Globalisation, Present-day Capitalism, Commodity Chains

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Introduction: toward a third phase in the unfolding of the discourse on globalisation

The content of the papers presented at this workshop reflect a clear shift in the literature on globalisation, which has occurred since the middle of the 1990s. Until this time, the dominant discourse concerning globalisation - or economic globalisation at least – was that propagated by marketing gurus like Levitt (who was the first to coin the concept, in 1983) and neo-classical business economists such as Ohmae, who were working in close collaboration with institutions like OECD.

The position of these 'globalisation enthusiasts' was not only that all the critical economic flows – trade, FDI, portfolio investment, lending and borrowing, and so on – were becoming more internationalised than at any previous stage of history, but also that economic processes and tendencies in different parts of the world were becoming much less open to major local modification. In the case of Ohmae, this position was complemented by arguments that this led to a net increase in economic benefits (largely through greater competition and thereby greater efficiency), that - potentially at least – such changes benefited all countries equally, and finally that governments could best capture the benefits of this development by ensuring the greatest possible degree of economic openness/integration.

Since around 1995 this position has been subject to what has been called 'death by a thousand qualifications'. Several of the most strategic of these were inflicted most effectively (and crudely) by Hirst and Thompson (1996). The four most important of their qualifications can be summarised as follows:

- FDI and global trade today, far from being comprehensively 'globalised', increasingly takes the form of flows within and between a triad of groups of advanced economies, namely North America, Western Europe and Japan. Even investment and trade *between* these three blocs is less significant than within the first two, while flows between each of them and the rest of the world are hardly significant and, in most cases, falling in relative importance.

- Little or no change can be detected in the global distribution of GDP since 1970. Roughly 75 percent of the latter is still accounted for by the same group of countries, which of course exclude the leading NICs.

- Overall levels of international economic integration, even amongst countries in the 'triad', is no greater today (and in relation to some indicators, is actually lower) than at two or three other points in time during the twentieth century.

- The scope for nation states to exercise independence in economic policy making is still very considerable.

Those promulgating these and other qualifications to the globalisation discourse are now commonly designated 'globalisation sceptics'. Following on from Hirst and Thompson's predominantly economic focus of critique, most of this camp's subsequent contributions have been aimed at refuting claims concerning political globalisation (see Linda Weiss's paper in this volume).

In the next few pages I will argue for a partial rehabilitation of the notion of 'economic globalisation', although not for the form in which this notion was asserted prior to 1995. Indeed, my argument is aimed less at 'saving the concept' of economic globalisation, which I do not consider to be a particularly interesting project, and more at bringing discussion back to the issues of the nature of present-day capitalism, and of the capitalism of the first decade of the twenty-first century.

In the course of rectifying the hyperbole of the globalisation enthusiasts, the counter-discourse of the 'globalisation sceptics' has wittingly or unwittingly narrowed discussion of what is going on in the global economy today to the measurement of a very narrow range of largely quantitative trends. Furthermore, this measurement mostly seems to reveal a picture of little or no change. Yet the emerging literature on

present day capitalism (see below) indicates that there are certain quite major changes underway, which have direct consequences for international economic relations. A recognition of them implies that the discussion on economic globalisation needs to enter a third, 'post-sceptic' phase.

Below, three points will be raised for further discussion. The first concerns certain changes in world trade which have been glossed over by 'globalisation sceptics', and which provide some initial quantitative evidence against the first and most important point on the list of qualifications referred to above. The second concerns recent changes in forms of capitalist competition in so-called industrial countries - changes which are being increasingly referred to under the common heading of 'financialisation'. The third concerns recent changes in models of industrial organisation, so far most clearly evident in the US and Britain, but also emerging in other countries. As will become clear, these three points are inter-related.

