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Globalisation and Regionalisation: Conceptual Issues and Reflections

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Introduction

It is easy to find confident pronouncements about movement toward globalisation in the world economy. Here are some examples:

We are living through a transformation that will rearrange the politics and economics of the coming century... There will no longer be national economies, at least as we have come to understand that concept. All that will remain rooted within national borders are the people who comprise a nation.¹

The reality of a global marketplace has been the driving force pushing us along a path of developing a rational world economy. Progress that has been made owes almost nothing to political imagination. It has been the managers of multinational corporations who have seen the world whole and moved to supply mankind's needs as efficiently as politics would allow... Far too many of the world's people have now seen what the global shopping center holds in store for them. They will not easily accept having the doors slammed shut by nationalism.²

The reduced costs of transportation allows for goods to be produced almost anywhere. And, increasingly, as the information and communications infrastructure becomes more widespread, companies can truly have global aspirations.³

One of the striking features of the 1980s has been the speed with which many industries have been shifting towards some form of global structure.⁴

It is equally easy to find statements that argue that globalisation has really not changed the national focus of economic activity:

...large international companies are much more multinational than they are transnational. They are rooted

in national economies and national systems of production, and they operate through affiliates in other economies...[The] difficulty that MNEs [multinational enterprises] have in delinking physical capital and technology investment from the control of national-origin human capital suggests that MNE nationality counts...⁵

The economic fate of nations is still tied closely to the success of their domestically based corporations... Many foreign markets are highly regulated, often to America's disadvantage. Consequently, America cannot just foster the best possible work force and then rely on market forces to bring high-wage jobs to our shores.⁶

The conflicting quotes above illustrate one of the central points of departure for this paper: that globalisation processes matter for both theoretical and pragmatic reasons. It is therefore important to define the concept of globalisation carefully so that it can be measured in a reasonably rigorous manner.

The Concept of Globalisation

The implications of globalisation for theories of international politics and international political economy are quite far-ranging. If globalisation has proceeded to a great extent, then core realist assumptions about the dominance of nation-states as actors in the international system will need to be reassessed. However, globalisation may not always translate into 'the market' replacing 'the state'. Along with the market and the state, a variety of other institutional configurations such as commercial hierarchies (multinational corporations), networks (epistemic communities), and international organisations (such as the World Trade Organisation) may become important. Although the national governments will probably remain the main actors in international negotiations, these governments will be constrained by the preferences of numerous other actors. Thus the phenomenon of globalisation will be akin to a multiple-level game with sub-national, national, regional, and global actors playing the various roles. This article will now discuss the various contexts in which the term globalisation has

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1. Robert Reich, *Works of Nations*, Vintage, New York, 1992, at 3.
2. Walter B. Wriston, 'Agents of Change Are Rarely Welcome', in Jeffrey A. Frieden and David A. Lake (eds), *International Political Economy: Perspectives on Global Power and Wealth*, St Martin's Press, New York, 1991 (2nd edn), at 169.
3. John L. Daniels and Dr N. Caroline Daniels, *Global Vision: Building New Models for the Corporation of the Future*, McGraw Hill, New York, 1993, at xxiii.
4. John M. Stopford and Susan Strange, *Rival States, Rival Firms*, Cambridge University Press, New York, 1991, at 28.

5. Martin Carnoy, 'Multinationals in a Changing World Economy: Whither the Nation State'. In Martin Carnoy, Stephen S. Cohen, and Fernando Henrique Cardoso (eds.), *The New Global Economy in the Information Age: Reflections of Our Changing World*, The Pennsylvania State University Press, 1993, at 87.
6. Laura D'Andrea Tyson, 'They Are Not Us', *The American Prospect* 4 (winter), 1991, at 37 to 38.

been used. It will be highlighted that there is little etymological agreement on the connotations of this term.

Cultural globalisation

If globalisation occurs at a cultural level, so as to create the beginnings of global society, then the root assumptions of realist theory are incorrect. While it is not likely that a global culture will displace the national and sub-national cultures in the near future, any movements in that direction surely deserve attention. The research agenda attached to this question points particularly in the direction of examining the role of the media (print and electronic) in diffusing 'global' cultural values. The challenges to local cultures posed by exposure to 'global' cultures would be the main concern of this agenda.

