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Davide Gualerzi

Globalization Reconsidered

Foreign Direct Investment and Global Governance

Globalization has become the focus of much research and debate in recent years, with contrasting views ranging from unfettered praise to harsh criticism. The criticism of the phenomenon as it unfolded during the 1990s mostly focused on two aspects: the strategy of economic development based on the prescriptions of the competitive model of economic theory and the kind of global governance provided by the economic international institutions, such as the International Monetary Fund (IMF) and the World Bank. There has been relatively little attention paid to the process of economic integration occurring via foreign direct investment (FDI), an issue instead prominent in the 1970s literature on the internationalization of production and multinational corporations (MNCs). Nevertheless, foreign investment flows increased significantly during the 1990s, within a general process of rising capital mobility.

In this paper the focus on FDI leads to two main results, one empirical and the other theoretical. The empirical evidence of FDI suggests a picture of world integration that is considerably different from that assumed by the globalization debate. In particular, what emerges is the concentration of direct investment in a few countries, which supports the general idea of a selective integration of certain areas into the world economy. That denies the notion of globalization as an overall

Davide Gualerzi is an associate professor of economics at the University of Padua, Padova, Italy. This is a revised version of a paper presented at the conference "Nations, Democracy, and Globalization," University of Maryland, September 15–17, 2005. The author would like to thank two anonymous referees and the editor of this journal for their comments on an earlier draft of the article.

phenomenon and reinforces the need to go beyond the framework defined by the debate. It also points out the areas of the world that should be submitted to more analysis, if one wants to proceed on the substantive matter of the ways in which the world economy is actually growing more interconnected and interdependent. A second outcome is to pinpoint the importance within such an integration of the trans-Atlantic connection, with Europe as the larger source of direct investment and the United States shifting to the role of major recipient after the mid-1990s. This somewhat unexpected result flies in the face of two widely accepted notions: (a) the shift of the world center toward the Pacific and Asia, occurring at the expenses of the old main axis of the world economy and (b) the main role played by U.S. corporations in international investment.

FDI also highlights the distinction that needs to be made with capital mobility. The liberalization of capital movements and the integration of financial markets have become the hallmark of the 1990s. There is, however, a profound difference between the motivation and the impact of these two kinds of capital flows. Financial flows define another "geography of integration," and their dominance over FDI stresses a peculiar character of the 1990s globalization while explaining some of the most undesirable effects.

Shifting attention to FDI has another important consequence. It leads us to examine a vast literature that has a fundamentally different attitude toward theorizing than that framing the debate on globalization. The analyses of foreign investment, the MNCs, and the logic of global markets contribute to an understanding of the way economies actually integrate. An important aspect is their constant back-and-forth discourse between theory and empirical evidence. A clear methodological distinction from the approach taken by the current discussion on globalization exists. These are theories, but of a kind quite different from the celebration of the competitive model that has led to the policies criticized by Joseph Stiglitz (2002). They remind us of an approach that, while open to other interpretations, rescues economic theorizing from ideology and is useful to understanding actual globalization. The understanding of the operation of the competitive process on a world scale can also help pose meaningful questions for global governance.

In this respect this paper points out that policy issues emerge more clearly from the differentiated and unequal pattern of world economy integration, as well as from the discussion of the theories that have tried to explain it. The debate on globalization mostly eluded these issues, remaining largely focused on the criticism of international economic institutions, which might have contributed to a discussion of governance that seems to beg the real questions of economic policy.

This paper examines two main developments on this issue. The first is the search for an alternative to "world government," which, though at times sorely missed, seems also unfeasible and possibly undesirable. The alternative is the rise of supranational networks, effectively addressing problems at the global scale within informal decision-making entities. It is unclear whether these networks can master significant aspects of economic policy and play more than a marginal role. A second development is that of the changes in the development and financial governance. Joseph Stiglitz (2002) concludes his indictment of the way globalization and development have been pursued in the 1990s by calling for a fundamental reform of the international economic institutions. However, this is far from materializing. The revisions of the approach of IMF and the World Bank rather suggest an adjustment of policy design and methods that betrays a continuing effort to maintain control over the policies of the countries that ask for assistance.

Globalization in the 1990s: Theory and Policy

A careful discussion of globalization would require addressing some difficult questions and, in particular, whether the integration of the world economy has recently shown a decisive step forward compared to other historical stages, which seems to be a widely accepted notion. It is also often argued that globalization was pushed forward by technological change, in particular by the facilitating role of communication technologies in establishing global networks.

The focus here is on a narrower question. The defining trait of the 1990s globalization is the prominent role played by economic theory and the ideology of free market capitalism in defining economic policies and development strategies, the "free market mantra," as Stiglitz (2002) calls it; the second concerns the policy of the international institutions, which constituted a sort of institutional framework for governance. Although the impact of technology remains in the background, the focus of the debate has been on these two aspects.

Based on his experience as chairman of President Clinton's Council of Economic Advisors and then as chief economist for the World Bank, Joseph Stiglitz (2002) offers an insider's assessment of the 1990s globalization as a strategy for economic development.[1] His criticism of the theory and policy pursued in those years has become a reference point of the debate. Widespread criticism has also elicited the response of economists that see globalization in a more positive light. Most recently Bhagwati (2004) has argued the case for relatively unrestricted free trade and discussed why globalization's critics are wrong,

Stiglitz's (2002) criticism is mostly noticeable for the rejection of the course of action taken by international institutions resulting from an ideological use of economic theory and a self-serving notion of competition. Policy recommendations rested on the notion that markets are perfect and rapidly leading to desirable outcomes. However, markets are not perfect, and, when it comes to issues such as equality, employment, and pollution, government intervention is needed. In other words, market failure is a pervasive phenomenon well beyond involuntary unemployment. This erroneous notion of the way markets operate was cemented in an ideology, the Washington Consensus, involving the IMF, the World Bank, the World Trade Organization (WTO), and the U.S. Treasury. It guided policy to an extent that can be explained only by a claim to a superior understanding well beyond any prudence and complaints of the countries subjected to these policies. A persisting colonial mentality might have played a role in this uncompromising and rigid posture, but the "good for all" approach was favored by international institutions as there was indeed a solid theoretical basis for it.[2]

A set of policies was imposed on the developing world, at times clearly against its will and best interest. The guidelines of these policies, or the pillars of the Washington Consensus, have been fiscal austerity, privatization, and market liberalization, and they dominated development policy in the final two decades of the twentieth century. Although they made "considerable sense" for the purposes for which they were originally designed, Stiglitz argues, they became "ends in themselves, rather than means to more equitable and sustainable growth" (2002: 53). Moreover, they are inadequate to address problems faced by those at early stages of development or in transition to a market economy.

