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New Horizons in International Business

Globalizing America

The USA in World Integration

Thomas L. Brewer
and Gavin Boyd

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Introduction

Thomas L. Brewer and Gavin Boyd

The term 'globalization' has taken on diverse meanings in the empirical social science literature as well as a variety of connotations in more evaluative semi-popular books and articles. In this volume, each author has been granted the liberty of adopting his or her own preferred notion – either explicitly or implicitly. However, for the most part, the concepts that are evident in the individual chapters fall into one or more of the following elements of the concept.

A relatively comprehensive concept of globalization is that it is a process involving three spheres – economic, political and cultural. Within the economic sphere, there are both quantitative and qualitative aspects to each of two dimensions at the macro level. One dimension concerns the countries that are involved in international economic relationships – in which the quantitative aspect is the number of countries and the qualitative aspect is the diversity of the countries. This dimension is the geographic dimension. The second includes the economic relationships among countries – in which the quantitative aspect is the number of interactions among countries and the qualitative aspect is the variety of the interactions. At the macro level, there are thus four sets of indicators, with both quantitative and qualitative aspects for each of the two dimensions: number and diversity of countries for the geographic dimension; volume and variety of interactions for the relationship dimension.

As parallels to these macro-level dimensions, there are micro-level dimensions concerning corporations' strategies and operations. Indeed, many of the macro-level aspects of economic globalization are aggregations of corporate-level international interactions – in terms of the quantity and diversity of their interactions as well as the number and diversity of the countries involved. Thus, a corporation that is headquartered in one country with foreign affiliates and other business interests in most countries and in all regions of the world and that has an enormous volume of transactions of many types among them every day can be reasonably called a 'global' corporation.

At the same time, there is often an additional element of globalization at the corporate level – a strategic element – that is used as the basis of identifying a corporation as 'global'. That is, a global corporate strategy takes into account the interdependencies and similarities of its markets and other interests in all countries in an integrative way. Such a strategy is often contrasted with a 'multi-domestic' strategy, according to which each national market and national production system is treated more or less independently. To the extent, then, that a corporation's marketing, production, government-relations, financial and other functions are globally integrated, the firm has a 'global' strategy; to the extent that these functions are focused on individual countries separately, the firm has a 'multi-domestic' strategy.

Use of these corporate, strategy-based, conceptualizations of globalization, however, needs to take into account two complicating factors. First, just as with the macro-level conceptualization, the micro-level concept has several dimensions – for instance the marketing, production, government-relations and finance functions. Within any one corporation, some management functions are more globalized than others. Second, there is a tendency for corporations to declare themselves as having global strategies when, in fact, they do not have such strategies by an explicit definition of the term; the tendency is both cause and consequence of the term's having acquired a certain degree of faddishness.

The chapters in this volume address a variety of questions about the nature, extent and consequences of the globalization of the US economy. Multiple levels of analysis are represented in the chapters – within some individual chapters as well as among the chapters in the totality. There are obviously differences in emphasis in the notions of globalization that are represented here. At the same time, there are also some recurrent core elements that are common to many of the chapters.

The authors are themselves a diverse group in terms of their professional backgrounds and interests – a diversity that is appropriate to such a multidimensional topic. Some are trade economists, some are international politics specialists, some are international business scholars, some are US political economy specialists. Rather than summarize their contributions, we will let them speak for themselves.

The preparation of this volume benefited greatly from a workshop sponsored by the Center for Global Change and Convergence at Rutgers University, Newark, New Jersey, in January 1999. We are especially grateful for the hospitality provided by Professor Richard Langhorn, Director of the Center, and Professor Yale Ferguson, Chairman of the Political Science Department. Their contributions to our discussions, and those by Professor John H. Dunning, Director of the Center for International Business at Rutgers University, Newark, were greatly appreciated.

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1. Internationalization and globalization of the American economy

Frederic L. Pryor

Although the meaning of 'globalization' varies among those using the term, most would agree that it is a process occurring when communications between peoples of different nations increase, when economic decision-makers develop a wider orientation taking into account a larger group of nations and the constraints of geography on economic, political, social, and cultural arrangements gradually become less important.[1] Such a 'taking account' of other nations may occur, not just because of greater opportunities to do so, but also because of greater vulnerability of the nation to the actions of others. Such globalization can be manifested either by an increasing scope of cross-border linkages or a greater intensity of such interaction.