This has been an issue dealt with mainly by anthropologists in the past, and mainly with respect to the exposure of primitive or traditional societies to the cultural artifacts of modern industrial societies. The focus might shift, therefore, as globalisation of culture proceeds, to the examination of the impact on national and local cultures of exposure to 'global' culture.⁷

Legal globalisation

Here the main issue of concern is the diffusion of common legal practices to the extent that one can speak of a global legal regime in a particular area. This has already been the focus of a large amount of work in the study of the dynamics of international economic regimes. Global trade, monetary, and investment regimes have received the greatest attention, although current research seems to be moving in the direction of adding global environmental regimes to the list.

Theories about international economic regimes often focus on the role of the distribution of power in the international system, and particularly the role of hegemonic nation-states, in establishing the necessary conditions for the formation and maintenance of global regimes. One of the leading hypotheses in this area is that movement away from a hegemonic power distribution undermines the stability of existing regimes while discouraging the formation of new ones. This becomes germane as the pre-eminence of the United States in the economic sphere has been eroded in the last two decades. This has implications as to which country's/grouping's legal norms will get diffused and serve the basis of evolution of some common global legal norms. Also, in the absence of an economic hegemony it begs the question of who will provide the public good of international regimes which cohere with business practices of the future information economy.

7. Quotation marks are used here in order to highlight the still problematic nature of the idea of global culture in a world still dominated by nation-states. The dominance of nation-states makes the diffusion of any allegedly 'global' culture suspect as a form of cultural imperialism.

Economic globalisation

Globalisation is most often invoked in the context of the increased interdependence of the various national economies. It is argued in the subsequent sections that this needs to be understood over the various levels of human aggregation at which collective action takes place. Specifically identified are the national level, the sectoral level, and the firm level as candidates for inclusion. It is also important to study economic globalisation across all the factors of production as well as across the flow of goods and services.

Indicators of globalisation

Globalisation has at least five separate and distinguishable meanings, which we will label as follows:

- (1) the existence of a *global infrastructure*;
- (2) *global harmonisation or convergence* of some important characteristic feature;
- (3) *borderlessness*;
- (4) *global diffusion* of some initially localised phenomenon; and
- (5) *geographical dispersion of core competences* in some highly desirable activities.

Global infrastructure

Global infrastructure is a minimalist form of globalisation, where the presence or absence of a matrix for interconnecting all regions is the key criterion for globalness. The literature on the creation of global trading networks with the invention of ocean-going sailing ships provides examples of this conceptualisation of globalisation processes. In more recent work, the existence of global telecommunications networks is cited as evidence for the existence of global markets.

Harmonisation or convergence

Economists often use the movement toward the equalisation of factor prices (controlling for risk) or toward harmonisation of economic policies across a given set of countries as evidence of movement toward a unified market. To the extent that this occurs globally, it might mean that world markets have become more 'global'. Similarly, some scholars have argued that a widespread tendency of national governments to adopt liberalisation policies for domestic markets is evidence of globalisation of a specific kind (for example, the globalisation of a liberal world economy). In a more limited sphere, there has been speculation about the pressures of international competition creating more harmony in national policies toward the use of state enterprises in heavy industry and state monopolies to provide club goods (such as telecommunications services) which have sizeable inter-sectoral and inter-temporal externalities.

Borderlessness

Borderlessness is an ambitious form of globalisation. For a process to qualify as fully globalised, there must be evidence that the existence of national or other important boundaries has

become irrelevant. A borderless international economic system behaves like a single, unified economic system despite the continued existence of formal boundaries. This is clearly the core idea behind the unification of the internal market, which is the goal of the so-called Europe 1992 process within the European Union (EU).