Based on the notion that public spending causes inflation, fiscal austerity emerged in response to the rampant inflation and huge deficits of the 1980s in Latin America. Privatization is instead linked to the idea of pursuing greater efficiency. It requires state-run enterprises to pass into the hands of private entrepreneurs. However, a careful analysis suggests that markets do not arise quickly. The private sector can be slow to take over activities that were previously managed by the state. However, in the "narrow ideological perspective [of the IMF and the World Bank] privatization was to be pursued rapidly" (Stiglitz 2002: 54). The result could be, and has been, the enhancement of monopoly power and larger social costs. Privatization was supposed to eliminate "rent seeking" on the part of government officials, either in the form of bribes or cronyism. In reality it became a channel for corruption, to the point of being referred to as "briberization" (ibid., p. 58). This is not surprising, because the same corrupt government officials were in charge of the privatization of state enterprises.

Finally, liberalization—the removal of the obstacles to the market, in particular trade barriers and government interference in financial and capital markets—is supposed to (a) attract capital inflows, affecting positively productivity and employment, and (b) favor free trade and therefore the specialization of national economies in the production of goods for which they have a lower cost of production. In other words, the free movement of factors and goods across borders should benefit everyone involved and improve economic welfare.

Stiglitz observes that, despite the almost undisputed support for the dismantling of trade barriers, liberalization has proven beneficial only to countries, such as those of East Asia, that pursued it "slowly and in a sequenced way"(2002: 60). Moreover, trade liberalization is marred by an "unfair trade agenda." Developing countries are told to open up their markets, most recently to the trade of services, while they are cut off from access to the markets of the rich countries, which were and are protected. Countries in Latin America, and Argentina in particular, that followed the recommendations, especially those concerning the liberalization of the trade of services, experienced the disastrous results of that policy.

With respect to the movements of capital, the abandonment of regulation in the domestic market and the opening up to foreign financial institutions is assumed to be necessary to attract capital. Not only, Stiglitz (2002) argues, are the theoretical foundations for liberalization considerably weaker when it comes to financial markets, but the experience, and that of China in particular, suggests this is not the case. Furthermore, in light of the financial crisis of 1997, it is hard to maintain that the liberalization of capital markets would sustain stability. The result has been the displacing of local banks by larger foreign banks. Here again one can recall the case of Argentina, where the downward spiral started precisely because of the lack of finance for local business.

Global Institutions: The Washington Consensus

Based on these principles, the global governance of the 1990s could be better defined as the emergence of an institutional setting that determined a biased economic policy, best suited to well-defined interests. This stresses the fundamentally undemocratic nature of that governance, which was therefore unfit to govern the world economy integration. Indeed, the IMF and the World Bank are not democratic in the most literal sense of the world. Not only are they dominated by the Western powers, holding a disproportioned share of power, but by specific constituencies, in particular the commercial and financial communities. It is the representation of interests within the institutions that explains the sometimes enormous difference between the official advice and what developing countries saw as needed.

One should notice that these are not newly born institutions. The biased governance associated with them is the result of an evolution, during which their nature and their functions have been transformed. For which purposes were these institution created? The IMF and the World Bank emerged from the Bretton Woods agreements in the aftermath of the Second World War. Their purpose was to sustain the reconstruction effort and ensure postwar global economic stability. The IMF in particular "was charged with preventing another world depression" (Stiglitz 2002: 12). Though born Keynesian, these institutions have embraced what Stiglitz labels "market fundamentalism," following the political shift initiated in the United States and the United Kingdom in the 1980s by Ronald Reagan and Margaret Thatcher. Indeed, "Keynes would be rolling over in his grave were he to see what has happened to his child" (ibid., p. 13).[3] The shift from a Keynesian orientation, stressing "market failures and the role for government in job creation" to the "free market mantra" is therefore a shift from the original purposes. In the changing world economy, they have become the institutions of the Washington Consensus.

A somewhat different role is that played by the WTO. Formed in the 1990s it is, at least formally, a more democratic institution: Voting is based on a one country–one vote rule, rather than according to the monetary contribution to the institution. The WTO has provided a forum for the discussion and resolution of trade disputes. Nevertheless, its emphasis on free trade has served mostly the interests of the developed world, as suggested by the unfair trade agenda outlined above. It is therefore an integral part of the Washington Consensus.

The record of these institutions is dismal. "The IMF has made mistakes in all the areas it has been involved in: development, crisis management, and in the countries making the transition from communism to capitalism" (Stiglitz 2002: 18). Rather than controlling economic crises and fostering development, the global institutions have made globalization an issue of conflict and confrontation. IMF structural adjustment policies were no remedy to crises and instead caused social unrest. They mainly benefited those who were already well off, while usually leaving unchanged or even worsening the conditions of the poor. Globalization has been identified with these policies; therefore they are often met with disillusion and strong opposition.

Economic Theory and Economic Integration

The Standard Competitive Model

It is useful to take a step back and examine in more detail the theoretical underpinning of these policies. If we start from the basic contention of the competitive model that mobility of factors of production, capital, and labor is the condition for efficient allocation, then anything preventing this mobility ultimately causes a loss of efficiency. Mobility of factors is constrained by the existence of national borders, via the barriers created by culture and institutions, and these obstacles are not easily overcome. In these circumstances the mobility of goods can be an alternative channel to improve efficiency. Free trade will move in that direction by exploiting comparative advantage via specialization of the national economies. A considerable amount of criticism of the theory of international trade based on this basic principle exists. In fact, standard trade theory has been widely criticized for theoretical and empirical deficiencies and challenged by alternative approaches. Ultimately, the criticism argues that free trade does what is supposed to benefit the most advanced countries and firms (Shaikh 2003).

The movement of goods, as pointed out above, is the other side of the movement of factors. From the point of view of the competitive model, foreign investment is simply the result of capital mobility pursuing the equalization of returns. This proposition can be taken, and is taken, to be the "undisputable" truth of the competitive model, leaving us almost unable to argue against it and explain its undesirable results.[4]

The problem is that the reference to the competitive model operates to assume away what is to be analyzed, namely the process of economic integration occurring via capital movements. It effectively removes from the analysis the motives and circumstances of the movements of factors of production.[5] This is why the theory of foreign investment and the operations of MNCs is so important. It provides the necessary link between the heated discussion on free trade and the study of development strategies. Rather than to the abstract rationality behind the competitive model of economic theory, it drives attention to the actual process of economic integration occurring through investment decisions.

FDI

Foreign investment boomed in the 1990s. It was a major force in the process of integration of the world economy, although not a major topic of the debate on globalization.[6]

According to United Nations data, FDI went from US$23.7 billion in 1990 to US$119.4 billion in 1997, an increase that pales the tripling that occurred from 1970 to 1980 and the more than doubling from 1980 to 1990. The major recipient in 1997 was China, with almost a third of the total. Recent data (World Bank 2006) confirm continuing growth and fairly strong geographical concentration.[7] In 2005 total FDI was US$237.5 billion, of which 65 percent was directed to ten countries. The top recipient was China, followed by the Russian Federation, Brazil, Mexico, the Czech Republic, Poland, Chile, South Africa, India, and Malaysia. This suggests which areas of the world are integrating into the world economy. Notice the presence of the two Asia giants, China and India; two countries that have recently become members of the European Union, the Czech Republic and Poland; and countries rich in natural resources, such as the Russian Federation.

