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The Constituent Economic Principles of Globalization in Historical Perspective

Myths and Realities

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abstract: This article deals primarily with international trade and with the flow and stock of foreign direct investments as indicators of economic globalization. Both recent developments and a historical perspective back to 1830 are presented. The focus is on the rich dominant economies, but a global overview is also given. Recent tendencies do not stand out as unique or radically new when considered in historical light. On the basis of the negative economic and social tendencies of the world economy, the author launches 'an Appeal from Stockholm' for a new, global 'New Deal'.

keywords: development ✦ foreign investment ✦ globalization ✦ world economic history ✦ world trade

Defining and Dating Globalization

In particular, though not uniquely, globalization concerns an economic phenomenon implicating a strong international interconnection. Globalization refers to a situation wherein industrial and commercial companies as well as financial institutions increasingly operate transnationally, in other words, beyond national borders. This goes hand-in-hand with an increase in mergers and the acquisition of industrial, commercial and financial companies, leading to an increase in the global role of large, multinational companies and to a lessening of the role of nation-states.

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The diminution of the role of states (or of regional governments) has been further accelerated by the shift toward the privatization of public companies (including services) and by deregulation. On a more strictly economic level, globalization concerns, in particular, a double evolution:

First, on account of a very low level (not previously reached) of customs and non-customs barriers, the volume of international trade and, especially, that of western countries, grew at a faster rate than did production, resulting in an increase in the relative rate of exchange with regard to gross domestic product (GDP).

Second, on account of the conjunction of a lower level of distrust of foreign companies and a liberalization of the movement of capital, we have witnessed a very rapid increase particularly in the flow of stock in foreign direct investments involving an absolute and relative increase of the multinationalization of companies, particularly industrial companies but also financial and commercial companies. According to every probability, this second evolution had more significant repercussions than did the evolution in international trade. Besides, on the level of western developed countries taken as a group, the importance with regard to GDP of the volume of stock in foreign direct investments grew much more quickly than that of exports (respectively, between 1974 and 1976 and 1994 and 1996, from 5.4 percent and 0.6 percent per year).

When did this globalization begin? This question obviously concerns the present phase of globalization. In fact, limiting ourselves to the post-industrial period, we can consider, as we will see, that a first phase of globalization began as early as the second half of the 19th century and was completed with the beginning of the First World War. Therefore, the question is: when did the present phase of globalization begin? Researchers are hardly unanimous on this point. In addition, it is obvious that this dating also depends on the elements of globalization that are given priority in one's analysis.

Some researchers maintain globalization's starting-point to be either the mid-1970s or the beginning of the 1980s. For those emphasizing the generalization of the capitalist system, dating globalism is easier and prefers a later date: the collapse of Communism in the USSR and Eastern European countries, in other words, in 1989. But, even in this case, important reforms were introduced earlier in certain Eastern countries and even in China, suggesting an earlier date.

Thanks to the availability of annual statistics, it is possible to localize the inflections of the curves of the economic components, notably, the two major ones studied here, with sufficient precision. For the curve corresponding to exports expressed in a percentage of the GDP, the oil crisis of 1973 involved an abrupt rise. Thus, if we take the entirety of the countries of the Organization for Economic Cooperation and Development

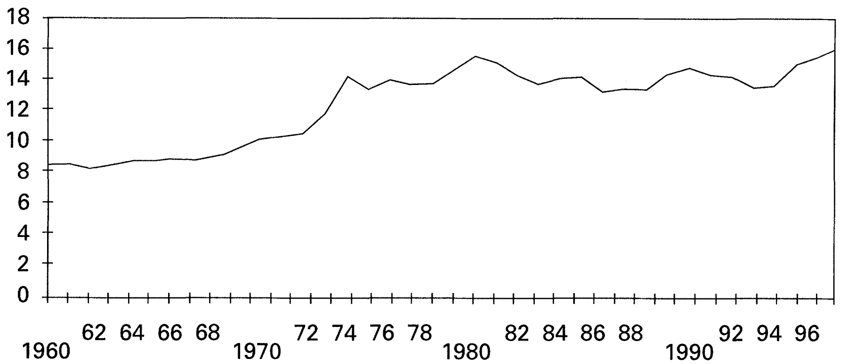

Figure 1 *Exports from Developed Countries in Percentage of GDP*

(OECD), this portion went from 10.8 percent in 1972 to 14.6 percent in 1974. Although more moderate, the growth continued, in any case, through 1997 when it reached 16.7 percent. With regard to the stock of foreign direct investments expressed in a percentage of the GDP, for the group of developed western countries, the inflection is located in 1979–80, when it moves to 6.4 percent of the GDP (compared to 6.0 percent in 1977–8). After 1985, it exceeds 7.5 percent, passing 13 percent in 1996, and this was the most recent data at the time this text was written (mid-July 1998). We note, as shown in Figure 1, that from 1990 the inflection of the curve is even more extreme. Finally, without being exhaustive, we should note that the abandonment of fixed rates of exchange, during the early 1970s, stimulated the intensification of the flow of short-term capital.

