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**GLOBALIZATION
AND NATIONAL SOVEREIGNTY
DEFENSE OF ICONOCLASTIC VIEW**

Abstract

The paper studies activity of Trans National Companies as one of globalization manifestations and the TNC's effect on the world trade. Key approaches to determination of interconnection between globalization and national sovereignty are analyzed. The author substantiates a new approach to creation and stages of globalisation development.

Key words:

Globalization, national sovereignty, new economy, TNC, transnational trade.

I. Introduction

In this presentation I would like to discuss an important but controversial question: what is the influence of globalization on national governance?

In short: will globalization lead to decline – and eventually collapse - of national sovereignty?

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Despite its very general and philosophical aspect, this question is the core of the topic of our meeting, namely because it is closely related to the so-called «new economy».

To discuss this issue, I shall first point out the importance – from a statistical point of view – of transnational corporations (abbreviation the TNCs) which definitely correspond to one (if not the most) important aspect of globalization.

Then, I would like to present briefly the consequences of TNCs development on world trade.

On the basis of these first 2 points, I shall finally discuss the influence of globalization on national sovereignty. According to most economists, globalization today is unprecedented. It is considered as a new state of the world arising from the technological revolution which characterizes the «new economy». However, a few experts think that the current globalization is just the re-emergence of an old process. I would like to argue this iconoclastic view.

II. TNCs from a statistical point of view

Ubiquity is probably the best word to express the development of TNCs which feel at home wherever they are. Ubiquity means the ability to be present at the same time in different places (here and there).

Rather than give you a lot of figures (as shown in Table 1), which are not very expressive, I shall weigh the importance of TNCs with some comparisons (each of them refers to the year 1998).

Comparison 1: In 1998, the turnover of General Motors (the largest industrial corporation in the world) was equal to the GDP of Austria (also equal to the GDP of Finland).

Comparison 2: The turnover of Ford (2nd industrial corporation) was higher than the GDP of Norway. It was also on a level with the GDP of Greece and Portugal combined.

Comparison 3: The turnover of Mitsubishi (3rd industrial corporation) was higher than the GDP of Poland.

Comparison 4: The turnover of Samsung (7th industrial corporation) was greater than the GDP of Portugal. It was also greater than the total combined GDP of Czech Republic + Slovak Republic + Hungary.

Comparison 5: The turnover of the first 2 corporations (General Motors and Ford) was greater than the GDP of India. It was also roughly equivalent to the GDP of Australia.

Table 1:

The top 15 industrial TNCs (1998)

TNCs	Turnover Billions of FF	Employment Thousands
1. General Motors (USA)	861,18	847,0
2. Ford (USA)	751,84	371,7
3. Mitsubishi (USA)	716,44	35,0
4. Royal Dutch & Shell (UK)	655,59	101,0
5. Exxon (USA)	610,88	79,0
6. Toyota (Japan)	576,00	150,7
7. Samsung (Korea)	474,08	260,0
8. General Electric (USA)	404,99	239,0
9. IBM (USA)	388,46	268,6
10. Hitachi (Japan)	387,04	230,2
11. Mobil Oil (USA)	369,63	43,0
12. Daimler Benz (Germany)	366,17	290,0
13. British Petroleum (UK)	357,28	53,2
14. Matsushita (Japan)	348,56	270,7
15. Volkswagen (Germany)	340,27	260,8

Source: L'expansion, № 608, November 1999.

Comparison 6: The turnover of the first 3 corporations (General Motors, Ford and Mitsubishi) was greater than the total GDP of Russia and Bielorrussia. It was also greater than the GDP of Africa.

Comparison 7: The turnover of the top 4 first (General Motors, Ford, Mitsubishi, Royal Dutch and Shell) was equal to the GDP of China.

Comparison 8: The total turnover of the 350 largest companies was equivalent to nearly 28% of the GDP of the world. In addition, these companies provided a quarter of the industrial employment in the world.

Comparison 9: According to the definition of the United Nations, the total 63,000 parent companies (with their 800,000 subsidiaries) produce about a half of the world GDP.