It is well known that labor cost differentials are an important motivation for investment flows. The size of these differentials is indeed striking.[8] This in itself would suggest where to look when talking about poverty in the developing countries. However, wage differentials do not tell the entire story about the motivations and productive strategies underlying FDI.

In a famous study of direct foreign investment, Stephen Hymer (1976) emphasized the importance of distinguishing between two kinds of international capital movements, direct investment and portfolio investment. The distinction ultimately depends on control. If the investor controls the enterprise then we speak of direct investment, otherwise of portfolio investment.[9] For portfolio investment, a well-developed theory based on interest rates differentials exists. Risk, uncertainty, and barriers to capital movements complicate the story, but the basic principle is simple. That principle does not, however, explain FDI. Hymer shows that direct investment behavior is inconsistent with the predictions based on interest rates differentials and has certain quite definite characteristics. Above all, the interest rate theory does not explain control, though "If we wish to explain direct investment, we must explain control" (ibid., p. 23). Investors want control over a foreign enterprise "in order to remove competition between that enterprise and enterprises in other countries. Or the control is desired in order to appropriate fully the returns on certain skills and abilities" (ibid., p. 25). Ultimately, "The motivation for the investment is not the higher interest abroad but the profits that are derived from controlling the foreign enterprise"(ibid., p. 26).

Market control and different abilities to operate in a particular industry explain direct investment, which, in turn, is the key to the international operations of the firm. The theory of international operations is part of the theory of the firm. It concerns the fact that different nations have different governments, laws, language, and economic rules.

> This lack of integration can be quite important. It provides a good deal of the interest in the subject of international operations, especially since it may be fast disappearing. In recent years, there has been a great increase of communication between nations, and we may be watching the integration of the world economy or at least the economic integration of broader areas than in the past. The increased international operations may be the result of this, and they may also play their part in furthering integration, just as the emergence of the national firm allegedly did in countries like the United States. (Hymer 1976: 28)

For the competitive model of economic theory, differences are barriers to competition; therefore they should simply be removed. Barriers to entry are a well-known topic in the field of industrial organization. They might apply also to firms of different nationality. Previously we pointed out that, by treating barriers simply as obstacles to competition, the entire problem of economic integration, the real object of investigation, is removed. Hymer's (1976) argument clarifies that the purpose of the theory is precisely to explain how integration comes about, rather than assuming it is the result of the work of competition. The very reason for direct investment is the existence of differences, which requires control. The difference of perspective could not be starker.

This has important consequences. In particular, it suggests refocusing the globalization research agenda on the way the competitive process operates in distinct phases of development. That means to study firms' international operations in light of the technological, regulatory, and institutional changes of the competitive environment.

One enthusiastic supporter of globalization, Kenichi Ohmae (1990), has outlined the process of change associated with the logic of global markets. He argues that there are very few global products. There are instead global market segments, which are still mostly centered in one country. Serving these markets locally requires devoting attention to customers and their demands. The costs of successful ideas have gone through the roof, and research and development is now a fixed cost, as it is maintaining a trademark or a distribution network. The recuperation of high fixed costs requires a larger market. This pushes production on a world scale, and world-scale production goes hand-in-hand with market segmentation at the global level.

More than a decade earlier, Raymond Vernon (1979) argued that world-scale production was appropriate only for standardized products suited to a homogenous world demand. Vernon reached this conclusion focusing on the rise of new world producers in Europe and Japan competing with U.S. companies that had previously held undisputable primacy. The standardization typical of large-scale production has an important role also for Vernon's (1966) theory of international investment, in which he focused instead on the relationship between industrialized economies and developing countries. He argued that what determines foreign investment are not costs in the narrow sense of the word, but rather questions of innovation, scale economies, uncertainties, and lack of information. International investment can then be modeled after the product cycle. In the first phase, that of innovation, efforts are concentrated on the national market, serving foreign markets from the home base. In the phase of maturity and large-scale production, the problem arises of serving foreign markets with a local plant. When the product is fully standardized, this strategy becomes most attractive and may imply an inversion of trade flows, reimporting the product into the home market.

Developments in the Theory of FDI

In a comprehensive review of the theories of FDI and the international operation of MNCs, Ietto-Gillies (2005) acknowledges the fundamental role played by Hymer's "pioneer work." The motivations of FDI as they emerge from this work are (a) the specific advantages that the firm can exploit abroad, thus an argument that builds on and reinforces market imperfections; and (b) the possibility of removing conflicts with other companies in the effort to penetrate foreign markets. Much of the theory of FDI has been developed around these two themes. The question of the specific advantages is developed by Dunning (1977), whereas the attention to the strategic elements permeates the work of Knickerbocker (1973) and Graham (1998). Although dealing with the same issue, Cowling and Sugden (1987) and Ietto-Gillies (2002) have focused more on the question of conflict removal.

Dunning (1977) presents a comprehensive framework for the analysis of international production and trade. FDI is the result of firms' strategy with respect to the crucial questions of when and why to produce abroad rather than export. The choice depends on three categories of advantages, associated with ownership, localization, and internalization. The first of these categories pertains to the specific characteristic of the firm, the second to the geographical and political context of the host countries, and the third to the market imperfections affecting transaction costs. Dunning himself recognizes that this is only the basis for more specific theories leading to empirical verification.

Knickerbocker (1973) takes as a starting point Vernon's theory of the product cycle. He argues that the geographic concentration of FDI responds to a defensive strategy aimed at minimizing risk in the framework of oligopolistic markets. Graham (1998) has followed up on that, arguing that, in oligopolistic markets, firms try to stay away from price competition by focusing instead on a competitive strategy based on localization. Interestingly, Graham was attempting to explain the so-called "Atlantic inversion" (i.e., the rise of investment in the United States by European corporations).

Vernon's product cycle theory of international production was based on the theory of the technological gap (Posner 1961; Hufbauer 1966). The theory elaborated on the advantage of early innovators in international trade. Vernon focused instead on product innovation as the source of a dynamic process accounting for the international distribution of production. His 1979 article, examined above, addressed what he regarded as a weakness of his theory of international investment. Due to the increasing similarities between the U.S. economy and that of Europe and Japan, less time would elapse between the introduction of a new product and its standardization, thereby significantly diminishing the relevance of the product cycle. One should notice, however, that it may remain fully relevant for investment in less developed countries.

Cantwell (1989, 1995) has countered one of the main contentions of Vernon's theory. Based on the empirical evidence on geographic localization of patents, he rejects the notion that innovation is, as a rule, located in the home country of the company, whereas he accepts the idea that investment is carried out by firms that are technological leaders in order to improve their world market share. Consequently, although there are companies that are technology leaders, this would not extend to countries. Cantwell also criticized the approach to internationalization of production based on the minimization of transaction costs, arguing that it focuses on exchange rather than production. The strand of theory based on transaction costs has generated the debate on internalization versus externalization. Ietto-Gillies (2005) has observed that such a debate directs attention to the organization of the firm, but it does not explain why firms would pursue internalization by expanding their activities abroad.