Diffusion

Global diffusion is the degree to which an initially localised practice spreads throughout the globe. The item being diffused can be anything that is initially localised: a technology, a cultural artifact, a social practice, a disease, and so on. An example might be the use of telephones. As the use of telephones diffuses from country to country and within each country to more and more of the population, one can speak of the globalisation of telephone adoption or usage. Of course, even if every person in the globe has access to a telephone, they might not have access to each other via the telephone unless the telephone networks are sufficiently interconnected. Another example would be the spread of reggae music via the various diffusion channels for popular music. Reggae becomes a global phenomenon to the extent that one can hear it anywhere in the globe. The degree of globalness depends on the extent to which the item has diffused globally.

Dispersed core competence

Globalisation as dispersed core competence deals with the question of where key technological capabilities are initially created and whether they can be brought to bear quickly in solving problems outside the region where they are created. The reason that dispersed core competence is important for globalisation is that it creates incentives for business enterprises to adopt strategies that can take advantage of the dispersion of competences. Global corporations are likely to be more internationally competitive than national or regional ones wherever core competence is sufficiently dispersed. For example, companies like Hewlett-Packard, Siemens and Sony may have to have global strategies for obtaining access to the necessary skills and information to compete in the markets for the information-intensive products and services they provide. Thus, dispersed core competence is a key explanation for the necessity of global business strategising, and may be an important way of thinking about the globalisation of business.

Global localisation

In the literature on the globalisation of business, there is the interesting idea of 'global localisation', advocated especially by Kenichi Ohmae,⁸ which refers to the need of businesses to think and strategise globally while serving the distinctive needs of local markets. For example, IBM or Honda may not sell the same computers or cars in all the different markets they serve, but

there are still major benefits to be derived from, for example, looking for common underlying technologies for geographically specialised products.

There is another side to local globalisation, however, which is more directly legal or political. That is, many nation-states have distinctive regulatory environments for business and may be more or less discriminatory in their policies toward foreign-owned businesses. In order to avoid discrimination, multinational corporations may choose to assume the role of 'good national citizen' in all of the countries in which they have major operations. Firms that play this role try hard to hire and promote nationals of the home country. They try to maximise the local content of products and services. They establish R&D facilities to supplement their manufacturing presence. Thus, it will be easier for IBM to be treated like NEC in Japan, or Honda like General Motors in the United States, because it is hard for politicians and bureaucrats credibly to argue that their behaviour is different. This sort of national blending-in is a long way from what most people mean by globalisation, but it is an important trend in the world of global business.

Compatibility across separate notions of globalisation

Globalisation processes are important for a wide variety of theories and practices in the international system. If the world economy is becoming more 'global', and the international political system remains, for the most part, rooted in a decentralised (or anarchic) system of governments of nation-states, then the mismatch between global markets and national governance is sure to create important problems of control and accountability for those governments and possibly unacceptable levels of uncertainty for globally operating actors, particularly the global business enterprises on whom our overall prosperity allegedly depends.

Measurement of globalisation is likely to depend on the issue-area in question and the conceptualisation of globalisation that is relevant to the theoretical issues under examination in any given study. In globalisation of culture, one is probably most interested in globalisation as diffusion. In the globalisation of the world economy, one will probably zero in on borderlessness as the ultimate form of globalisation but deal also with more limited forms, such as the dispersion of core competence.

Implications of globalisation mismatches across issue-areas

If globalisation occurs at different rates across issue-areas, then there may be other sorts of mismatches than the one cited above. If, for example, there is more rapid globalisation of capital markets than of labour flows, this is likely to have major consequences for the distribution of income and wealth within and across nations. Large multinational firms tend to control a disproportionate share of the physical and intellectual capital of major industrialised nations, and hence might benefit disproportionately from such a mismatch. Issue-specific globalisation processes may be closely linked, as seems to have been the case in trade and direct foreign investment flows, or they may be totally independent of one another. The pattern of

8. Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy*, Harper Business, 1991.

linkages in process across issue-areas, in short, has to be a concern for any serious study of globalisation processes.