In this chapter I spend the major part of the analysis on the measurement of economic dimensions of globalization. Although in the final section I focus on some particular impacts of globalization on the US economy, I leave to others the more difficult task of determining globalization's *overall* economic impact.[2]

In going about the task of measurement, it is analytically convenient to distinguish between two particular aspects of the process which, for short, will be called the 'old' and the 'new' globalization. The former (often called 'internationalization') deals with international trade of goods and services as well as the international flows of labour and capital; the latter deals more directly with the changing orientation of economic decision-making by governments, productive units and individuals, as manifested by increased international communications and the flow of money. The old globalization, of course, has waxed and waned over the millennium; the new globalization, I show below, started to become particularly important in the 1970s. The two types of globalization are, of course, related but they have rather different time profiles. We can, of course, define still other dimensions of globalization that focus on more micro-economic aspects of the process, for instance the number and diversity of nations involved and the various types of interactions. In later chapters other contributors discuss these issues.

My approach differs from that of others, who have defined globalization in terms of an end result rather than a process. For instance, certain commentators see globalization as total economic integration and the movement toward one reigning price for a particular good in different nations of the world. This not only raises difficulties of measurement, especially when some markets are integrated but others are not, but places too high a standard against which to measure current trends since, even within the United States, such integration has not been achieved (Pryor, 1995). Others see globalization as convergence of economic, political, social, or cultural systems. Such homogenization of institutions may certainly occur, and we can argue that this type of change certainly aids the globalization process. Nevertheless, it is certainly does not seem essential to globalization, except in a very broad sense.

This chapter has five parts: (1) a brief survey of long-term trends in the old globalization of the US economy; (2) a similar discussion of the new globalization; (3) a brief look at some institutional manifestations of these trends; (4) an analysis of certain critical policy problems raised by these trends in recent years; and (5) an assessment of the significance of these trends for the economy in the 21st century, a tentative journey into the murky realm of economic futurology.

THE OLD GLOBALIZATION (INTERNATIONALIZATION)

To gain some perspective on the old globalization, it is useful to consider how John Maynard Keynes (1971, pp. 6–7) described the international economy shortly before the beginning of World War I:

> The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and could 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 of 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, could despatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs.

Our first task is to determine in what ways the old globalization has changed since that glittering period. I focus primarily on the flow of foreign trade and the international flow of labour, showing as many others have before me that internationalization was at roughly the same level in 1970 as in 1900, but that since then a dramatic increase has occurred.

Flow of Foreign Trade

Figure 1.1(a) shows that the openness of the US economy, as measured by the share of exports or imports in the gross domestic product (GDP), has varied considerably over the years since 1900. The trade ratios of both imports and exports to GDP were very roughly the same in the early 1970s as in 1900, but since then this measure of openness has risen considerably. By the mid-1990s exports began to exceed the peaks occasioned by World War I. Campa and Goldberg (1997) show that this recent increasing external orientation of manufacturing is parallelled in most industries and their input–output analysis also shows that the percentage of imported inputs (raw materials and intermediate products) of most industries has increased as well since the mid-1970s. In this volume Makhija and Williamson show other aspects of the process on a four-digit level.

Most trade is in manufactured and primary goods, and it is well known that these sectors have greatly declined as a share of total GDP over the period. Thus any increase in the trade/GDP ratio is accompanied by a much faster external orientation in those sectors where the traded goods and services are actually produced. Figure 1.1(b) presents some very rough estimations of the ratio of the trade of goods to total goods production and the ratio of services to total production of tradable services over the century. For goods, the ratio of trade to domestic production only began to exceed the 1900 levels by the mid 1970s. For tradable services, the trade/production ratios are much lower but, by way of contrast, have increased slowly over the century – and much faster for exports than for imports.

These ratios of trade to GDP or to merchandise production are considerably lower in the United States than in most industrialized nations, a result that can be traced to the much larger internal market in the US than in these other nations. Like those in the US, however, the ratios of merchandise exports to merchandise value-added have risen in most of these nations (Japan and the UK are exceptions), even if the ratios of such trade to GDP have not, as shown by Feenstra (1998).