Changes in the composition and structure of world trade

As the globalisation sceptics point out, while world trade/GDP ratios have been rising over the last decades, they are still little higher today than they were at the previous high-point of international economic activity, in 1914. Moreover, world trade in aggregate is no more globalised now than it was in the latter year, in the sense that developing countries' share in it has stagnated or even declined. On the other hand, if attention is turned to beneath the surface of these variables, the 'sceptic' picture of continuity (or better, a series of reprises of 1914) starts to look less convincing. Considered together, the series of significant new trends which are uncovered by looking beneath the surface strongly challenge the 'things remain the same as always' implications of the sceptic position. These trends can be listed as follows:

- *World merchandise trade has become overwhelmingly dominated by manufactures.* In 1950 35 percent of world merchandise trade by value was in agricultural products and 25 percent was in mining products. The share of world trade accounted for by agricultural products steadily subsided to 10.5 percent in 1998 (all data from GATT/WTO, various). The share accounted for by mining products rose slightly in the 1960s and 70s before falling to 9.5 percent in 1998. Meanwhile that accounted for by manufactures has almost doubled, from 39 percent of all trade in 1950 to 76 percent in 1998. Non-merchandise trade, i.e., trade in commercial services, has meanwhile also grown substantially and its value now exceeds the combined values of

agricultural trade and trade in mining products. World trade is thus no longer based on the import of raw materials to industrial countries, or even on the exchange of finished goods for raw materials,. It is based on the exchange of different kinds of manufactures and services.

- *Since the early 1970s the share of world exports accounted for by the 'triad' has stagnated; on the other hand, that accounted for by Asian countries outside of the 'triad' has roughly doubled.* The share of world exports accounted for by the triad increased from under 60 percent at the end of the 1940s to 68 percent in 1973. Since that year it has fluctuated between 62 percent (1983) and 71 percent (1993). In 1998 it was 68.9 percent. Amongst Asian countries, Hirst and Thompson include only Japan as part of the triad. Yet the share of world merchandise exports accounted for by Asian countries other than Japan increased from 9 percent in 1963 to 18 percent in 1997, before (as a result of the 'Asian crisis') falling back to 17 percent in 1998 (GATT/WTO, various).

- *These two developments are linked. 'Asia other than Japan' has taken a leading position not only in exports of basic manufactures like clothing, but also (and especially since 1990) in more technologically sophisticated products.* Table 1 shows "Asia other than Japan"'s recent share of world exports for four of contemporary world trade's leading items. In 1998, these items together represented 60.3 percent by value of world merchandise trade, and 79.3 percent of world trade in manufactures. Three trends stand out. Firstly, from 1990 to1997, there is a significant rise in "Asia other than Japan"'s share of world exports for each these items except clothing, where its leading position was already well-established. In each case, the 1998 shares for "Asia other than Japan" are higher than those of Japan itself. Secondly, a majority of all exports of these items from "Asia other than Japan", except for textiles, are global rather than being within the Asia region (including Japan) itself. Thirdly, although in most cases its presence in Asian markets themselves was growing faster, the extent of "Asia other than Japan"'s presence in non-Asian markets has been increasing for all items except clothing.

Table 1: 'Asia other than Japan's share in world exports for selected manufactured products, 1990-1998 (by % of total value)

	1990	*1997*	*1998*
Machinery and transport equipment			
Share in world exports	9.6	17.4	16.2
Share in exports to Asia	3.6	8.3	7.0
Share in exports to non-Asian countries	6.0	9.1	9.2
Office machinery and telecoms equipment			
Share in world exports	23.5	34.6	33.2
Share in exports to Asia	7.7	15.7	14.2
Share in exports to non-Asian countries	15.8	18.9	19.0
Textiles			
Share in world exports	29.6	39.9	36.3
Share in exports to Asia	17.0	24.7	20.0
Share in exports to non-Asian countries	12.6	15.2	16.3
Clothing			
Share in world exports	43.6	44.6	42.8
Share in exports to Asia	8.1	12.2	10.9
Share in exports to non-Asian countries	35.5	32.4	31.9

Source: WTO (1998, 1999)

On this basis, it is possible to consider a region outside the triad as already being the world's leading manufacturing specialist, and in the process of a transition from being a global specialist in labour-intensive manufacture to becoming one in capital-intensive manufacture. This important truth is overlooked in the globalisation sceptic concern with emphasising the insignificance of ongoing changes.