Globalisation versus Regionalisation⁹

The phenomenon of globalisation is often contested on both empirical and normative grounds and many scholars think that the world may break up into regional trading blocs and regionalisation instead of globalisation may become a better characterisation of the future world. The move toward further consolidation of the European Union and the creation of the North American Free Trade Agreement (NAFTA) and the Association for Pacific Economic Cooperation (APEC) give further evidence for the regionalisation thesis.

It is clear that regionalisation can take place at the same time as globalisation and that a certain amount of regionalisation is likely given the lower communications and transportation costs associated with geographic proximity. Still, a focus on regional transactions to the exclusion of global ones would seem to contra-indicate a trend toward globalisation.

In economics, one way of attacking this problem has been to determine whether the growth of trade (for example) made possible by lower intra-regional trade barriers is 'trade creating' or 'trade diverting'. Lower regional trade barriers can be trade diverting if most of the increases in aggregate trade are intra-regional and extra-regional trade levels remain more or less the same or actually drop. They are trade creating if extra-regional trade levels increase proportionally with intra-regional levels.

In political science and international relations, the greatest stress has been on observing the effort expended on regional economic integration efforts as opposed to global multilateral economic regimes. The current debate over the

relative desirability of unilateral, bilateral, minilateral, and (global) multilateral international economic agreements is an example of this. For example, in a recent edited volume, Ruggie argues that 'institutional arrangements of the multilateral form have adaptive and even reproductive capacities which other institutional forms may lack...'.¹⁰ Others, including the current chair of the Council of Economic Advisers, Laura Tyson, have argued that bilateral and minilateral agreements have important advantages over multilateral ones, particularly in high technology areas in light of new theories of strategic trade and investment.¹¹

That globalisation versus regionalisation is an important theoretical concern can be demonstrated by a quick review of the debate on regionalisation of the world economy in major works. Gilpin,¹² for example, sees the world drifting toward a more regionalised world economy. Gilpin would like to see regionalisation in Asia and the Western Hemisphere prevented by greater co-operation between the United States and Japan, but he is not very optimistic that this will happen. Members of the Berkeley Roundtable on the International Economy (BRIE) make a similar assertion.¹³ They want to see a benign form of regionalism emerge in the coming years but consider such an outcome to be unlikely. Thurow¹⁴ argues the most vigorously among this small group for regionalisation as an answer to the tensions created by too much economic interdependence among the major industrialised regions. Obviously, he sees regionalisation as both likely and benign.

Viewing globalisation/regionalisation as goods to be demanded and supplied

One can think of globalisation and regionalisation as products of the operation of national and international markets, and therefore as subject to the forces of demand and supply. These market forces are likely to be echoed in the political marketplace as different interests defend and attack various forms of globalisation and regionalisation, whether they take the form of government policies or of strategies on the part of firms and industries. Organised interest groups like unions, producer associations, and consumer groups all have a stake in these battles. It can be assumed for the moment, that there is a certain validity to the notion that globalisation/regionalisation are 'goods' subject to demand and supply.

In wrestling with the question of the demand for globalisation/regionalisation the following issues arise. Who demands globalisation/regionalisation? How are these demands

9. The literature on globalisation versus regionalisation is vast. Important works include the following: Paul J.J. Welfens, 'The Globalization of Markets and Regional Integration', *Intereconomics*, November/December 1989, at 273 to 281; Jagdish Bhagwati, 1990. 'Departures from Multilateralism: Regionalism and Aggressive Unilateralism', *The Economic Journal*, December 1990, at 1304 to 1317; Fred C. Bergsten, 'Commentary: The Move Towards the Free Trade Zones', *Economic Review*, November/December 1991, at 27 to 35; Andrew Crockett, 'The Financial Implications of Trade and Currency Zones'. In *Policy Implications of Trade and Currency Zones*, Federal Reserve Bank of Kansas City, 1991, at 111 to 137; Klaus-Peter Weiner, 'Between Political Regionalization and Economic Globalization: Problems and Prospects of European Integration', *International Journal of Political Economy*, Spring 1992, at 41 to 62; Paul Hirst and Grahame Thompson, 'The Problem of "Globalization": International Economic Relations, National Economic Management and the Formation of Trading Blocs', *Economy and Society*, 21, November 1992, at 359 to 395; Paul Krugman, 'Regionalism versus Multilateralism: Analytical Notes', in Jaime de Melo and Arvind Panagarya (eds), *New Dimensions in Regional Integration*, Cambridge University Press, New York, 1993; Denis Fred Simon, 'The International Technology Market: Globalization, Regionalization and the Pacific Rim', *Business and the Contemporary World*, Spring 1993, at 50 to 66; Stephen J. Kobrin, 'Regional Integration in a Globally Networked Economy', *Transnational Corporations*, 4(2), 1995, at 15 to 33.