Several additional and major differences between the beginning and the end of the 20th century must be noted:

Changing composition of trade

The major change in the composition of US trade since 1929 has been from a raw material exporter to a raw material importer. In 1929 net exports of raw

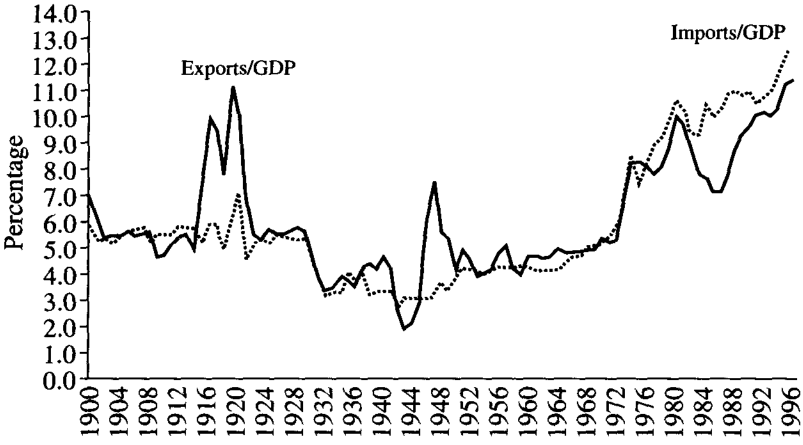
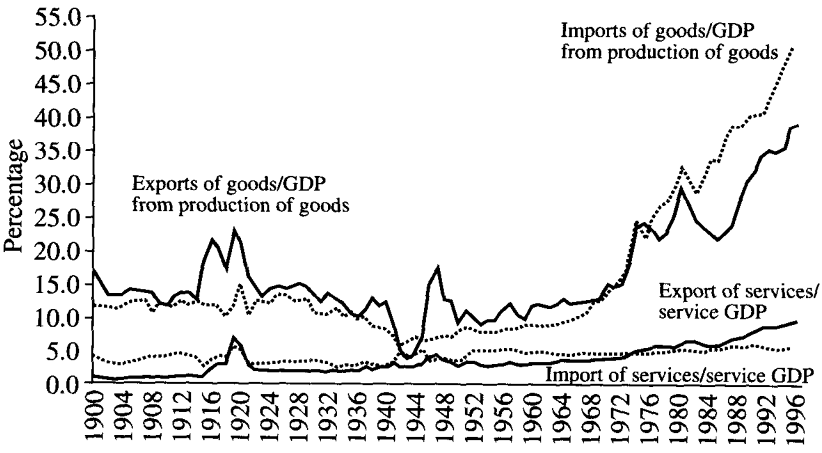


Figure 1.1(a) *US exports and imports as a percentage of GDP, 1900–96*



Note: Exportable goods are agriculture, mining and manufactured goods; exportable services are transportation, wholesale trade and finance. Other notes are in the Statistical Appendix.

Figure 1.1(b) *US exports and imports of goods and services as a ratio of exportable goods and services, 1900–96*

materials amounted to about 6.5 per cent of domestic production. By the end of World War I, however, the United States had become a net importer of raw materials and, by 1996, such imports constituted 38.5 per cent of domestic production of these products.[3] As a share of total imports, however, raw materials have fallen because such inputs constitute a decreasing share of total manufacturing production.

Increasing vertical specialization (disintegration of the production chain)

Since the mid-1970s there has been a disintegration of the vertical chain of production and a rise in the importance of outsourcing of intermediate products abroad (global sourcing). This can occur in the situation of sequential production where a country imports a good from another country and uses it in the production of a good which is exported. Hummels et al. (1998) show for industries defined on a two-digit level that the share in total trade of such vertically specialized goods has risen dramatically in US trade with certain nations such as Mexico; as a share of total trade, however, these goods have only increased from roughly 3.8 per cent to 7.4 per cent between 1972 and 1990. Between 1975 and 1995, Campa and Goldberg estimate that the share of imports in total intermediate inputs in manufacturing rose from 4.1 per cent to 8.2 per cent. A similar calculation by Feenstra and Hanson (1996) for total US manufacturing industries finds imported inputs increasing from 5.7 per cent of total intermediate inputs in 1972 to 8.6 per cent in 1979 to 13.9 per cent in 1990. Such studies also show that this rising degree of vertical specialization has occurred in most major trading nations except Japan and is, moreover, much more important in smaller trading nations such as the Netherlands than in the US

