rest of this introduction we allude to these recastings. But it seriously concerns us that the strong ‘globalization’ thesis is now largely and uncritically accepted as the mainstream, whether it be by the public authorities or our academic colleagues. Thus it seems worthwhile – to us at least – to re-emphasize and reinforce the original thesis in the light of the more or less total acquiescence to a strong globalization imagery by all shades of opinion.

For an example of the attitudes of the public authorities one need look no further than the UK Treasury’s thinking on ‘globalization’. Gordon Brown (the chancellor when the reports alluded to in a moment were written but who subsequently became the prime minister), and the New Labour government more generally, has completely fallen under the spell of the full globalization story. Among a number of reports from the Treasury in the mid-2000s about globalization and the UK economy can be found one titled *Long-Term Global Economic Challenges and Opportunities for the UK* (HM Treasury 2004). This document buys completely into a conventional and uncritical globalization

story, for the UK economy and the international economy beyond. It is a great shame that no one from the Treasury seems to have read any critical books and papers produced over the past five years or so that have challenged the full globalization thesis, though admittedly these are few and far between. If, however, they had done so, then the Treasury might have been much better informed of the options facing the UK economy in its relationship with the EU and, indeed, the rest of the world. Instead we have had other documents which just repeat the mantra, and this time directed at telling 'Europe' how it should reform to meet the same undifferentiated global challenges: *Global Europe: Full Employment Europe* (HM Treasury 2005a) and *Responding to Global Economic Challenges: UK and China* (HM Treasury 2005b).

Of course, the academic literature is another matter, but even here a largely acquiescent position is to be found. It is one thing to be sceptical about various uses of the concept of globalization, it is another to explain the widespread development and academic reception of the concept since the 1970s. But the literature on globalization is vast and varied. Although we have deliberately chosen not to rewrite this book so as to summarize and criticize this literature, in part because, given the scale and rate of publication on the topic, that would be a never-ending enterprise, it is perhaps incumbent upon the third edition to address this in part, and to respond to some of the more cogent critics. We begin with the positions and move on to the criticisms and our responses later.

## **Alternative globalizations**

As pointed out above, it is not our intention to review all the positions in respect to globalization. The following discussion picks on the most notable and forceful of these.

By and large these positions take globalization as an accomplished fact, though they all hedge about this in various ways and with various degrees of reservation. And, as will become clear, these alternative positions are not totally exclusive of one another: rather they overlap and merge into one another. We outline these positions here, beginning with those that are furthest from the immediate concerns of this book, gradually moving closer towards those that are nearest to our own perceptions and analytical stance on the globalization debate – which, it should be emphasized, is concerned mainly with its political economy and governance aspects.

1) The first proposition on globalization is one that is furthest from our concerns. In fact, it is one that actually challenges it from what is termed a ‘post-colonial perspective’. Often based around avant-garde anthropological and post-structuralist intellectual tendencies, this position works with a number of complex concepts, stressing such aspects as different spatial levels in the global arena and their imbrications, which involve multiple connections, and relationships, flexibilities, flows, etc. (Ong and Collier 2004; Tsing 2005). These ‘assemblages’ are argued to be continually dissolving and evolving, producing new and surprising terrains of activity. In this case globalization is treated as an accomplished fact – the consequence of these multiple flows and connections – and one that now needs to be transcended. One of the most forceful of the terms within this perspective is ‘planetarity’. This is designed to describe a possible world ‘above’ the North-South divide, ‘beyond’ the colonial and the Other, ‘outside’ of the national and the global (Spivak 2003, chap. 3). The project associated with ‘planetarity’ involves the development of a certain kind of new analytical language

and discourse to express this possible world that lies 'beyond globalization'.

Although it is not directly aligned with the post-colonial discourses, there is a closely associated conception that perceives the global as a series of 'camps' - zones of indistinction and the suspension of the rule of law - that infect the rest of the social order (e.g. Agamben 1998, 2005). One rather pessimistic consequence of this conception is that such zones of indistinction embody the final expression of a degenerate modernity. It can lead to a rather hopeless and disarming response: the global is beyond control, management or regulation.

2) A second characterization is one that does not offer a critique of globalization as such but rather a critique of a particular political appropriation of it. In this case current globalization is expressed as the emergence of a new empire based upon the hegemony of the USA. The USA is considered the only truly global power, and it is using this status, aligned with neo-conservative ideology, to construct a world order in its own image. In doing so it has thrown off the mantle of proceeding through multilateral agreements and compromises with its partners. Instead it has adopted a new strategy of unilateral action, building under its leadership transient 'coalitions of the willing' that vary in composition depending upon the objective at hand. In the section immediately following this one we assess this claim in the context of the idea of imperialism, seen as a possible mode of contemporary global governance.

Somewhat aligned to this position, we would suggest, is one that sees the global arena as made up of a 'clash of civilizations' or as a 'clash of fundamentalisms' (e.g. Huntington 1996). The USA is seen as the central defender of Western civilization, thus it is in the forefront of constructing a coalition to reinforce its hegemonic