Neglecting the obvious consequences of the two oil crises (1973 and 1981–2), this evolution toward a globalization of the economy suggests three limited but important considerations. The first concerns the dichotomy between the evolution of the USA and that of the rest of the developed western countries. The second corresponds to the sticky question of the diverging evolution of export prices and domestic prices. And last, but not least, the historical extension of this analysis leads to a complete shift in our perspective on the phenomenon. The following section looks at each of these three aspects in more detail.

Foreign Trade

We begin with a brief analysis of the exportation of services, after which we look in more detail at the evolution of the trade in merchandise, which remains dominant. We have relatively homogeneous data on the flow of services dating only from 1970.[1]

Considering the developed western countries as a group, the exportation of services (called 'credits' of services in the statistics of the IMF balance of payments), represented 28.8 percent of the exportation of merchandise for 1970–2 and decreased to 24.0 percent by 1979–81, recovered for 1992–4, with 28.0 percent, almost reaching its previous level. In terms of its relative importance with regard to the GDP there is growth, but it remains modest: it goes from 3.0 percent for 1970–2 to 4.0 percent for 1992–4. Therefore, it grew by one-third, while the exportation of merchandise grew by two-thirds. An appreciable proportion of this augmentation resulted from more rapid growth in the USA (especially since 1980), where the exportation of services went from 1.4 percent of the GDP for 1970–2 to 2.8 percent for 1989–91 and to 3.1 percent for 1994–6. Note, apropos the USA, that contrary to the external trade of goods – which was characterized by a significant deficit – the commercial balance of services from the USA accounts for, from the middle of the 1980s, a significant excess (on the order of 27 percent in 1989–91 and 49 percent for 1994–6).

As the USA registered a major increase in commercial deficits, it is fitting to point out that if we measure the expansive nature of the US economy through the percentage of imports in its GDP, this evolution is even more marked. In this case, we go from a rate of 4.0 percent for 1969–71 to 10.2 percent for 1994–6. Further, between the early 1950s and the early 1960s, the rate of importation also grew more rapidly than the rate of exportation. If we take the total of the import of goods (or, if one prefers, of merchandise) and services, as defined by US statistics, and if one uses the recently revised numbers,[2] the US went from 5.7 percent of its GDP for 1960–2 to 6.5 percent for 1969–71 and to 13.7 percent for 1994–6. Therefore, the growing globalization in the domain of external trade is more real across the Atlantic (seen as 'across' by Europe) than it is from a European perspective. But the US level in the mid-1990s is 40 percent less than that of Western Europe during the early 1960s.

Finally, the most unexpected fact standing out on Table 1 is the seeming stagnation of the export rate in the Japanese economy, whose 'success story' in the sphere of exports is notorious. Here – and not only for Japan – the problem of the evolution of divergent domestic costs and export costs, that lead to a very different image of the export rate, comes into play, if we base our analysis on the volume of GDP and the volume of exports instead of basing it on the current value of these two aggregates. Between 1969 and 1971 and 1995 and 1997 when the export rate in the Japanese economy shrank to 0.1 percent, the volume of the GDP progressed to 164 percent, and the volume of exports progressed to 360 percent. In the hypothesis of a similar evolution of domestic costs and export costs this should have produced a growth of 86 percent in the export rate and not its reduction to 0.1 percent.