Of course these comparisons are a little misleading because a GDP (the sum of value added, that is the value of the outputs minus the value of the inputs) is different from a turnover (which includes the value of the inputs). As a result, the importance of the countries is systematically underestimated compared to the TNCs one. These comparisons must not be considered as a real measure, but just as a rough estimation of the gigantic size of the greatest TNCs, as well as a first sketch of the their influence in production and – more and more – in world trade.

Table 2:

TNCs: How many are they?

Region/country	Parent corporations (by origin countries)	Foreign affiliates (by host countries)
Developed countries	33500	81800
Germany	6986	11821
USA	3000	14900
France	2056	6870
Japan	3529	3150
United Kingdom	1500	2900
Sweden	2750	2400
Switzerland	3000	4000
LDCs	2700	71300
Brazil	700	71110
China	379	15966
Korea	1049	3671
Hong Kong	500	2828
Taipei	–	5733
World total (in 1996)	36600	174900
World total (in 2001)	63000	800000

Source: World Investment Report, UNCTAD, United Nations, 1998.

III. TNCs and the world trade

In principle, the development of TNCs can either be a substitute or a complement for trade in goods or services. In fact, everybody agrees that they are rarely substitutes. They are generally complement. Obviously, TNCs are now one of the major forces behind the fast expansion of international trade during the last decades.

A sizeable fraction of the European, Japanese or US trade is an intra-TNC trade, that is a trade between 2 subsidiaries that belong to the *same* parent company.

For example, in the United States, in 1994, 36% of the total US exports and 43% of the US imports were intra-TNCs transactions (sales abroad from an affiliate to another affiliate of the *same* company).

^a Estimation.

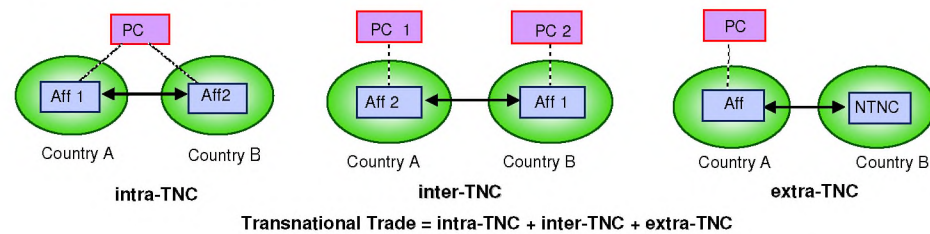
More importantly, intra-TNCs trade is only a part of what I suggest to call «transnational trade» or, in other words, all the trade completely or partially generated by TNCs.

This «transnational trade» (in a wide sense) is the sum of three kinds of trade:

- 1) The intra-TNCs trade
- 2) The inter-TNCs trade: that is trade between affiliates of two different TNCs
- 3) The extra-TNCs trade: trade between a department of a TNC and a mononational (non-TNC) company

Figure 1:

Transnational Trade



According to the *Survey of Current Business*, this transnational trade represents 90% of the US foreign trade. The situation is nearly (but not exactly) the same in other industrial countries, which provide such detailed statistical data (for example: 80% in England).

This situation raises several questions:

- Can we say that the world trade is still an «inter-national» trade or do we call it so only from force of habit and convenience?
- Can we consider the world economy as if it was merely made of nations?
- Are nations soluble in the global economy?

In my opinion, the answer is: NO

Worldwide economic relations are not *INTER*-national anymore. More exactly, they are *TRANS*-national relations in both meanings of the prefix trans: to cross/to go beyond the national borders. I defended this thesis 30 years ago in

my PhD dissertation. At that time, it was rather a forecast, now it has become a reality.

IV. Controversies about globalization and National sovereignties

The most recent publications about globalization underline 4 main ideas.

1. *First, globalization is considered as an unprecedented phenomenon.*

See for example: Lawrence, Bressand and Ito (1996) and Baldwin and Martin (1999).

It is a new state of the world created by the technological revolution which has been taking place for 10-15 years, namely in information and communication sectors.

More precisely, the «global world», which is the emblematic figure of the «new economy» is supposed to be a (very) recent phenomenon which dates back to the mid-80s. Some experts suggest that the global era started precisely in 1985!