One of the latest developments relevant for the issue of FDI is the new theory of international commerce (Krugman 1985, 1991).The theory is based on the recognition of the role played in specialization and trade by static factors, such as factor endowments, and dynamic factors, which account for increasing returns. The theory would tend to predict agglomeration, although there is evidence of the spatial distribution of firms' activities. To explain FDI, the theory needs to relax some of the assumptions and distinguish between scale economies at the level of the single plant and at the level of the enterprise. Production in less developed countries is the result of the joint operation of lower factor prices and internalization of "joint inputs" services, which are enterprise specific.

Considering this large literature, it is hard to understand how it could be wiped out in favor of a return to the analysis of development and capital flows based on market orthodoxy. It may indeed be said that there has been some "loss of knowledge" in the passage from the analysis of the internationalization of production to the debate on globalization.[10] Gilpin (2003) speaks of a deficiency of the economics profession, recalling the "ambiguous attitude" toward MNCs of distinguished economists, such as Paul Krugman. "Even though mainstream economists have become somewhat more sympathetic to the idea that MNCs do behave differently from non-MNCs . . . a cursory examination of current economics syllabi and textbooks confirms that economists do not yet consider the MNCs an important aspect of the world economy" (ibid., p. 281). This might explain why the issue of FDI and MNCs has remained thus far marginal to the debate on globalization and governance.

FDI: Concepts and Empirical Evidence

Defining FDI

The importance of Hymer's theoretical analysis is confirmed by a recent attempt to clarify the conceptual and empirical bases for the analysis of FDI (Lipsey 2001). At the very beginning of his analysis, Lipsey says "The term 'Foreign Direct Investment' . . . encompasses two related but different sets of topics and activities, explained by different theories and different branches of economics. The first might be referred to as the international finance, or macro view. The second might be referred to as the industrial organization, or micro, view" (ibid., p. 1). The first view concerns flows of financial capital across national borders and is based on the balance of payment statistics; the second "tries to explain the motivation for investment in controlled foreign operations, from the viewpoint of the investor" (ibid., p. 1). It also examines the consequences for the investor, the home, and the host countries, covering topics such as trade, employment, and production. Finally, it must take into account flows of capital not accounted for in the balance of payment statistics, for instance "intellectual capital."

Assets in foreign countries are considered direct investment, and a multinational enterprise, depending on the definition of "foreign direct investment entity," differs across countries and has changed over time. The dominant current definition of a direct investment entity (IMF 1993; Organisation for Economic Cooperation and Development [OECD] 1996) "avoids the notion of control by the investor in favor of a much vaguer concept" (Lipsey 2001: 2), ultimately coming down to a 10 percent criterion: "a direct investment enterprises is defined in this Manual as an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or equivalent (for an unincorporated enterprise)" (ibid., p. 3).

Another official definition of FDI in the United Nations System of National Accounts (United Nations 1993) "retains the idea of control, and reflects the micro view more" (Lipsey 2001: 3) In these accounts, which measure production, consumption, and investment, the definition of "foreign-controlled resident corporation" is more concerned with control than with the details of capital flows.

The problem with the 1993 IMF definition of direct investment capital flow is that it includes "equity capital, reinvested earnings and other capital associated with various intercompany debt transaction" (IMF 1993: 87). The latter term, Lipsey observes, is the source of problems, because part of the debt must be, as clarified by the IMF itself, portfolio and other investment and therefore should be kept distinct from direct investment. In 1998 the U.S. Bureau of Economic Analysis revised definitions to take into account "U.S. affiliates that were primarily financial intermediaries" (Lipsey 2001: 12). This has significantly diminished the size of net outflows of direct investment but has also shown a far greater stability of these flows, at least for the 1994–97 period for which the revisions were published.

Examining the relation among direct investment, enterprise, and ownership, Lipsey observes that "Scholars studying multinational firms, rather than flows of capital, have set out more confined definitions" (2001: 8). He makes reference to the Harvard studies under the direction of Raymond Vernon and quotes economic historian Mira Wilkins and international trade theorist Charles Kindleberger (1969). The latter pointed out the inherent difficulty of thinking, and therefore measuring, FDI as an international capital movement, noting that "direct investment may thus be capital movement, but it is more than that" (Lipsey 2001: 3).

We can conclude that the concept of FDI is indeed hard to define, and the evidence comes from a domain, the capital flows in the balance of payment statistics, which suggests more conceptual problems than solutions. Consequently, (a) empirical analysis must take into account the different sources and the changes of definition introduced over time; and (b) given the difficulty of measurement, it can hardly be conclusive with respect to the size of the phenomenon and its relationship with investment, which has more financial, speculative motivations.

In fact, the problem stretches even further. The role of foreign investment in globalization may suggest that economic integration can be somewhat measured by capital flows. If we further take them as an indicator of economic performance, we are implicitly assuming a fairly strong relationship among investment, in the sense of new factories and productive capacity, employment, production, and trade in the host country. However, this is exactly what we cannot do, argues Lipsey (2001). In other words, direct investment stock data or cumulated flows of direct investment, derived from balance of payment statistics, cannot be used to measure the economic activity in the host countries. Instead, "They measure only the value of the parent firms' financial stakes in their foreign affiliates" (Lipsey 2001: 14). Indeed, "while the investment stocks tell us something about the country of location of FDI activities or changes in it, in the aggregate and within industries, they tell us very little about what kind of activity is taking place, or what they tell us is often wrong" (ibid., p. 17).

Empirical Evidence

Despite these limitations, FDI data can nevertheless give important information. They can help to trace the process of integration of the 1990s via trends of change and patterns of geographical and industrial distribution. It would then be possible to single out countries to search for additional evidence.

Focusing on the trends emerging in the 1990s, with no attempt to reconcile figures of FDI from different sources, we can observe the following.

1. The share of direct investment in total world capital outflows was significantly higher than in previous decades but remained fairly stable at about a third of the total (Lipsey 2001: Table 1). However, in 1991, portfolio investment was much larger in absolute terms (ibid., Appendix Table 1).

2. The United States is a major source of direct investment, but Europe is by far more important. The flows from developing Asia, a small but significant portion, are much larger than those from Latin America (Lipsey 2001: Appendix Table 2).

3. Looking at the net inflows, we discover that the United States since 1997 has been a net recipient of direct investment, like developing Asia and Latin America, whereas Japan and Europe remain net exporters, and Europe shows a real boom of outflows (Lipsey 2001: Appendix Table 4).

Taking this into account, Lipsey concludes that "By the late 1990s, about 8% of world production was internationalized" and continues, "These shares of output may not appear as large as one might expect from the volume of discussion of 'globalization'" (2001: 21). However, recalling that investment flows are mostly directed to two sectors, manufacturing and petroleum, these shares are much larger. As a result, "multinational firms account for a large proportion of international goods trade" (ibid., p. 21). A rough calculation puts the internationalized share of manufactured exports at 30 percent.