Table 1 *Exports of Goods as a Percentage of GDP (current values, yearly triennial averages surrounding the year cited)*

	Western developed countries	USA	Western Europe	European Union (12 members)	Japan
1950	8.0	3.8	13.4	13.0	6.8
1960	8.6	3.8	14.8	14.3	8.9
1970	10.2	4.1	17.3	16.7	9.7
1975	14.1	6.6	21.0	20.9	11.0
1980	15.3	7.7	22.2	22.0	11.8
1990	14.8	6.8	22.6	22.2	9.6
1995	15.1	8.1	24.0	23.5	8.7
1997[a]	16.5	8.8	26.0	25.5	10.0

[a] Isolated year and preliminary numbers.
Note: For the geographic definitions of the regions see note 2 in the text. Yearly triennial averages, except for 1997.
Sources: Author's calculations based on the following:
Exports: UN, *Yearbook of International Trade Statistics* (various issues); UNCTAD, *Statistics Manual of International Trade and of Development* (various issues); IMF, *International Financial Statistics* (various issues); WTO, *Annual Report* 1997.
GDP after 1959: OECD, *National Accounts* (various issues); OECD, *Main Economic Indicators* (various issues).
GDP before 1960: author's estimations based on national data.

The notion of foreign trade as 'generalized dumping' came to me nearly four decades ago. I had then concluded a study on the problematic status of industrial companies from the perspective of the establishment of what we then called the Common Market. While with the Study Services of GATT, completing my studies of European foreign trade (see Bairoch, 1976a), the analyses, notably, of comparative prices led me to postulate the possibility of a dumping process that is more generalized than classical analysis leads one to suppose.

A Belatedly Recovered Historic Peak

As we can see in Table 2, the export rate of western economies reached a peak practically everywhere (except in the USA) on the eve of the First World War. Taking the western developed countries as a group, exports represented around 12.9 percent of the GDP in 1913. This ratio was re-attained for the first time only in 1974, after which time the extreme hike in oil prices precipitated a rapid increase in the value of international trade: the export rate went to 14.6 percent, as opposed to 10.8 percent in 1972 and 10.3 percent for 1967–9.

Table 2 *Merchandise Exports as Percentage of GDP (current values)*

	Western developed countries	USA	Western Europe	European Union (12 members)	Japan
1830[a]	5.5	7.6	5.3	–	–
1860[a]	10.9	7.0	11.2	–	–
1890	11.7	6.6	14.9	–	5.1
1913	12.9	6.4	18.3	–	12.5
1929	9.8	5.0	14.5	–	13.6
1938	6.2	3.7	7.1	–	13.0
1950	8.0	3.8	13.4	12.9	6.8
1970	10.2	4.1	17.3	16.7	9.7
1990	14.8	6.8	22.6	22.2	9.6
1997[b]	16.5	8.8	26.0	25.5	10.0

[a] Approximate numbers.
[b] Preliminary numbers.
Note: for the geographic definitions of the regions see note 2 in the text. Yearly triennial averages, except for 1997.
Sources: Author's calculations and estimations based on the following:
For the period 1950–97: see Table 1.
For the period 1830–1938: see Bairoch (1973, 1976a, 1976b); and national data.
For the exports of non-European countries: see Lewis (1981); and national sources.

In the USA, if we ignore the first quarter of the 19th century – when it was around 11–12 percent – the peak (for the yearly triennial averages surrounding years ending with a zero) was reached in 1829–31 at 7.6 percent. This proportion (7.5 percent) was almost reattained in 1869–1871 and 1899–1901. From 1829–31 to 1909–11, 1909–11 was the low point at 5.4 percent. By 1913, it was 6.4 percent.

We should note that if the sales of foreign branches of multinational companies nearly doubled between 1982 and 1994, in terms of the proportion of foreign trade, this level was trivial and the growth very moderate. Thus, speaking globally, between these dates these sales went from US$2436 to $6412 billion. This represented a shift from 1.05 percent to 1.35 percent in terms of the percentage of exports (UNCTAD, 1997). This evolution is attributable much more to the developing countries (from 0.10 percent to 0.38 percent) than to western developed countries (from 1.61 percent to 1.65 percent). Growth was most pronounced in western Asia (from 0.04 percent to 1.15 percent), while in North America this proportion was the most elevated (2.07 percent in 1994, but 3.06 percent in 1982). North America was the only region to have registered a notable decrease.

Direct International Investments

Almost all of the attention of contemporary studies on international investments is focused on direct international investments. The essence of our analysis is focused on this area as well. This should not, however, obliterate the fact that other flows of long-term capital (and stocks) represent, and have always represented, more significant magnitudes of investment. In this way, for example, yearly for 1989–91 (last triennial period before the recession) and for western developed countries, the outflow of direct investments represented US$206 billion, while portfolio investments rose to US$250 billion. The rest of the outflow of long-term capital rose to US$65 billion. Therefore, direct investments only represented 40 percent of the total outflow of long-term capital.[3] Obviously, this interest in direct investments is justified by their more significant impact on the international economy. In regard to stock in capital, the situation is hardly different. The present distribution between direct investments and portfolio investments in particular is very different from that of the 19th century, and even from the first years of the 20th century.

