Chapter 2

GLOBALIZATION: LESS THAN MEETS THE EYE

Globalization is becoming obscured as much as illuminated by the rhetoric surrounding it. If we define it as greater access to markets by foreign businesses, then there is considerably less globalization than has been presumed.

Increased access to markets implies that disparities from country to country in prices, wages and real interest rates should decrease substantially. In fact, while some of these disparities have diminished, most have persisted.

With a decline in price gaps among countries, price correlations across markets should increase, and divergences in production should rise due to enhanced opportunities for specialization in each country. But different economies have continued to emulate one another rather than specialize, sometimes contributing to oversupply and gluts in particular markets. Computer chips, steel and shipbuilding provide three recent examples.

Differences between savings rates and investment rates within countries would be expected to increase with globalization because domestic investment would become less dependent on domestic savings. But domestic savings and investment rates continue to be fairly closely correlated within each country, although they have diverged in Japan and the United States.

---

*Published in **The International Herald Tribune** on August 10, 2001 under the same title.*

One conventional way of measuring globalization is to express global exports as a proportion of the global product. As this proportion rises, the quantity of globalization is presumed to rise similarly. However, from 1995 to 1999, a period often viewed as marked by a relentless surge of globalization, the proportion actually fell from 17.3 percent to 15 percent. This is not supposed to happen if globalization were as pervasive and dominant as has been contended.

Another way of measuring globalization is by the volume of international capital flows. A recent study by the economic historians Kevin O'Rourke and Jeffrey Williamson has shown that foreign capital flows relative to domestic savings were actually larger at the start of the 20th century than at its end.

Some aspects of globalization, especially ones relating to information technology, are genuinely new: the unabated progress of Moore's Law, which says that computer chip capacity will double every 18 months, the connectivity of the Internet, e-mail, e-commerce, trans-border mergers and acquisitions, and the large scale of foreign direct investment.

Still, there is a tendency to exaggerate the novelty as well as the magnitude of globalization, a tendency reflected in the organized and sometimes violent demonstrations against globalization that occurred in Seattle in 1999 and Quebec and Genoa in 2001.

Globalization is not new. Trade as a share of gross domestic product has reached higher levels in the past than recently. Correlations between domestic savings and investment rates were lower at intervals in the past than they are currently. And globalization, in the sense of access by foreign businesses to domestic markets, still varies widely among countries.

According to a recent RAND study, access by foreign businesses to the markets of Japan, China and South Korea continues to be significantly more restricted than access to the markets of the United States and Germany.

Furthermore, it should go without saying that globalization now, as in the past, is not a zero-sum game. Although there are losses and losers, as well as gains and winners, the aggregate of economic gains exceeds that of losses. While low-wage labor in developing countries is exploited by increased penetration of foreign business and by foreign investment in domestic markets, the process creates benefits and opportunities that low-wage workers would be denied without globalization.

Paradoxically, it can be more convincingly argued that globalization has been too little and too limited to realize these potential gains, rather than having been so pervasive and relentless as to overwhelm resistance by those who would be adversely affected.

Postaudit

The essential point remains valid: There are both reality and hype to globalization. But typically, the hype much exceeds the reality.