10. John G. Ruggie, *Multilateralism Matters: The Theory and Practice of an Institutional Form*, Columbia University Press, New York, 1993.

11. Laura D'Andrea Tyson, *Who's Bashing Whom?*, Institute for International Economics, Washington DC, 1992.

12. Robert Gilpin, *The Political Economy of International Relations*, Princeton University Press, NJ, 1987.

13. Wayne Sandholtz, Michael Borrus, John Zysman, Ken Conca, Jay Stowsky, Steven Vogel, and Steve Weber (eds.), *The Highest Stakes*, Oxford University Press, New York, 1992.

14. Lester Thurow, *Head to Head: The Coming Battle Among Japan, Europe, and America*, Morrow, New York, 1992.

articulated? What is the political economy of this articulation? Are there specific industrial sectors which demand globalisation and/or regionalisation, or is this demand articulated by all industries? Are such demands a reflection of some technological imperative, or an inevitable outcome of mass production and mass consumption societies? Is the demand for globalisation and regionalisation an outcome of globally mobile capital? Or is the demand for regionalisation inspired by rent-seeking at the national and regional levels? What are the welfare implications of globalisation/regionalisation?

Two quite different perspectives have been put forward in economics to explain firm-level, industry-level, and national choices for regionalisation or globalisation: those of static and dynamic efficiency. The former highlights the welfare gains for countries associated with free trade and the welfare losses associated with regionalisation, arguing that trade creation would be overwhelmed by trade diversion because of the temptation to raise barriers to extra-regional trade and investment flows. The possible implication of the erection of trade barriers may be that the firms will try to jump over trade barriers by investing directly into foreign markets to create local sources of supply. The continuation of high trade barriers will result in the granting of considerable autonomy to the managers of foreign subsidiaries as there is little prospect for integration of the firm's activities across national boundaries. This is probably the way US multinational corporations planned their immediate post-World War II overseas expansions.

As trade barriers diminished, thanks in part to the multilateral trade negotiations conducted under the GATT (now WTO), firms could begin to consider co-ordinating their activities on a regional or global basis to take advantage of differences in factor costs, tax levels, regulatory regimes, and so forth, to enhance their competitiveness in more than one market by taking advantage of larger aggregate markets to realise static efficiencies of scale and scope. This should continue as world trade flows are further liberalised to the benefit of all.

The dynamic efficiency perspective explores the impact of liberal trade and investment flows on the nation's ability to compete internationally. This perspective, unlike that of static efficiency, defends the judicious use of trade and investment barriers to provide a temporary buffer against competition from foreign firms with first-mover advantages in critical high technology industries. Countries that engage in strategic trade and investment policies for this purpose can gain relative to those that do not. Examples of success frequently cited in this literature are: the Japanese VLSI project (co-funded by private firms and the government) and the European aerospace consortium, Airbus. Government intervention in sectors with high inter-industry and inter-temporal positive externalities is advocated and not viewed as yet another manifestation of rent-seeking.¹⁵

15. Anne O. Krueger 'The Political Economy of a Rent Seeking Society', *American Economic Review*, June 1974, at 291 to 303; Gordon Tullock *Rent Seeking*, The Shaftesbury Paper 2, Edward Elgar, 1993.