In sum, FDI was not the most important component of capital flows in the 1990s, and its growth was centered in the developed world. That suggests a growing integration of *developed* economies, especially of the two sides of the Atlantic, with developing economies involved to a smaller scale. One can further observe the loss of weight of the United States, as it became a destination more than a source, and the expansion of European outflows. The growing importance of FDI in Asia should be checked against United Nations data indicating that a large share was directed to China. More generally, considering that FDI is largely directed to a few countries in Asia and Latin America, the novelty of globalization of the 1990s is the integration of some of the developing countries in a system of internationalized production centered in the developed world.

The FDI data indicate also that many of the developing nations are conspicuously absent and might suffer from the problem of capital shortages almost universally recognized as one of the reasons for their underdevelopment and poverty. Of course, one can always say that liberalization and privatization have not gone far enough, but the argument, after the 1990s' experience, does not seem convincing. FDI, although a strong and rising force in world integration, is not a major force of development in poor nations simply because firms do not invest in these countries, probably now as before. OECD data confirm that "FDI in developing countries rose severalfold from 1990 through 1997, but remained concentrated in a few markets" (Gilpin 2000: 170).

A study aimed at assessing income distribution effects of the liberalization of capital flows[11] provides some confirmation of these trends and further highlights the complexity of the issues involved. It also helps to distinguish the pattern of FDI from that of financial flows.

Data from the Word Bank indicate that financial flows north-south have gone from US$50 billion in 1990 to about US$150 billion in 1991 to reach a peak above US$200 billion in 1997. They declined sharply after that, to return to the 1998 level (US$150 billion) in 2003 (Ticci 2004: 4, Graph 1). This pattern closely reproduces the financial crises of the 1990s and in particular the Asian crisis of 1997. The composition of these flows changed dramatically, with official flows—as opposed to private flows—accounting for less than 20 percent. There seems to be an especially strong response of private flows to liberalization in most of the eleven countries considered (Argentina, Brazil, Chile, Thailand, Colombia, India, Korea, Malaysia, Mexico, Philippines, Turkey). However, these countries are among those the IMF considers highly financially integrated. A third remark concerns the concentration of these flows, with ten countries, (including China, but dropping Chile and Colombia) accounting for more than 70 percent of the total. The same study points out that United Nations data indicate that FDI has grown considerably in the 1990–99 but less than portfolio investment and bank loans. That may explain the wider oscillations of capital accounts. We can conclude that a closer integration concerns a fairly limited number of developing nations and that the 1990s are most noticeable for the role played by financial flows, which have different motivations than those determining FDI and are marked by a strong volatility. Liberalization of capital markets had much influence on this pattern.

As for the consequences of capital flows on income distribution, an examination of a sample of the fifteen highly financially integrated countries (Argentina, Brazil, Chile, Colombia, China, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Thailand, and Venezuela) suggests little optimism. Provisional evidence indicates that intensified integration based on capital flows resulted in increased income inequality in eleven of the fifteen countries considered.[12]

Globalization Reconsidered

This analysis of FDI, and of capital mobility, suggests three main conclusions.

1. Direct investment has been among the decisive factors of economic integration in the 1990s, which are however most noticeable from the growth of other capital flows. The growing integration of developed economies is combined with the rise of some developing nations in Asia and Latin America but also by the volatility typical of finance.

2. A large part of the developing world has been excluded from this process. Conceivably it has seen both the availability of resources and the conditions for development worsening during the 1990s.

3. The governance of international institutions, with their insistence on liberal-

ization of capital markets, has implied a strong response in terms of financial flows that, although increasing instability, had little impact on development and possibly negative effects on income distribution.

Interestingly, these conclusions are largely consistent with the analysis of capital mobility in a prudent and almost dismissive account of globalization. Gerald Epstein (1998) has pointed out that the question of international capital mobility is an excessively difficult one and it largely depends on the measures used. All measures based on prices indicate a considerable rise of capital mobility in the post-World War II period, both in absolute and relative (to the size of the countries and the world economy) terms. The picture changes considerably if we consider quantity measures and net figures. In this case the net value of capital transfers, in relation to real capital and gross national product over the 1880–1977 and 1880–1985 periods, respectively, indicate that mobility was higher at the end of the nineteenth than at the end of the twentieth century (Epstein 1998: 49).

This is relevant to the wider issue of whether globalization, once seen in a long-term historical perspective, is a new phenomenon. In this respect Epstein (1998) maintains that, despite a marked rise in the mobility of short-term financial capital, long-term movements of capital, both financial and real, are less pronounced than often maintained.[13] Even the notion that practically equal interest rates on short-term assets indicate a high level of capital mobility needs qualifications.[14] The convergence of profit rates on FDI is also not a definite indication of a rise in capital mobility.

Epstein (1998) wants to argue that globalization does not make futile domestic full employment policies, as often assumed. The qualifications on capital mobility serve that purpose. It can be observed that they do not conflict with the main conclusions of the analysis of capital flows in the previous section: Capital flows resulted in the 1990s in an uneven and volatile process of economic integration. FDI, to the extent that it meant stronger economic integration, concerns only a limited number of countries; much less it indicates an overall tendency to invest in less developed countries. There is actually an important similarity betweem Epstein's initial contention that there might be too much mobility of certain capitals and too little mobility of other types of capital (Epstein 1998: 48)

FDI is further analyzed in a collection of essays (Baker, Epstein, and Pollin 1999) that also focuses on the impact of globalization on progressive economic policy. The authors point out that world FDI stock as a percentage of world output (ibid., p. 9, Table 5a) has gone up considerably from 1960 and 1975 (4.4 percent and 4.5 percent, respectively) to 1991 (7.2 percent) and 1995 (10.1 percent). However, it is only a little higher than it was in 1913 (9.0 percent). Two other measures (world FDI inflows stock as a percentage of world gross fixed capital formation and world sales of foreign affiliates as a percentage of world exports) confirm that pattern, with acceleration in 1990s. Yet another measure (world overseas assets as a percentage of world exports; ibid., Table 5b) shows a value close to that of 1885 (2.2 percent) and no remarkable change in the 1990s. Baker, Epstein, and Pollin argue that the pattern is "somewhat ambiguous" (1999: 8) if one wants to argue that globalization is a "new" phenomenon.

This study also draws a distinction between gross and net flows (net financial resources transfer). Gross figures concerning funds raised in international financial markets as a percentage of world exports (Baker, Epstein, and Pollin 1999: Table 6a) and cross-border transactions in bonds and equities as percentage of gross domestic product (GDP; ibid., Table 6b) indicate a very significant growth of financial transactions in the 1980s up to 1996. The rise follows "the demise of Bretton Woods and the emergence of deregulated domestic financial markets" (ibid., p. 9). The picture changes drastically when considering net figures; current account surpluses or deficits as a percentage of GDP (the weighted average of twelve countries) calculated for nine subperiods from 1895 to 1996 show that, although "there has been a fairly steady rise of this ratio since the 1960s, by 1990–96 the figure, at 2.7 percent, is either below or roughly the same as those for any five-year interval between 1870 and 1929" (ibid., p. 11).

Here again one can notice the similarity with what was said previously. More capital movements, witnessed by gross flows, confirm growing mobility and financial integration, with financial capital movements dominating over FDI. Still, in net terms, capital mobility might not have risen substantially.