Any analysis of the long-term evolution of international investments is strongly handicapped by the absence of valuable data on direct investments before the Second World War. This insufficiency is combined with the incomplete nature of data on the stock of long-term capital other than those related to direct investments for the period after the Second World War. We successively examine the data referencing the flow and the stock.

Before beginning our analysis of data concerning the flow of international investments and of direct investments – the flow that one qualifies as the flow of long-term capital – we should note that the flow of short-term capital has undergone a much more rapid growth during the last three decades. Nevertheless, we do not analyze the data on that subject here, especially because of the gaps in these statistics (even for recent decades), which render a long-term historical analysis extremely difficult. We content ourselves with presenting two indicators of the evolutionary tendency of these movements of short-term capital, two indicators which, moveover, are very erratic. From 1986 to 1995, the turnover of daily foreign exchange trading around the globe went from US$188 to US$1190 billion. In terms of the proportion of (yearly) global exports of goods and services this indicates a shift from 7.4 percent to 19.1 percent. According to the GDP, the cross-border transactions in bonds and equities for the USA and Germany went from around 3 percent in 1970 to 8–9

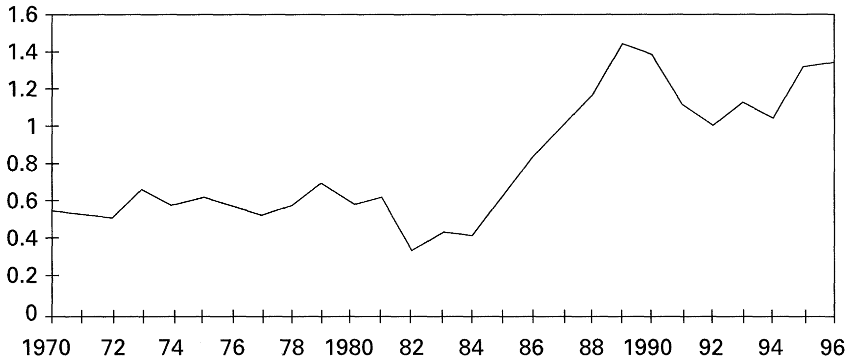

Figure 2 *Outflow of Foreign Direct Investments by Developed Western Nations in Percentage of GDP*

percent in 1980, to some 150 percent for the USA and 200 percent for Germany in 1996 (IMF, 1997: 67, 72).

The Flow of Direct Foreign Investments

Strictly comparable yearly data on the flow of direct investments only exist starting from 1970. Figure 2 presents the evolution of the outflow of direct investments expressed as a percentage of GDP. These statistics concern developed western countries during the period 1970–96.

First, notice that the evolution of the outflow of direct capital was very sensitive to the overall economic climate and particularly to the recessions of 1982 and 1991–2 but less so to that of 1974–5. In this respect, we should note that the very marked plunge of 1982 (more than 50 percent) is largely due to the US recession, where the decrease was on the order of 90 percent.

In addition, the relative place (in the global whole) of the western developed countries in the area of the exportation of direct investments is more marked than in foreign trade: for direct investments it is 85 percent of the global whole, as opposed to 69 percent of exports (for the stock of direct investments this western predominance is even stronger at 91 percent). Likewise, the interregional character of the flow of direct investments is even more marked than for trade. Thus, for example, for 1990, 85 percent of the outflow of direct investments from the western developed countries was destined for other countries in this region, whereas in exports this proportion was 77 percent. This element obviously reinforces the globalization of western economies.

Now, look at the way in which the recent peak in the relative importance of the outflow of direct investments constitutes a historical peak.

From the perspective of an extended period, the available data are full of holes, at the very least. In any case, even for the period between the two wars, and for 1913, it is not possible to establish a comparison based on the flow of direct investments, only rare and incomplete indications concern the total flux of capital. It is fitting, then, to fix the order of the relative growth of the total flow of present capital first. Earlier, we saw that for 1989–91 the total outflow of long-term capital (direct and portfolio investments) represented US$521 billion, or 3.3 percent of the GDP. In 1984, before the marked growth that followed, it was a question of US$168 billion, or 2.0 percent of the GDP; and at the beginning of the 1960s it was around US$7–10 billion, or on the order of 0.6–1.1 percent of the GDP.