One can see parallels with the earlier debate about the desirability of pursuing 'infant industry' development policies.¹⁶ The resurgence of this theoretical argument can be attributed to growing fears within the United States about the relative decline of US manufacturing sectors and increased competition from Japan and Europe in high technology industries. Strategic trade theorists point out that dynamic efficiency gains of regionalisation would permit US businesses to get a breathing space to reestablish their lead in the world economy. Reich,¹⁷ for example, views contemporary regionalism as a variant of technological nationalism.

Some theorists argue that globalisation and regionalisation may be predatory, particularly when pushed by the wealthier and more industrialised states of the North. The former view is best articulated in the Centre-Periphery doctrines of dependency and world systems theories.¹⁸ Global/regional linkages among nations with asymmetric assets and negotiating strength lead to unfavourable economic impact on the weak party. These views should be taken seriously but there is not time or space to pursue them further here. It should however be noted that neither globalisation nor regionalisation are embraced by all observers as desirable in and of themselves for a variety of arguably well-articulated reasons.

Having discussed the demand side of globalisation/regionalisation, it is important now to turn to the question of who supplies it and why. Is the intervention of state necessary and/or desirable for this to be achieved? Can this be achieved purely through the market or must it be promoted through hierarchical structures?¹⁹ Governments can help to supply regionalisation through the promotion of regional integration schemes and globalisation through the pursuit of more and more ambitious liberalisations at the global level. But since more than 50 per cent of world trade is intra-company, businesses are likely to be a key factor in engendering such trends. Can networks or alliances of firms also be agents for the supply of globalisation/regionalisation? What is the most efficient way to supply the demand for globalisation/regionalisation in specific industries?

One might argue that the concept of national sovereignty militates against the willingness of national governments to promote either regionalisation or globalisation. What are the implications for the sovereignty of a nation-state if the world economy moves towards globalisation/regionalisation? To answer this we need to revisit the debate between neo-liberals and neo-realists on the role of relative and absolute gains consideration in encouraging or discouraging co-operation among nations.

16. Raul Prebisch, *Latin America: A Problem in Development*, Institute of Latin American Studies, University of Texas at Austin, 1971.

17. Robert Reich, 'Technological Barriers Won't Help Us', *Japan Economic Journal*, 27 February 1988.

18. Johan Galtung, *Poor Countries vs. Rich, Poor People vs. Rich: Who Will the New International Economic Order Benefit?*, Vienna Institute for Development, 1977.

19. Oliver R. Williamson, *Market and Hierarchies: Analysis and Antitrust Implications*, Free Press, New York, 1975.

Regionalisation may be promoted by the concerns for relative gains as, for example, a declining global power wants to reassert itself, albeit on a small scale. Regionalisation is often marked by the presence of regional hegemonies — Germany for Europe, Japan for East Asia, and the United States for Western Hemisphere. These regional hegemonies provide the collective good (a club good as its benefits can only be partaken by the members of its region) such as a stable reserve currency. Thus, the Bundesbank is becoming the *de facto* central bank of Europe, the yen becomes the principal reserve and trade currency for East Asia, as the US dollar is for the Western Hemisphere.

Globalisation, on the other hand, is often pushed more by the concerns for absolute gains. The principle of comparative advantage, the central concept of classical and neo-classical trade theory, provides the intellectual underpinning for this quest, but there are other historical reasons why there is still substantial political support for the global multilateralist agenda for liberalisation of economic flows, even in non-hegemonic nation-states. The crucial question, however, is still the one posed by the various theories of hegemonial stability: is it possible to continue to supply liberal trade and investment flows in the absence of a global hegemony?

Do all the prominent international trade theorists share similar views on the feasibility and desirability of globalisation/regionalisation? The neo-classicalists believe both in the feasibility and desirability of globalisation.²⁰ In fact, they view it as almost inevitable given technological imperatives of an information economy.²¹ Further, they want trade to be as free as possible — a kind of globalisation unfettered by any kind of industrial policy. Industrial policy always carries the risk of being captured by organised interests and may give way to pervasive rent seeking. Almost always, the interests of the consumers seem to be sacrificed in favour of those of the producers — at least in the short run. The Strategic Trade Theorists concede that globalisation is feasible but question its desirability in unrestrained form. They seem to argue more for regionalisation (not autarchy) as an alternative to globalisation.²² Or if they do support globalisation, it is of the restrained variety. This may take the form of globalisation with universalised anti-trust norms or globalisation with harmonised research and development policies. One may view the Strategic Trade Theorists as favouring the producers over the consumers. However, it may be argued that in the long run the interests of the producers and the consumers converge. An industrial policy does imply shifting of 'rents' — not between consumers and producers but more from the foreign producers to the domestic producers. The realists deny the feasibility or desirability of globalisation (in terms of a unified global economy). For them

the nation-state remains the only valid unit of political, economic, and social analysis.²³