'Financialisation': changes in forms of capitalist competition in industrial countries

Here I want to draw attention to some of the recent literature around the phenomenon of 'improving shareholder value'. This brings together issues of corporate 'financialisation', particularly in the US, Britain and France, and new forms of capitalist competition. At first sight, these issues have little direct relation to the trends just described. But in fact, the latter have been powerfully acceleratred by the processes which will be described here.

Corporate 'Financialisation' is a trend which is considered to follow from the

liberalisation of national financial markets, including stock exchanges/bourses, from the 1980s onwards. It coincides with the rise of institutional investors, such as pension funds and investment trusts, and a (partly related) broadening popular participation in corporate shareholding. Various articles in the special edition of Economy & Society on corporate financialisation (Vol. 29, No. 1, 2000) cite data showing corporate equity now being owned by 40 percent plus of households both in the US and Britain, and of financial assets accounting for 61 percent of total British household assets in 1995, as opposed to only 46 percent in 1975. The phenomenon of corporate financialisation itself refers to resulting tendencies for huge increases in the market value of equities (especially in their value relative to those of total paid-up corporate capital – the so-called p/e ratio - and of total fixed corporate assets) and related high levels of volatility in the prices of individual equities.

New forms of competition: Summing-up a broader literature, Williams (2000) argues that financialisation has led to a partial re-orientation of quoted corporations in the US and Britain (and to a lesser extent France, where financialisation is also extensive), away from increasing their shares of product markets and toward impressing financial markets. Dramatically increasing shares of product markets is anyway becoming more difficult, as a result of market saturation. Financial markets assess corporate performance primarily in terms of financial performance, i.e., returns on capital invested, or 'shareholder value'. They have even evolved a 'quality convention' in relation to financial performance (13 percent return on capital employed (ROCE)). Corporate ROCEs at or above this level are rewarded with higher market values for their equities, enabling 'shareholder value' to be realised when these equities are sold.

Table 2: Forms of capitalist competition in industrial countries, ca. 1985 and 2000

Ca. 1985	*Ca. 2000*
Competition around product market share (e.g. autos, computer)	Competition around financial results (regardless of sector)
Competition around process innovation	Competition around maximising returns on investment
Dominance of consumer market	Dominance of capital market ('shareholder value')
Dominance of Japanese model (Toyotaism)	Dominance of US model (Ford plus tiered suppliers)

Source: (loosely based on) Froud, Haslam, Johal and Williams (2000)

Although this quality convention is only infrequently attained in practice, it has acted as a stimulus for directors and managers to seek radical solutions to the problem of attaining/sustaining high levels of return on capital. For most enterprises, not only can such levels of return not be attained via innovations with regard to the production process, but they are exceedingly difficult to attain by increasing sales as such. Instead, they can only be attained by restructuring and 'downsizing', usually in the form of concentrating on or acquiring new activities thought to have high ROCEs while stripping out or selling off ones thought to have low ROCEs. According to Froud, Haslam, Johal and Williams (op. cit.), high ROCE activities are typically thought to include product definition, design, marketing, retailing and financing consumption (the highest 'ROCE' activity in the auto sector is generally considered to be lending money to companies and individuals to buy cars). Low 'ROCE' activities are typically thought to include manufacturing, assembly and distribution. It needs underlining that this set of distinctions, like the definition of 'capital employed' embodied in the notion of ROCE itself, are fairly new and purely conventional. Traditionally employed measures of 'capital employed' have only been recently overturned, while of course there are no intrinsically more or less profitable economic activities which can be defined independently of how a given economic system, market, or even enterprise, is regulated. On the other hand, global across-the-board market deregulation does appear to have been associated with secular declines in the profitability of activities with relatively low barriers to entry in most countries, and there is evidence that manufactured exports face secularly declining terms of trade relative to commercial services.

Recent changes in industrial organisation

According to recent work at the Industrial Performance Centre at MIT, reported in Sturgeon (2000), a new model of industrial organisation appears to be emerging across a wide range of sectors in the US, Britain and northern Europe, and with global consequences. A major focus of this model is on achieving *external economies* through out-sourcing, as opposed to earlier models which focused heavily on internal scale economies, themselves often brought about through vertical integration. Sturgeon's explanation of the rise of the new model takes the form of imputing it asa generalised US response to (Asian) competition, although its consistency with corporate financialisation is actually more compelling.