We might begin our historical comparison with the period between the wars. In this area the most complete study conducted by the UN (1949) was, unfortunately, limited to distinct movements. According to these fragmentary indications, we can estimate that the net outflow of capital rose, in 1929, to US$1.7–1.8 billion for the exporters of capital in developed countries. If we postulate that the gross outflow exceeded the net outflow by 30–50 percent (thus including the net importation of capital), we reach US$2.3–2.6 billion (US$20–22 billion in 1990), or around 1.0 percent of the GDP. Clearly less than the present level, but 1929 hardly constituted a historical peak.

Without being perfect, the availability of data for 1913 is a bit better than that for the period between the wars. The (gross) outflow of long-term capital was evaluated at US$2.2–2.8 billion.[4] This represented US$32–40 billion in 1990 and 2.3–2.9 percent of the current value of the GDP during that period. According to all probability, these figures – following the example established for 1929 – are underestimated rather than overestimated: the order of probable growth for 1913 must be 3 percent of the GDP or even more. In other words, this proportion was only regained in the final years of the 1980s. And even the present proportion – which constitutes a historical peak – only surpasses the preceding peak of 1913 at a maximum of 0.3 percentage points.

Stock in Direct Foreign Investments

Figure 3 represents the evolution of the volume of the stock in direct foreign investments from the four principal countries in this area, in other words, the USA, UK, Japan and Germany. Together these countries possess more than two-thirds of the developed western countries' direct foreign investments. (We should note that the data from 1970 to 1979 are the result of my calculations and estimations. In fact, the statistical services of the UNCTAD only furnished data after 1980.)

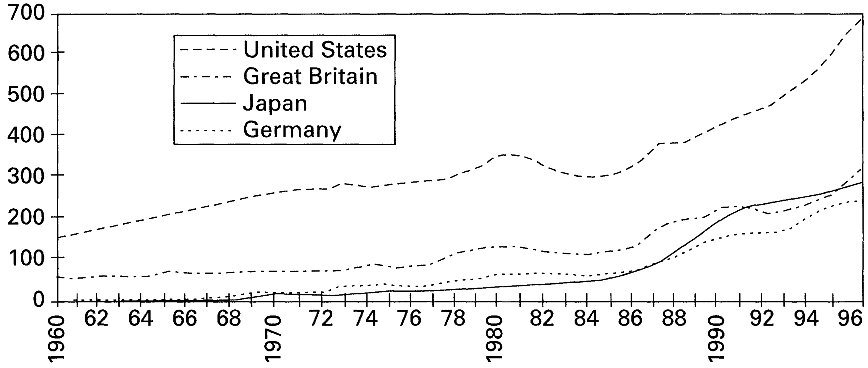

Figure 3 *Stock of the Foreign Direct Investments of the Four Principal Investors (USA, UK, Japan and Germany; in 1990 prices)*

The striking fact made evident by Figure 3 is Japan's rapid climb – alongside that of Germany – and the relative decline attributed to the USA, especially during the 1980s. Japan, which occupied an insignificant place in direct foreign investments even at the end of the 1960s (less than 1 percent of the total from the developed countries) experienced a phase of rapid progress during the early 1970s, going from 2.9 percent to 6.5 percent in 1985, and experienced a renewed burst, even more marked, after 1987. In the space of five years, between 1986 and 1991, the Japanese share of the total from the developed western countries practically doubled, going from 6.6 percent to 12.3 percent. The 1995 and 1996 data are still provisional. This can probably explain why, contrary to what the flow allows us to suppose, the relative growth of the stock of direct Japanese investments stopped growing. From 1980 to 1986, however, Germany took a certain pre-eminence more precociously than Japan, and after 1991 we perceive a downturn. This downturn is quite probably attributable to the reunification of the two Germanys.

The marked decrease in the USA's predominance began in 1980, when the USA still possessed 43 percent of the total stock of developed western countries' direct foreign investments. The USA represented no more than 26 percent of the total after 1990, save its 27 percent in 1996. In fact, the erosion of American predominance had already begun by the late 1960s. The high point was reached in the mid-1960s, when the USA represented nearly 60 percent of the total of direct foreign investments from all of the developed western countries. By the early 1970s, this proportion was no more than 47 percent.