Viewing globalisation/regionalisation as goods subject to supply and demand has the salubrious effect of focusing the mind on the various agents and actors that are involved in the process. At least three types of agents stand out as important: governments of nation-states, national industries (acting through the usual industry organisations), and individual firms. Firms may try to bypass the efforts of national governments to stop or to slow movement toward the various forms of globalisation/regionalisation, and they may decide to concert their actions at the industry level. It is also likely that the actors demanding globalisation and regionalisation may not be the same as those supplying them. Further, the interests of the demanders/suppliers may also not overlap with what kind of globalisation they want to demand/supply. It is possible to look for the vector of influence filtering through a variety of institutions in favour/opposition of a particular brand of globalisation/regionalisation. This is an excellent candidate for the agenda of International Political Economy, as both politics and economics will be key in influencing the composition of alliances, and the strategies pursued by the various actors as individual actors trying to free ride and as collective entities espousing a cause. The NAFTA debates in the United States is a case in point where supporting and opposing coalitions included groups which have espoused conflicting causes in previous debates.

It may be worthwhile to reflect on the regionalisation/globalisation issue in the context of the recent macro-economic disturbances in Mexico. The Mexico case can be seen to demonstrate the peril of incompletely institutionalised regionalisation. The phrase 'institutions' is used to connote the rules which permit, prescribe, or prohibit certain behaviours. Institutions therefore reduce the uncertainty about the behaviour of various actors. Thus institutions extend beyond formal structures. Of course formal structures are important; however it is more important that the norms be internalised. For example, to govern trade or monetary flows, formal institutions may be set up. However, if there is no common understanding on what is expected of the actors and what is not, these formal rules will be observed more in breach. In the context of trade and monetary regimes, the phrase 'institutionalisation' refers to both the setting up of formal structures and the common agreement among the actors as to what these structures are supposed to do. NAFTA is a classic case of incomplete institutionalisation — not only are some essential formal structures not set up (for example, to govern monetary flows) but also there seem to be a lack of common understanding as to what are the obligations of the various actors in making this agreement work. Thus it is much more than a mere co-

20. Jagdish Bhagwati, 1990. 'Departures from Multilateralism: Regionalism and Aggressive Unilateralism', *The Economic Journal*, December 1990, at 1304 to 1317.

21. Stephen J. Kobrin, 'Regional Integration in a Globally Networked Economy', *Transnational Corporations*, 4(2), 1995, at 15 to 33.

22. See Note 11 above.

23. Joseph M. Grieco, 'Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism', *International Organization* 42, August 1988, at 485 to 507.

ordination-dilemma — it is also a collaboration dilemma.²⁴ As mentioned earlier, NAFTA has constituted a free trade zone and therefore does not include any rules regarding monetary flows. However, trade and monetary flows are inextricably linked in the case of financial services. Hence the lack of institutionalised behaviour regarding the monetary policy has repercussions for the operation of the trade policy as well. This is in contrast to the relatively smooth functioning of the European Community where: (1) monetary institutions are fairly well established; and (2) since the concept of European integration has been in evolution for the last three decades, there is a much higher degree of shared understanding on what kind of monetary or exchange rate policy is permitted and what kind is not. Thus NAFTA and EC stand in contrast on (1) the degree of both formal and informal institutionalisation in a particular issue area; and (2) the width of institutionalisation in terms of coverage over various issue areas.