"Globalization of finance has become a crucial and distinctive feature of the world economy" observes Gilpin (2001), who also points out that "a substantial part of international capital flow are short term (six months or so) and highly speculative, and there is controversy concerning the extent to which they actually contribute to world economic development." This overall process is subject to one fundamental qualification: "the international financial system continues to be largely nationally based and consists of closely interconnected, discrete national financial systems" (ibid., pp. 261–62).

Economic Integration and Economic Policy

Regardless of whether capital flows are much more intense than in the past, they are fundamental to understanding what happened in the 1990s. It is peculiar, then, that they were not at the center of the debate on globalization.

With all its limitations, the analysis above indicates which areas of the world have become part of the new geography of production and gives a hint on the way the competitive process operated. FDI flows suggest a globalization pattern more partial and differentiated than assumed and remain centered in the developed world, with an important role played by the two sides of the Atlantic.

The interest in FDI is because it responds to competitive pressures in the "real" economy and not to short-term financial speculation; it should also determine more significant effects and stronger economic integration. That is not to say that FDI is in general good and inevitably fosters development. It is well known that a benevolent view sees FDI mainly as a source of technology transfer and innovation, with beneficial effects on the developing economies. More critical views, maintained for example by economists connected with the United Nations Conference on Trade and Development, suggest instead that these benefits are far from certain.[15] The point here is to distinguish between portfolio and direct investment and to stress that they respond to different motivations; this allows for a more precise picture of the globalization process.

Speculative capital mobility, favored by liberalization of capital movements, integration of financial markets, and improvement of communication technology, seems to account for the volatility and unevenness that has characterized more interconnected capital markets. However, also in this case, only a fairly limited number of countries are involved, adding another specificity to the picture. Although financial markets might be more integrated, there is no global financial system to speak of; participants do not have the same weight and the same power.

We can conclude that the process of economic integration is differentiated and contradictory. To become more comprehensible, it must be analyzed in finer terms, focusing on the countries involved. It appears indispensable then to discuss issues of policy and institutional framework.

Indeed, despite the drive toward liberalization and privatization, the role of policy is pervasive. When Stiglit (2002) speaks of the beneficial effects of capital liberalization in East Asia, it should be recalled that East Asia has long pursued export-led growth and has done so using industrial policy. In other words, more often than it appears, the process of integration we observe is the result of national policies and of the pressure under which different countries have been. Latin America countries, for instance, had to liberalize when confronted with the debt crisis of the1980s in order to obtain credit. South Korea was similarly pushed into liberalization to become a member of OECD. It is then more appropriate to think of economic integration as the result of different strategies of economic development, pursued by deliberate policies, within the constraints imposed by the hierarchy of power in the international arena.

Policy has traditionally been the domain of state intervention, an institution often judged insufficient or unfit for the new tasks brought forward by globalization, because the phenomena involved reach beyond national economies. This might have contributed to obscure the role of national policies. The example of China outlines what national policy can accomplish. However, China is a world power, and it has options that other countries do not have. We are reminded of its economic power at any suggestion that it may convert its large reserves in a currency other than the U.S. dollar.

Nevertheless, precisely the actual process of economic integration suggests the need for regulation and economic policy beyond that of single countries' governments. This lays the ground for a discussion of global governance**.**

There appear to be two areas in which nation-state policies may indeed be insufficient, that of financial markets and MNC operations. Global governance should consequently take into account two powerful forces shaping economic integration. The first of these are the strategies pursued by MNCs in designing productive networks at the global level. It must be recalled that these institutions have a size that often compares to that of national states and is actually larger than many of them. Ietto-Gilles (2005) points out that the effects of MNCs operations are hard to evaluate and depend much on the theoretical explanation of why MNCs invest and otherwise operate in international markets.

A second main force is that of private financial institutions and investment banks, increasingly engaged in highly risky financial transactions and the management of hedge funds. The rise of new financial products, and derivatives in particular, has made these institutions ever more active protagonists in financial markets, significantly reducing the role played by commercial banks and the IMF.[16] Schinasi (2006) argues that deregulation—which diminishes the protection granted to investors—has driven a new wave of innovation in the financial sector accompanied by the rise of risks mobility. That requires close monitoring to avoid the triggering of a financial crisis. Along the same lines, Alexander, Dhumale, and Eatwell (2005) have argued that national financial systems are increasingly vulnerable to the rise of systemic risk and financial crises.

These are indications of a spreading consensus within the financial community that deregulation—together with the opportunity for extraordinary benefits for those managing large and risky operations—has a negative influence, increasing the fragility, risk, and instability of the financial system. We are reaching well beyond the instability driven by the capital movements observed in the 1990s, to the point that a financial crisis might be just a matter of time, and no international institution would know what to do (Kolko 2006).

Global Governance?

As against the forces outlined above, the debate on global governance has so far focused on two themes: the search for an alternative to government on a world scale and the redefinition of tools and strategy of intervention for international institutions.

Supranational Regulation

One reason for the rise of the notion of global governance is the diffuse perception of the need for intervention at the supranational level, which is easily agreed upon and much the result of the global nature of the questions faced by a more interdependent world economy. Global governance suggests the capacity of performing government functions at a global scale, precisely what national government cannot do. However, whereas government decision making rests on sovereignty and the force of law, governance stresses partnership and voluntary cooperation to a common end and, therefore, a contractual approach based on consensus.

As Anne-Marie Slaughter puts it: “People and their governments around the world need global institutions to solve collective problems that can only be addressed on a global scale. They must be able to make and enforce global rules on a variety of subjects and through a variety of means. . . . Yet world government is both unfeasible and undesirable" (2004: 8) The coercive authority of such a ruler and the diversity of the peoples to be governed are obstacles that "No form of democracy within the current global repertoire seems able of overcoming" (ibid., p. 8). This is "the globalization paradox": needing more government and yet fearing it.

The pressures of globalization, however, are already creating networks of global governance, the "government networks"[17] (i.e., networks of regulators—the "new diplomats," judges, legislators) de facto addressing problems at the global scale within informal decision-making entities. These supranational networks, although lacking the recognition of international law, actually constitute the backbone of a global public policy that gives rise to a "disaggregated world order " and a "disaggregated sovereignty."

Therefore, globalization calls for intergovernmental cooperation through horizontal (and more rarely vertical) arrangements, the government networks. They operate as the means of global governance, with no sacrifice of sovereignty. The importance of the phenomenon eluded "scholars, pundits and policy makers" that are accustomed to think of "states" when it comes to international matters. However, the "fiction" of the unitary state, although still holding for certain purposes (e.g., going to war), "is no longer good enough for government work." Especially, the appreciation of these networks is crucial "in a world confronting the globalization paradox . . . and the rising importance of nonstate actors in the corporate, civic, and criminal sectors" (Slaughter 2004: 32), at least until governments would conclude that a "genuine supranational institution" is needed to ensure global authority.