This diminution of the relative importance of the USA on the international scene of direct foreign investments is a reflection of the more rapid growth of the other developed western countries. In an analysis of the process of globalization in the country where this notion originated (the USA), what is most significant is the evolution in terms of the importance of the stock of foreign direct investments of the USA in the percentage of the US GDP. Now, if one overlooks the first decade-and-a-half after the Second World War, which in some way constitutes a period of readaptation, then there are no substantial changes from 1958–60 to 1984–7. Thus, this stock, which represented 6.1 percent of the GDP for 1958–60, represented 6.3 percent of the GDP in 1984–7.

But then – and this is even more important to the process of globalization as seen from the US perspective – from early 1970s, we witnessed considerable growth of direct foreign investments into the USA. Whereas throughout the 1960s direct foreign investments represented only 1.2 percent of US GDP, in 1996 they represented nearly 13 percent. This ascending movement was launched in 1973, and these investments exceeded 2.0 percent in 1979, rising to 4.1 percent in 1985, 7.4 percent in 1990 and to 8.7 percent in 1996, nearly equalling the stock of direct foreign investments. One of the explanatory factors for this growth of direct (and other) investments in the USA was, obviously, the devaluation of the dollar. This devaluation began in 1971 and was well underway by 1974.

Throughout the 19th century and up to the eve of the First World War, the USA, like all the countries populated by transplanted Europeans, had more foreign investments within their territory than they possessed abroad. In June 1914, the USA possessed a total stock of investments abroad of US$3.5 billion, while foreign investments in the USA rose to US$6.7 billion. Certainly, and we return to this point later on, in this era the majority of investments abroad consisted of portfolio investments; and the stock of direct foreign investments in the USA only rose to US$1.3 billion. This represented 3.3 percent of the GDP in that period; a significant proportion of which was not regained until 1981. The stock of the entirety of foreign investments in the USA around 1913 represented 17 percent of the GDP. This too was also only recovered during the late 1970s.

Obviously, the factor expressed above to explain the massive arrival of foreign capital in the USA is, ipso facto, valuable in explaining the increase of stocks in foreign investments by most of the other developed western countries. For example, in 1990, 62 percent of Japanese investments in developed countries were in the USA. The devaluation of the American dollar largely explains the increase in foreign investments, not only from Japan but also from the European countries – most notably from Germany, France and the Netherlands. Thus, after the mid-1970s, instead of seeing two leading countries in the area of foreign investments (the USA and the

UK), we saw six countries: the two preceding countries, plus Germany, France, Japan and the Netherlands. We should note, on the other hand, that the large financial intake of the big oil-producing countries after the oil price hike of 1973 accelerated the flow of capital from these countries toward other Third World countries and also toward the developed countries. We should note, however, that this phenomenon has had more influence on short-term financial flow than on direct investments.

If we consider the developed western countries as a group, this multipolarization of international investments leads to a marked increase in the relative importance of such investments. In this way, the percentage increases from 6.5–7.0 percent of the GDP in 1980 up to 7.6 percent in 1985, to 9.5 percent in 1990 and nearly to 13.0 percent in 1996.

This is, incontestably, a process of globalization and, therefore, a reality. But is there something new from broad historical perspective?

We set aside the period between the wars in order to concentrate on 1913. Following my estimations, based on very fragmentary evidence,[5] I concluded that, for the ensemble of the future developed countries of the West, the total stock (direct or otherwise) in foreign investments had to represent 46–53 percent of the GDP in 1913. Based on my findings about the (incomplete) indications of the proportions of direct investment of capital by export countries and this proportion of capital in the import countries, I came to the conclusion that these direct investments had to represent, around 1913, approximately 15–20 percent of total investments. If we accept this, then we end up with direct investments that represent 15–19 percent of the GDP. According to J. H. Dunning's (1993) more elaborate estimations for 1914, this proportion would be 14.4 percent. Therefore, for 1913, we can retain 14–19 percent as a probable range. If we limit ourselves to Western Europe – noting the deficiency of foreign investments from the developed countries' overseas territories and departments – this proportion is even more elevated and situated probably near 20–22 percent.

Thus, as one can see in Table 3, in 1990 the relative importance of the stocks of direct foreign investments by the developed countries of the West was still clearly lower than the 1913 level. And in spite of the marked growth registered between 1990 and 1996 in practically all of the subregions of the developed western world, the peak level even in 1996 was still lower than that of 1913. These findings are valuable for all of the developed countries and, especially, for Western Europe. However, in the Land of the Rising Sun, which is also the land which experienced industrialization nearly a century after the other regions, it is certain that even the 1960s' very low level is clearly above that of 1913 and of every other date before 1960.