Changing location of trade transactions

Comparable data on the agents of foreign trade and the manner in which this trade has been institutionalized are not available over the century. One receives the impression, however, that in the early part of the 20th century, foreign trade was carried out primarily by businesspeople in the coastal cities. At the end of the century a considerable part of US trade was carried out by multinational corporations located all over the country.[4] For instance, in the mid-1990s US-owned multinational enterprises carried out about two-thirds of all exports and about 40 per cent of all imports. Indeed, exports of US-owned multinationals to their affiliates abroad comprised about one-quarter of US exports and, if we add the exports of branches of foreign multinationals operating in the USA to their parent and affiliated enterprises abroad, this rises to about one-third of total US exports. Similarly, imports from affiliates of US multinational enterprises abroad to their parent company constituted about 16 per cent of total imports and, if we add the imports of foreign multinationals to their affiliates in the USA, this increases to about 40 per cent. Although the shares of intra-company trade of both exports and imports have not markedly changed between the mid-1970s and the mid-

1990s and we have no data for earlier dates, it seems likely that this is a post-World War II phenomenon.

Shifting direction of trade

At the beginning of the century most US foreign trade was with Europe.[5] By the middle of the century about 25 per cent of US trade turnover was with its immediate neighbours (Canada and Mexico), about 30 per cent with other industrialized nations and about 45 per cent with non-industrialized nations. By the late 1990s, trade with neighbouring countries had increased to about 30 per cent, trade with industrialized nations remained roughly the same (although Japan's share soared at the expense of Europe), about 15 per cent was with the newly industrialized nations and about one-quarter with non-industrialized nations. In sum, the growth of various regional trade blocs throughout the world (as shown in various essays in Frankel (1998) or by Coleman and Underhill (1998)), has resulted in a rise in the share of US trade with its North American Free Trade Area (NAFTA) partners, a rise in its share of trade with developing nations not strongly affiliated with trade blocs and a dramatic fall in the share of trade with West European nations. These trends have been in evidence throughout the entire post-World War II period, and not just since the 1970s. Whether full globalization of trade in the future will be throttled by increasing regionalization or whether such regional blocs are only an intermediate point toward a full globalization is an open question with strong opinions and little hard evidence on both sides of the debate.

Growth of intra-industry trade

Intra-industry trade reflects the share of imports that are in the same category of goods that are exported, in contrast to inter-industry trade where a country exports one type of good and imports another. If there is no intra-industry trade (so that all trade is inter-industry) the trade pattern in a particular industry will be either exports or imports, but not both, a result predicted by the Heckscher–Ohlin approach. Complete intra-industry trade occurs when exports of a particular good equal imports of the same good. The degree of intra-industry trade is commonly measured by the Grubel–Lloyd statistic (1971), whose numerator is the sum of the absolute values of exports minus imports of goods of the same industry for all industries and whose denominator is the average value of exports and imports. This fraction is subtracted from 1 so that 0 indicates no intra-industry trade and 1 indicates that all trade is intra-industry.

Defining industries at the three-digit level, the Organization for Economic Cooperation and Development (OECD) (1996) calculated that the Grubel–Lloyd index for the United States had increased from 44.4 per cent in 1970 to 46.5 per cent in 1980 and to 71.8 per cent in 1990. Part of this growth represents an increasing vertical specialization (company X imports half-finished clothing and exports fully finished clothing, both of which are classified as trade in clothing). Nevertheless, a major part appears to represent an increase in the variety of goods available to consumers (either individuals or companies) that are produced by a single industrial sector. Although many years ago this phenomenon was predicted theoretically by Staffen B. Linder (1961), it still raises many theoretical puzzles (Pryor, 1992).