Despite the progress in framing the issue of governance beyond state-driven policy and the stress on cooperation and partnership, there is a difficulty here. The "de facto" governance during the 1990s by the economic international institutions, which rose in status and importance to the point of dictating economic strategy to many developing countries, does raise the question of the institutional framework for global governance and of the reform of these institutions. How does this relate to the rise of "government networks"? What kind of global public policy could they bring forward without control over economic regulation?

Yet the notion of global governance appears to reflect the changes that are reshaping international relations and supranational regulation. In the foreword to a collective volume on global governance (Wilkinson and Hughes 2002), Craig asks: "Why bother to study 'international governance,' the very limited actually existing world government that has emerged over the last century and half? Robert Cox sees at its centre a *nebuleuse*, a cloud of ideological influences that has fostered the realignment of elite thinking to the needs of the world market." His answer is: "It is primarily a question of justice" (ibid., pp. xi–xii). Murphy then provides a fairly comprehensive description of what global governance is about: "the neoliberal ideology with its world-wide significance, the growing network of both public and private regimes that extend across world's largest regions, the system of global intergovernmental, and transnational organisations both carrying out some of the traditional service functions of global public agencies and also working to create regimes and new systems of international integration" (ibid., p. xii).

Wilkinson and Hughes further clarify the issue: "The intensification of global political, economic and social interaction has generated the pressures for concomitant systems of governance" (2002: 3). This is why governance refers to the development of international organizations, such as the United Nations or the IMF, but also to an array of actors such as the "quasi-formal international gatherings" (the G7) and "the combination of state and nonstate actors," but also private associations, nongovernmental organizations (NGOs), and transnational organizations in general. Furthermore, "Global governance . . . is not defined simply by the emergence of new actors or nodes of authority; instead it comprises a growing complexity in the way in which its actors interact and interrelate" (ibid., p. 2).

Financial and Development Governance

It is quite clear that a second reason for debating global governance is the need to go beyond the economic regulation of the international institutions emerged, in very different circumstances, from the Bretton Woods agreements. The latter had a disproportionate weight in setting up the rules of globalization in the 1990s, becoming the counterpart to governments in the developing countries and the target of the antiglobalization movement. In other words, they appear to be more of a problem than a solution to the question of governance.

Stiglitz concludes his 2002 book by making the case for a sweeping reform of international institutions, redefining explicitly their goals and view of globalization. He suggests reforming the IMF and global financial system, the World Bank and development assistance, and the WTO and trade agenda. Yet, there has not been much debate over these reforms.

There have been, however, changes in the policy tools of international institutions and a new focus on targeting poverty reduction. Randall Germain examines the changes intervened in the international financial architecture centered around the IMF and the United States. He argues that the larger role played by the developing countries manifests itself in the creation of new entities, such as the Group of Twenty (G20), which includes twelve more countries[18] besides those of the G7; the International Monetary and Financial Committee (IMFC), a sort of counterpart of the IMF; and the FSF (Financial Stability Forum), a new regulatory initiative. Though remaining a state-centerd affair, this move "towards a more inclusive model of global finance" (Wilkinson and Hughes 2002: 32) may play an important role in controlling financial crises and instability. However, a larger role in development may come only from a clear new political agenda.

When it comes to development, change takes the form of the new approach adopted by the World Bank. Here the centrepieces are the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSP). Paul Cammack points out that the novelty of the CDF concerns the fact "that countries should 'own' and drive the strategy." The problem is that this "is not a reflection of the reality, of its origins or character, or a requirement arising from the countries themselves, but an imperative for the Bank. It is simply a farther instruction to the 'clients' of the Bank" (Wilkinson and Hughes 2002: 41). The tool to this end is a matrix that maps "key policy issues in relation to four actors: the international development community, governments, civil society, and the private sector" (ibid., p. 36). The CDF comprises ten structural, human, and physical aspects and four specific strategies (rural strategy, urban strategy, private sector strategy, special national considerations); it proposes an integrated approach that keeps together the macroeconomic and the structural, human, and physical aspects.

The CDF is presented as an enabling device, but "the accompanying detail makes clear that its logic as a management tool is to allow the Bank to step away from day-to-day control of individual programme elements and their implementation in favour of overall strategic control, and to make the country policies transparent and *accountable to the Bank and its allies*" (Wilkinson and Hughes 2002: 42; author's emphasis). Together with the effort at bringing coordination among the international development community and the close liaison with the IMF, this logic suggests what Cammack calls a "comprehensive dependency framework."

Wilkinson observes that this assessment suggests that "the Bank's efforts belie a more authoritarian approach to development." Rather than a change in the overall logic of governance, and a sign of reform, one can see "the consolidation of a finely tuned, multifaceted system of governance that extends from the corridors of the World Bank down to the nooks and crannies of local life" (Wilkinson and Hughes 2002: 6).

The PRSP

This conclusion finds further confirmation in the role played by the PRSP within the CDF. Poverty reduction is one of the goals most sourly missed by the Washington Consensus policies. The structural adjustment and stabilization policies of the IMF have not been able to promote rapid growth and poverty reduction at least in a large part of the developing world, most notably Africa but also Latin America (Argentina) and many of the transition economies (Milanovic 2002).

Faced with the seriousness of the problem, the IMF and the World Bank have devised a set of policies under the heading of the Heavily Indebted Poor Country Initiatives. More specifically, the PRSP was introduced to give operational content to the CDF.[19] Accordingly, countries should submit poverty reduction strategy papers in order to qualify for debt relief. Cammack observes that PRSP used the language and the ideas of some NGOs to support policies and priorities set in advance by the IMF and the World Bank, "a classic case of the manipulation of 'participation' as part of a strategy of securing hegemony" (Wilkinson and Hughes 2002: 47).

The macroeconomic and financial framework is now supplemented by targeted poverty-relief programs and small-scale public sector expenditures, directed to the provision of public goods. It seems questionable that these changes can significantly affect poverty and social welfare (Pasha 2002). So, although the pro-poor rhetoric is now in fashion, there seems to be a fundamental continuity with the previous policy framework.

The problem is a reorientation of macro policy, which seems required for seriously targeting poverty reduction. Mass poverty cannot be contrasted with poverty-reduction policies, at least not by themselves, but by an alternative macro policy. Such an alternative, a pro-poor macroeconomic framework, is spelled out in a number of books and in the research mostly associated with United Nations Development Program. Such an alternative stresses the need to make poverty reduction the main goal and design macro policy around that priority. This, in turn, implies a strong political determination.

Concluding Remarks

Much of the criticism of the 1990s globalization has focused on the emphasis given to the role of the market in promoting development and the policies pursued by the international economic institutions. Shifting the focus to FDI highlights a picture of the economic integration unfolding in those years quite distinct from that customarily associated with the notion of globalization, pointing out that there are indeed only a few countries that are large recipients of FDI. What emerges is a selective process of integration centered in the developed world, in which nation-state policies, together with the particular position occupied in the world economy and the hierarchy of power, shape the process of integration. It also highlights the distinction that needs to be made with the question of capital mobility in general and the integration of financial markets.