Finally, in the USA, it was already at 9 percent immediately before the

Table 3 *Stock of Direct Foreign Investments in the Percentage of the GDP (current values)*

	Western developed countries	USA	Western Europe	Japan
1913	14.0–19.0	5.0–7.0	20.0–22.0	1.0–3.0
1938	13.0–15.0	8.0–9.0	14.0–17.0	0.5–2.0
1950	–	4.1	–	–
1960	6.9	6.2	10.4	1.1
1971	6.4	7.5	6.9	1.9
1980	6.3	8.1	6.4	1.9
1985	7.5	6.2	10.3	3.3
1990	9.5	7.7	12.1	6.9
1996 [a]	12.9	10.8	17.6	7.2

[a] Preliminary numbers.

Sources: After 1950: IMF, *Balance of Payments Statistics Yearbook* (various issues); OECD, *Annuaire des statistiques d'investissment direct international* (various issues); UNCTAD, *World Investment Report* (various issues), and data communicated by the Secretary of the UNCTAD. Other periods: Author's estimations, see note 5.

Second World War and this is accentuated after the beginning of the 1970s. As previously noted, in view of the stock in direct foreign investments in the USA, the evolution was even more 'dramatic'. Besides, considering the developed western countries as a group, we similarly perceive an even more rapid growth of the stock in direct foreign investments within this group. While until the end of the 1960s, the stock in direct foreign investments within the developed counties of the West represented only 3–4 percent of the GDP, from 1980 to 1982 it represented 5.0 percent, growing to 8.2 percent in 1989–91 and to 10.1 percent in 1996. In other words, while stock in direct foreign investments in the developed western countries was weaker than this stock abroad at the end of the 1960s, this gap was progressively filled. It went from around one-half to four-fifths. Japan is still the developed country in which the presence of direct foreign capital is the most deficient: 0.6 percent of the total from the developed countries of the West in 1960, 1.0 percent for 1980–2 and 0.9 percent for 1994–6.

Limited Remarks as a (Very Brief) Conclusion

Even if trade and investments are two of the most important factors in globalization, they are far from being the only important factors. Perhaps our most serious reservation is that the present study is too centered on the developed countries of the West, though this is certainly a dominant region: in foreign trade (69 percent of the world) and in stock in direct foreign investments (91 percent of the world). But in terms of population, this region is the minority, representing only 15 percent of the world. The confrontation of this last proportion with the two preceding ones reveals that 85 percent of the global population is in some way removed from these important flows. This population represents only 31 percent of the global foreign trade and possesses only 9 percent of global direct foreign investments.

The Consequences of Globalization?

What is certain – and I reached this conclusion while writing my book on the economic and social history of the world from the 16th century to the present (Bairoch, 1997) – is that since the middle of the 1970s the developed countries of the West have entered into a new, incontestably negative phase on the economic and, especially, social plains. This phase comprises at least six characteristics which, except the first, concern practically all of the developed countries of the West.

1. Massive structural unemployment (with one major exception: the USA, where the evolution of salaries was more negative than in most of the other developed countries).
2. A growing inequality in the distribution of revenue.
3. Greater employment instability.
4. A more negative evolution in unskilled labor conditions: lower salaries and loss of jobs.
5. A dismantling of the 'provider state'.
6. A dismantling of public services.

On the global level, we can add another evolution that one might consider to be very negative. First, there is a distinct diminution of the economic growth of the world. Whereas from 1960 to 1980 the volume of the GDP per inhabitant grew 2.5 percent per year, from 1980 to 1996 it grew only 1.7 percent per year. Since the beginning of 1970, and in spite of a distinct diminution of economic growth in the developed countries of the West (1.9 percent per year and per inhabitant from 1970 to 1995 as opposed to 3.5 percent from 1950 to 1970), the gap between the level of the real GNP per inhabitant of the Third World to the market economy and that of the developed countries of the West widened and in a related manner. We went from a gap of 1:8.4 percent in 1970 to 1:10.3 percent in 1995. It is true that the annual rhythm that widened this gap was more rapid during the period from 1950 to 1970 than during the period from 1970 to 1995. But this is owed more to the diminution of the growth of the developed western countries than to a hypothetical acceleration of the growth

Table 4 Exports and Direct Investments by Inhabitants and as Percentage of the GDP (average 1994–6)