Summary and Conclusions

Globalisation and regionalisation are often seen as antagonistic forces in the literature. Are the two phenomena necessarily antithetical? Can globalisation and regionalisation occur simultaneously or are they mutually exclusive? To answer this, it is important to specify the level of analysis and to devise a variety of measurement strategies that provide data for answering this important question. But it is quite possible that no simple answer will emerge. What may appear to be a globalised economy may at the sectoral level show the presence of a mix of domestically oriented, regionalised, and globalised industries. Similarly a regionalised national economy may have some highly globalised industries. This underlines the need for a multiple-level analysis to understand overall globalisation processes.

The coexistence of regionalisation/globalisation on welfare rounds can also be defended. Regionalisation/globalisation may simply represent the most efficient scale for the supply of collective and private goods. Human actions, economic as well as non-economic, are often marked by the generation of externalities. Such externalities are often efficiently internalised only at a given scale of operations.²⁵ Hence, for welfare maximisation, some collective goods may be efficiently supplied at a regional level, others at a global level. Nevertheless, without a well-specified measurement strategy based on a solid theoretical foundation, the answers to the questions posed above may never be known.

Empirical studies of economic globalisation are surprisingly few and far between. Much more easily found are

studies of regionalisation of the world economy, where economic regions are defined in terms of intensive patterns of economic flows (trade, investment, labour, and so on) and in terms of the convergence of prices, growth rates, and the like. Further, there has been a tendency for empirical research to concentrate on trade and capital flows (measurement of capital flows is more recent and less common than that of trade flows). Using trade (exports plus imports) over GNP for the European great powers and Japan as the indicator of economic globalisation, for example, Kenneth Waltz showed that the international economy was about equally globalised for the years 1870 to 1914 as for the years 1960 to 1990.²⁶ The periods between 1830 and 1870 and between 1914 and 1960 experienced relatively lower levels of globalisation. Globalisation can be interpreted in (at least) non-mutually exclusive ways — relative to GNP and the absolute level of trade. Krasner and Waltz measured the relative growth of trade versus the GNP — globalisation increases when growth in trade is faster than growth in GNP. They do not comment on the absolute levels of either of the two macro aggregates.

An interesting puzzle is to explore whether regionalisation follows globalisation or vice versa? This puzzle needs both conceptualisation and some solid empirical work. The case of monetary regime will now be briefly discussed to highlight some of the issues involved. A global monetary regime is akin to a public good which is provided by the hegemony. The indisputable hegemony of the United States from World War II until the 1970s clearly made it the ideal candidate to provide the monetary regime. The United States lived up to this role and the US dollar became the world currency serving the multiple functions of a widely accepted unit of account and a medium of exchange, as well as a store of value. Thus, with an undisputed hegemony, globalisation of monetary regime remains uncontested. The United States also created formal organisations, specifically the IMF, to formalise the operation of global monetary regime. The mid 1960s is a watershed since it marked the beginning of the decline of the hegemony of the United States. This was formalised in the monetary sphere in 1973 during the jettisoning of the dollar-gold convertibility and the switch over to floating exchange rate from fixed exchange rates. Also, with the emergence of regional hegemonies such as Japan and Germany, the era of regionalisation of the monetary regime had begun. Thus, in the case of monetary regimes, the balance of power between the global and regional hegemonies influenced the emergence of a global or regional monetary regime. In the case of trade flows as well, the same story may be discernible. However, as suggested earlier, this is an area in need of both empirical and conceptual research.

24. In a co-ordination dilemma, various equilibria are pareto optimal and the issue boils down to choosing among equally desirable equilibria. In a collaboration dilemma, the equilibrium is not pareto optimal. In fact, actors can gain by defecting and not adhering to their commitments. Institutions are needed to alter incentives of actors so that they can co-operate.

25. Vincent Ostrom, Charles M. Tiebout and Robert Warren, 'The Organization of Government in Metropolitan Areas: A Theoretical Inquiry', *American Political Science Review*, 55, December 1961, at 831 to 842.

26. Kenneth N. Waltz, *The Theory of International Politics*, Addison-Wesley, Reading, MA, 1979, at 140 to 141.