The choice of year 1985 can be explained by Figures 2 and 3 which show the evolution of foreign direct investment at the worldwide level (compared with production and trade).

In contrast with the previous years, 1985 shows a major change in the long run evolutions with a fast increase of FDI, much faster than production and trade.

This new period is characterized by a much deeper and broader integration than ever before.

2. *Second idea: Globalization is a global process*

Sorry for this truism. It means that globalization is an integration process which involves all the world, as well as all aspects of every day life (trade, financial markets, technology, culture...).

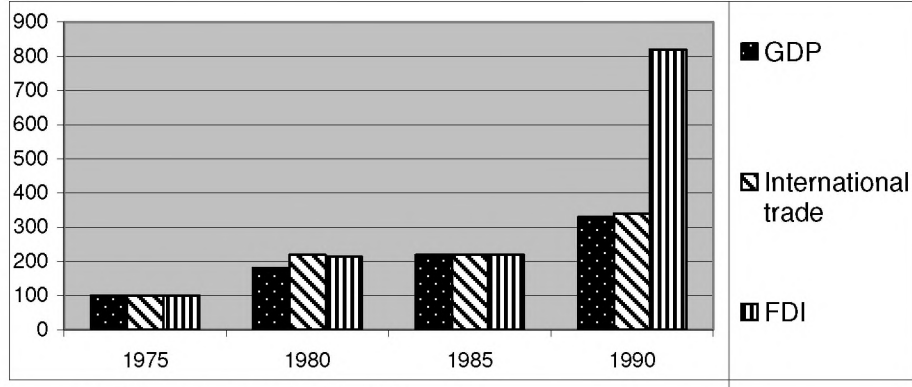
This new global world is the consequence of a process of standardization and uniformization not only in the economic sphere but also in the environmental and cultural field, namely, with cultural «MacDonaldization» of different societies in all the continents (I mean the extension of the American way of life throughout the world).

3. *Third idea: globalization implies the decline of national sovereignties (and finally the end of national boundaries)*

This new globally integrated world is creating a growing sense of helplessness (if you prefer: a sense of impotence, powerlessness and resignation) about the ability of nations – more precisely of national authorities – to control their destinies in face of more and more powerful global markets.

Figure 2:

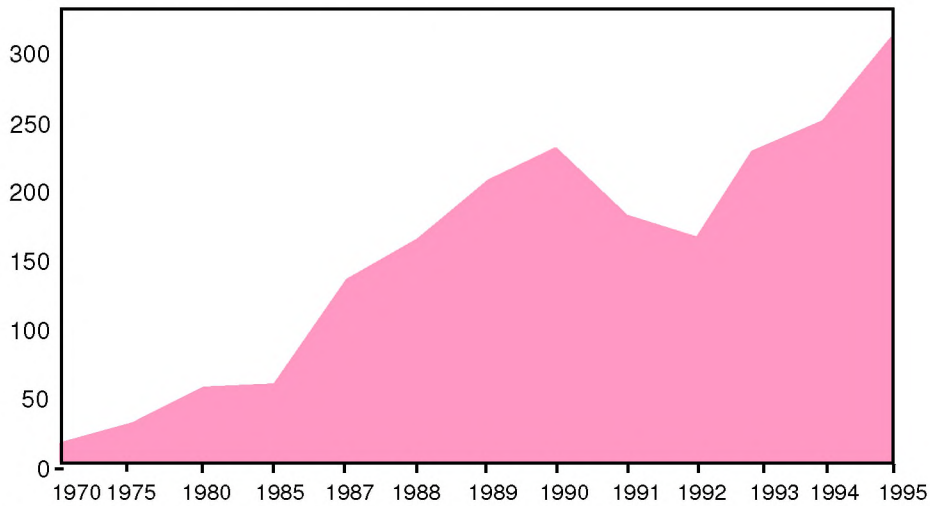
Why globalization emerged in mid-1980's
(Index numbers: 1975 = 100)



Source: OECD: Data base STIID, 1991.

Figure 3:

FDI – a fast increase (Billions of USD)



Source: OECD: Database STIID, 1991 and World Investment report (based on FDI/TNC database), various issues.