	Per inhabitant			As percentage of GDP		
		Direct stock investments			Direct stock investments	
	Exports	Foreign	Domestic	Exports	Foreign	Domestic
World	851	492	497	18.0	10.4	10.5
Western developed countries	3849	2952	2299	15.4	11.9	9.2
USA	2183	2690	1263	8.1	10.0	8.1
Western Europe	5107	3451	2679	24.0	16.3	12.6
Japan	3331	2453	1430	8.7	6.4	3.7
Eastern Europe	375	5	88	18.1	0.2	4.2
Third World (TW)	306	52	173	29.4	5.0	16.6
TW excl. China	376	66	197	30.9	5.6	16.2
TW excl. Four Dragons	238	18	151	28.1	2.1	17.9
TW excl. China and Four Dragons	283	19	168	29.7	2.0	17.6
Sub-Saharan Africa	83	26	61	15.4	4.8	11.2
Latin America	456	52	585	14.2	1.6	18.2
East Asia	193	57	145	25.0	7.4	18.7
China	117	13	107	20.7	2.3	19.0
East Asia excl. China	366	156	230	29.4	12.5	18.5
South Asia	37	0	12	9.3	0.1	3.1
Middle East and North Africa	496	49	292	20.8	2.1	12.2
Four Dragons	4243	2031	1414	34.8	16.6	11.6

Sources: See Table 1, to which we add for the GDP: World Bank, *Global Development Finance* (various issues); UN (1997) *Annual Statistics 1995*; and data communicated by the secretary of the UN's Economic Commission for Europe.

of the Third World to the market economy, since the annual growth of this region was in fact much slower from 1970 to 1995 (0.9 percent) than from 1950 to 1970 (1.7 percent). However, China, who even during these last two decades was clearly further away from globalization than the Third World to market economy (see Table 4) has recovered a significant fraction of the important gap that separates it from the developed countries of the West. Thus in 1970 this gap was 1:8.4 percent whereas in 1995 it was 1:5.5 percent. And in this case, this is more the result of an acceleration in China's growth than of the diminution of the West.

An Appeal from Stockholm

These are certainly dramatically negative evolutions. And it is still not possible to determine if they are the consequences of globalization. Whatever the causes might be, we think that it is necessary and, perhaps, urgent to study the setting up of an international 'New Deal'; but different from and better conceived than the American New Deal. If I have chosen this place and this moment to launch what one might call 'an Appeal from Stockholm', it is on account of the conjunction of the three following elements. This international conference on globalization is one of the rare multidisciplinary conferences. Sweden is a country that has played a leading role in the sphere of the 'provider state' and in the area of aid to the Third World. Finally, a large number of countries, some of which are very populous, are presently traversing a difficult economic period that has largely been caused by problems in the flow of capital.

Notes

1. We follow the definition of services adopted by the OECD. This definition incorporates everything under the following headings: 'Travel'; 'Transportation'; 'Government services'; 'Other private services' and includes services as diverse as repairs, insurance, advertising, films and television, etc. (OECD, 1994).
2. *Survey of Current Business* (June 1993 and July 1997). The American statistician's definition for services is a bit larger than the definition used by the OECD.
3. These numbers, like all of those we are using here, concern private capital and exclude short-term movements. The flow of capital of state-controlled origin is, therefore, excluded from this analysis. Such flows took on a certain magnitude after the 1960s on account of the augmentation of aid given to the Third World, but they remained marginal in relation to the flow of private capital. Thus, for 1989–91, with the annual outflow of US$521 billion of private capital we can oppose around US$70 billion of outflow from the public sector. Concerning direct investments, the flow and state-controlled stock are practically negligible, except for such operations on the part of nationalized industrial enterprises.

4. On this subject see the data and the sources used for Section A ('Foreign Investments') of Chapter V of my 1976 study (Bairoch, 1976a: 98–111). I completed these data for the requirements of one of my courses some years ago, but I did not keep track of the sources used.
5. I thank John Dunning for sharing a revision made after the publication of his book (Dunning, 1993). Concerning Japan, the stock of direct foreign capital went from US$300 million to US$600 million, thus raising the global total from US$14,582 million to US$14,882 million.

   Since we did not arrange synthetic values at the level of the GDP on the standard value of 1914, I estimated these values by applying the weighted average of variation of the GDP (or GNP) from 1913 to 1914 for the countries from which this datum was available (which represents some 83 percent of the group of developed western countries) to the data from 1913. I would also like to thank my colleague and friend Jean-Claude Toutain for providing this unpublished datum for France.

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