External economies are generated by 'lead firms' through undertaking a process of vertical disintegration. Lead (usually brand name) firms restructure by retaining control over product definition and marketing, but externalise manufacturing and production services to contractors (with or – more usually – in the absence of written contracts). As a result, lead firms become 'manufacturers without factories'. On this basis, they gain the possibility of costlessly shifting production up and down in scale.

In addition, they can reduce their costs by increasing their number of suppliers and utilising implicit competition between them to exercise a downward pressure on prices. In the clothing sector, for example, the lead brand name firm Esprit could boast in its latest Annual Report that it had brought down unit costs of the garments it bought in from suppliers by seven percent during 1999-2000 (Esprit, 2000).

This form of industrial organisation has been widespread in the US clothing and footwear sectors for more than twenty years, and was adopted by European clothing branders/marketers in the 1980s. In the European apparel industries (and to a lesser extent in the US) it coexisted with another model of industrial organisation however, whereby domestically-based clothing producers transnationalised themselves by establishing own-operated branch plants in low-cost labour areas on the periphery of the EEC/EC/EU (US) and beyond. In a famous German text of the 1970s, the latter model became mistaken by contributors to Fröbel, Heinrichs and Kreye (ed.) (1980) as the general pattern for a 'new international division of labour'. While it still characterises an important form of industrial organisation for German- and Italian-based enterprises in a few sectors including clothing, even within the clothing industry considered globally it has become increasingly marginal. In particular, the major US jeans producers who followed such strategies through to the 1990s have now also largely abandoned them in favour of comprehensive out-sourcing.

Of course, out-sourcing is not a new phenomenon. As Wallerstein (1974) pointed out, the extent of its presence during the history of capitalism has varied directly with the latter's long-term cycles of upturns and downturns (which he refers to as A- and B-phases). More recently, as much of the literature on the 'Third Italy' pointed out, it was widespread in the SME sectors in a number of developed countries in the 1970s. Out-sourcing was also an important component of 'Toyotaism', of course. But in none of these cases was out-sourcing of core production functions a feature. Furthermore, in neither of the two more recent cases just referred to were the networks through which out-sourcing was organised articulated on a purely commercial basis. Both in the 'Third Italy' and in the Toyota system of 'lean production' and Just-In-Time (JIT) delivery/inventory management, sub-contracting was articulated on the basis of long-term, trust-based relations which involved considerable investments (tangible and intangible) by lead enterprises themselves. In contrast with this, in the new model of industrial organisation, out-sourcing networks are overwhelmingly commercial in their articulation. Long-term, trust based relations at best have less weight and at worst are treated as costly 'rigidities'.

According to Sturgeon (op. cit.), whereas in the 1980s this model of industrial organisation was found mainly in the clothing sector (and perhaps also in pharmaceuticals), it is now found across a broad range of key sectors, including most of the 'big ticket' ones. It is well-established in computers and semi-conductors, and is becoming of heightened importance even in autos. Here a shift is underway, most

noticeable in respect of Ford in Latin America, from lead firms out-sourcing component supply to them out-sourcing assembly itself. This is against a background of Ford 'refocusing' on branding, marketing and after-sales service.

The spread of impersonalised, non-trust based outsourcing from clothing and footwear to other sectors has been associated with a fundamental change in the nature of certain suppliers themselves. This change is the other key characteristic of the new model of industrial organisation. As lead firms have increasingly redefined themselves as specialists in branding and marketing, so certain of their suppliers have chosen to strategically specialise in manufacturing and the provision of related production services. In the computer industry their strategies have had two main prongs: developing manufacturing competences over a range of similar products, and taking a 'full-service' approach. Where involvement in final product development was once quite widespread amongst suppliers in this sector, and development of own brands was also at least a common ambition, this is no longer the case and capacities to fulfil these roles have been run down. Quite commonly, it has been replaced by development of capacity in the area of 'supply-chain management', that is in coordination/management of the entire commodity chain from independent production of components up to manufacture of the final product.