4. *Fourth idea: globalization necessarily leads to a private global governance*

As a result of the decline of national sovereignties, a new global governance is expected to emerge based on private global markets.

Briefly, I would like to discuss these ideas widely accepted by experts and theoreticians of globalization. To this end, I want to defend 3 counterpropositions:

Proposition 1: Globalization is not a state of the world. It is a process. As a process, it is not a new one, but an old one, that we can track back at least at the end of the 20th century (see for example: Bordo, Eichengreen and Jongwoo (1998); Rodrik (1998)). Some may even believe that globalization began much earlier (with the first Industrial Revolution? With the great discoveries at the end of the 15th century?).

The French historian Jean Bouvier wrote that what is considered as «new» is often the expression of ignorance of history. This statement applies perfectly to globalization.

An interesting statistical discussion can be found in a NBER paper by Bordo, Eichengreen and Irwin (1999). The authors show that in some fields a similar degree of global integration was reached one hundred years ago (for example, commercial integration measured by the export to GDP ratio is roughly the same in 1869 and now).

We can give some other evidence derived from the literature.

The idea that the world is a «global village», which is generally used to define globalization, has been suggested by Canadian sociologist Herbert MacLuhan 40 years ago (in 1962) – much before 1985.

Similarly, when French philosopher Paul Valery wrote in 1945: «Now begins the era of the finite world», he was describing perfectly the way globalization is generally considered now. We can easily find several similar descriptions of the «global world» in the 19th century literature.

Proposition 2: Even if not unprecedented, globalization has become now a dominant process which was not really the case at the end of the 20th century.

In many fields the interdependencies and global integration are stronger than in any former period. This situation raises new challenges of governance and new global problems (new global issues).

I mean problems whose determining factors and solutions cannot be found at the national level, such as:

- Environmental issues, namely, the risks resulting from destruction of rain forests, the «greenhouse effect» (the increase of temperature resulting from release of some gas in atmosphere).

- The risks related to proliferation of nuclear weapons.
- The control of narcotics, epidemics, laundering of dirty money.
- The fight against organized crime, mafia, terrorist organizations.
- Similarly, the constant risk of financial crises is turning into a global problem.

Proposition 3: However, globalization remains an incompleting process.

It is incomplete for 2 main reasons:

- Globalization is far from global. Some countries take absolutely no part in this process, namely in Africa. Only a small proportion of the world population is connected to the Internet (table 3). Some countries receive almost no FDI.
- Assuredly, globalization is reducing the efficiency of independent national policies. It makes the control of national affairs more difficult (and namely the economic policy). But it does not mean that national governance is about to disappear. On the contrary, the constraints of globalization require that governments put into operation more and more pilotage instruments in order to preserve the efficiency of their interventions.

Table 3:

People connected to the Internet/1000 inhabitants

Hong-Kong	48,5
Singapore	30,1
Antigua & B.	22,7
Bahamas	9,7
Chile	7,0
Korea	6,5
Dominican Rep.	5,3
Costa Rica	4,3
South Africa	11,1
Egypt	0,3
Djibouti	0,2
Morocco	0,1
Tunisia	0,1
Zambia	0,1
Zimbabwe	0,1

Source: Rapport mondial sur le développement humain (World Report on Human Development). PNUD, Nations Unies, De Boeck Université, 2000.

- These constraints also impose strengthening international institutions to reinforce their powers (such as the IMF – eventually to transform it into an international lender of last resort or such as the WTO) to lessen the stresses on the world economic system.

V. Conclusion

Without any doubt, globalization requires that national governments cooperate between themselves in order to consolidate their decision power.

Here is probably the most paradoxical and the most difficult aspect of our subject the relation between globalization and national sovereignty:

- Paradoxical, because, by cooperating national authorities have to renounce some part of their independence in order to remedy the constraints arising from the increase of global interdependences. They have to consent to reduce their autonomy of decision in order to maintain their power of decision. They have to renounce a part of their sovereignty to preserve their sovereignty.
- Complex, because the cooperation problem and the prisoner's dilemma have obviously many things in common. In other words, globalization makes cooperation absolutely necessary, but at the same time it makes it more and more difficult to achieve.

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