These trade trends, combined with other information, give us some important clues about why the trade/GDP ratio has risen since the 1970s. Using a gravity model and bilateral trade data of OECD nations from 1958 to 1988, Bauer and Bergstrand (1998) estimate that roughly one-third of the growth of the trade/GDP ratio has occurred as a result of the combined effect of falling tariffs and transport costs, of which the former were roughly twice as important as the latter. Assuming that all of the vertical specialization represents new trade, this phenomenon probably accounted for roughly 5 to 8 per cent of the rise in the trade/GDP ratio. If we guess that one-third of the exports of multinational enterprises across borders represents trade that otherwise would not have occurred without the growth of affiliates abroad, then this would account for 5 per cent of the growth of the exports/trade ratio and 13 per cent of the growth of the imports/trade ratio. Although a considerable part of the growth of the trade/GDP ratio still remains unexplained, it seems likely that the growth of intra-industry trade, which has greatly increased the variety of goods to consumers, has been the most important causal factor.

In sum, if we focus just on trade it should be clear that the old globalization (internationalization) has become more important since the 1970s but that, a number of important features of this trade have changed. These shifts have, of course, occurred in most other major trading nations and reflect a changing global environment of trade.

Flow of Labour

Figure 1.2(a) focuses on the gross flows of immigrants into the United States from 1900 to 1992; comparable data for the period for the subsequent outflow of any of these immigrants or of emigration of US citizens are not available. These data show quite clearly that the legal immigrant flow into the United States is considerably less at the end of the century than at the beginning. The spike in the late 1980s represents a legalization of the status of many who were in the country illegally. The composition of immigrants has also changed over the century; for instance, a much higher percentage of legal immigrants are educated and have professional backgrounds and an increasing percentage are also from Asia or Latin America.

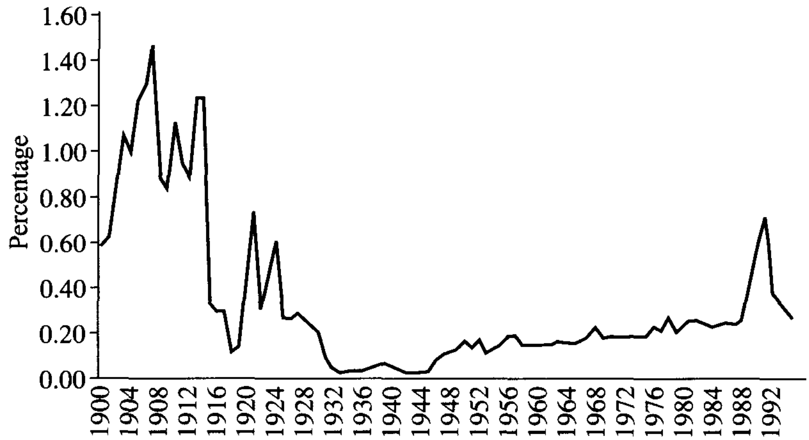
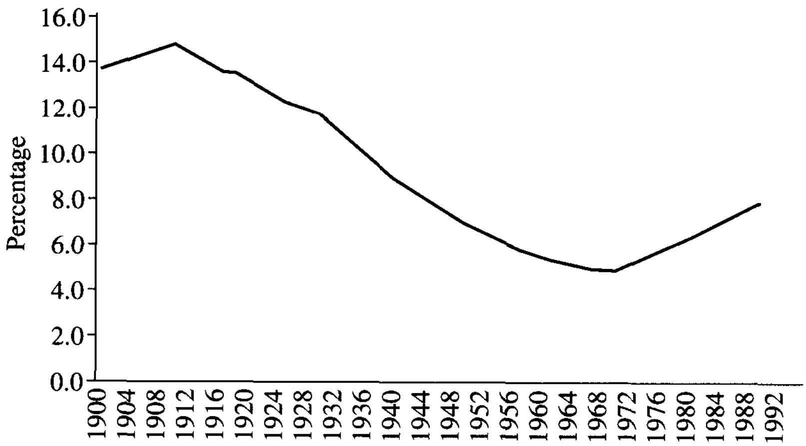


Figure 1.2(a) *Annual flow of legal immigrants as a percentage of total US population, 1900–92*



Note: Data sources and other notes are given in the Statistical Appendix.

Figure 1.2(b) *Percentage of foreign-born in the USA, 1900–92*

Figure 1.2(b) shows the percentage of foreign-born in the USA. These data are from the decennial census and include many, but not all, of non-documented immigrants. Again, the data show that the percentage of foreign-born in the country in 1900 was considerably higher than at the end of the 20th century, but that an upturn occurred around 1970.