In general, the focus on FDI suggests that globalization requires an understanding of the way the competitive process operates across borders. Such an understanding can hardly be based on the standard competitive model of economic theory. Indeed, we need a "global political economy" approach, citing the title of Gilpin's (2003) book. He points out that, although moved by economic forces, globalization cannot be analyzed, as most economists tend to maintain, on the basis of pure economic principles, which typically exclude the reference to political actors. "Economics alone is an inaccurate and insufficient tool for the analysis of such vital issues as the international distribution of wealth and economic activities. . . . despite increasing economic globalization and integration among national economies, it is still necessary to distinguish between national and international economies" (p. 102).

These limits contribute to the turn taken by the discussion on global governance. In this respect, it might help to draw a sort of parallelism. In the same way the debate on the merits of market-driven solutions left aside more specific phenomena of integration via FDI, so the criticism of the role of international institutions seems to have geared the debate toward global governance, without much digging into the questions of economic policy. This might explain why the discussion on global governance is developing *as if it had a life of its own.*

Fundamental issues of analysis and policy remain partially hidden in the current effort to develop a better framework for dealing with regulation and development at the world scale. First, any such attempt should be grounded on some more than the pure reference to the supranational nature of the problems. To this question, this paper contributes a fundamental idea: We need to base policies on *actual*, as opposed to *imagined*, globalization. The substantive matters concern supranational economic regulation and representation, as well as development strategies, within a process that is differentiated and contradictory. Crucial aspects are the strategies of MNCs and the growing risk of financial crises.

Discussing the rules and the institutional framework for global governance is a step forward. It calls for more regulation in the fields of finance and competition, as well as policies to facilitate the technology transfer and ensure transparency, at least in the post-Washington consensus envisaged by Stiglitz (1998). Still, the notion of *global governance* reflects too closely the limitations of the globalization debate highlighted above and suggests a fundamental ambiguity.

As much as the need for policy at the supranational level can easily be agreed upon, global governance remains fairly elusive. Although reflecting the awareness of all actors of the global dimension of problems and the difficulties at governing global processes, it does not deal in any substantive way with issues of analysis and policy for development and finance. This might be too negative. We have seen above that new world powers, typically those involved in the geography of foreign investment and financial integration arising from the 1990s, have gained representation in new entities, such as the Group of Twenty, which conceivably could confront these issues.

Government networks may help to fill a void and respond to the biased and undemocratic nature of the governance of the 1990s. Yet, this line of investigation begs the question of economic policy and power. If we assume that globalization is unavoidable and global policy needed, then the question of power inevitably arises. Power traditionally rests on the nation-state. Alternatively, one must have representation in the international institutions. What would these institutions do? We are back to the question of strategy and democracy. In fact, the globalization paradox suggested by Slaughter (2004) might be much less of a paradox. Development may require regulation and coordination, but in light of the way it was addressed by the international institutions in the 1990s, no wonder we do not want more of it. Meanwhile, we are not observing any effort to elaborate a set of coordinated actions for controlling capital mobility or promoting cooperation around investment projects, but rather the redefinition of the policy framework of the IMF and the World Bank.

The failures of the 1990s globalization would suggest questioning the stress laid on macroeconomic stability combined with the virtues of market-based allocative efficiency. However, the reorientation of the IMF and the World Bank concerns only the management approach, adding new goals, rather than redefining the strategy. As noted by Cammack, "there was nothing much wrong, in Wolfenson's opinion, with the international architecture of the Bretton Woods system, or with the macroeconomic and financial frameworks it sustained" (Wilkinson and Hughes 2002: 38). Indeed, the new approach simply integrates social and structural programs into that framework. In face of the call for a fundamental reform, the response has been an adjustment of policy design and methods that betrays a continuing effort to maintain control over the policies of the countries that ask for assistance.

The debate on governance, for all the steps forward it affords, does not address the fundamental question of *an alternative macro-policy framework*, in which the goal of stability is pursued together with an effective development policy, within which we can discuss issues such as FDI and capital mobility. This could be the premise for a more goal-oriented notion of governance, based on the joint efforts of governments, the scientific community, the private sector, and civil society.

Notes

1. "I saw firsthand the devastating effects that globalization can have on developing countries, and especially the poor in these countries" (Stiglitz 2002: ix).

2. Stiglitz (2002) notes that even a large institution such as the IMF cannot have a first-hand knowledge of the countries it is directed to assist. This almost inevitable shortcoming would advocate a prudent attitude and listening carefully to the economists operating on the ground.

3. For an examination of Stiglitz's criticism of globalization and its relation to Keynesian theory, see Gualerzi (2005).

4. In fact, it calls attention to the different notions of competition within economic theory and, in particular, to the difference between classical theory and standard neoclassical theory. In the latter, it means perfectly competitive markets conducive to an efficient allocation of resources.

5. Where the kind of theoretical and practical vacuum in which strict adherence to the competitive model may lead is even more evident if we think that the abstract notion of labor mobility is in reality the much more complex and unsettling question of migration.

6. "Foreign investment is not one of the three main pillars of the Washington Consensus, but it is a key part of the new globalization. . . . Privatization, liberalization and macrostability are supposed to create the business climate attracting investment, including from abroad" (Stiglitz 2002: 67).

7. The growth of foreign investment was paralleled by a rapid decrease of Public Development Aid transfers, which leveled off and was reversed only in 2000 (World Bank, 2006).

8. According to *The World Development Report* (1995), in 1993 hourly labor cost, for example in the textile industry, was \$0.36 in China and \$0.56 in India, as compared to \$20.50 in Germany and \$11.61 in the United States.

9. Admittedly, it is hard to define “rigorously control,” and “the dividing line between some control and no control is arbitrary” (Hymer 1976: 1).

10. Krugman (2005) attributes the demise of “high development theory” to the rise of improved technique in economics that led to “some loss of knowledge.” Model building became the standard of the profession, and in the process the development theory of Hirschman and Myrdal became to economists “not so much wrong as incomprehensible” (ibid., p. 1). One may ask, however, whether it was model building or rather the kind of modeling, based on constrained maximization, that was the fundamental issue. The question would then be much more theoretical than methodological.

11. See Ticci (2004).

12. For an analysis of the distributive impact of FDI, see Cornia (2004).

13. Epstein (1998) notes that the idea of an increasing mobility might seem reasonable if one focuses on transactions costs and obstacles to capital movements, which have significantly subsided in the past few decades.

14. Underlying this is another widespread notion, observes Epstein (1998), that integration of financial markets was the result of technology advances.

15. Agostin and Mayer (2000) have shown that the positive impact of FDI on GDP and domestic investment is not assured and was negative on domestic investment in Africa and Latin America.

16. The rise of raw materials prices (minerals and oil) has much contributed to this result, making developing countries less dependent on IMF financial support.

17. Slaughter (2004) recalls the analogy with the idea of “policy networks,” a broader concept examined by Rhodes (1997).

18. Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, and Turkey.

19. This is spelled out in a 1999 joint paper by the IMF and the World Bank. “The paper reported an elaborated process of consultation with NGOs focused on the virtues of outcome-oriented poverty reduction programmes” (Wilkinson and Hughes 2002: 45).

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