Having the ability to produce a range of similar products, and development of the capacity to take on the role of 'full-service' provider allows the suppliers concerned to market themselves to lead firms as 'turnkey manufacturers', or – to use a phrase common in the clothing sector – 'full-package suppliers'. Lead firms can enter relations with them in the confidence that they can reduce transaction costs, since they can be supplied not only with one product but instead with a range of products. At the same time, becoming a 'turnkey manufacturer' allows a supplier (at least potentially) to diversify its customer base, particularly for products where manufacturing processes tend to have a common technological base across brands. This is in contrast to the 'captive' supply relationship typical of Toyotaism (a relationship justified by Toyota precisely in terms of the investment this company needed to make in order to bring its suppliers 'up to speed').

Of course, there are limits to the extents which lead firms can cut costs by spreading orders between multiple suppliers, and to which turnkey manufacturers can spread risk by diversifying their customer base. In the former case the more suppliers a lead firm has, the higher become the costs of establishing and monitoring contracts, ensuring consistent quality, etc. In the latter case, there are financial and managerial capacity-related limits to the extent that turnkey manufacturers can invest in generic technologies or switch between products. Thus, in the computer sector at least, a kind of working rule has emerged whereby both lead firms and suppliers aim to source from or supply to no more than 5-10 counterparts. Similar rules of thumb, although with numbers in the 10-20 range, appear to have emerged in the clothing sector.

These in turn provide a form of assurance to would-be 'turnkey manufacturers' that there is a profitable long-term niche in specialisation in this role. Confirmation that such a niche exists can be gained by comparing the financial results of contract manufacturers in the computer industry with those of the branders/marketers whom they supply. Using the rather traditional measure of pre-tax profit/turnover ratios, it seems that contract manufacturers like Ace are much more profitable than the companies whose names appear on their computers.

Besides the US-based Ace, the leading turnkey manufacturers in the computer sector include SCI (US-based, who acquired Apple's largest PC manufacturing plant in 1996) and IBM (US), who have restructured themselves from an integrated marketer-manufacturer to a provider of basic components for the whole computer industry; in semi-conductors they include Winbond (Taiwan) and Tower Semiconductors (Israel), who jointly became responsible for supplying 20-30 percent of Toshiba's former in-house manufacturing in summer 2000 (*Financial Times*, 21 August 2000); in clothing they include the Hong Kong-based manufacturing giants Esquel, Novel and Winsor.

Each of these enterprises has a global presence, but one which lacks clear geographical boundaries. This represents an additional difference between the out-sourcing networks characteristic of the new model of industrial organisation and those characteristic of earlier ones. In both the 'Third Italy' and Toyotaist models a high premium was attached to the physical proximity of suppliers to the companies sourcing from them, either because the latter was considered to be an important pre-condition of maintaining long-term personal trust relations or because of the demands of JIT. A consequence was that when Toyota (or any other 'Toyotaist') enterprise shifted production to another part of the globe, its 'captive' suppliers were expected to move with it. Partly because they do not involve 'captive' contracts, and partly because manufacturing as a totality has now been contracted out, the new networks can now have a much more systematic global reach. SCI, for example, has a manufacturing presence both in key end-markets (20 plants in the North America and 7 in the EU), in relatively cheap-labour sites (4 plants in Mexico, one each in Brazil, China, Malaysia, Thailand and eastern Europe) and in intermediate locations presumably providing other types of advantages (2 plants in Israel, one in Singapore, etc) (SCI Systems Inc, 2000).

The final element of the new industrial organisation model is that of contract manufacturers' re-engineering of their own upstream supply-chains, in order to play fully 'turnkey' roles. Research exploring the content and consequences of these processes is still in its infancy, but it is already clear that the latter include new, secondary processes of global dispersal and rationalisation of economic activity.

Amongst other things, coming to terms with the developments described by Sturgeon

- which are also suggested/confirmed for other sectors by recent work on the fresh produce by Dolan and Humphrey (2000) and on the cocoa-to-chocolate industry by Fold (forthcoming) - requires a partial rethinking of the influential and otherwise highly compelling analysis of some of the distinctive features of the current phase of capitalism embodied in Gereffi's (1994) work on 'Buyer-driven Global Commodity Chains'. The cutting edge of Gereffi's contribution was that the combination of the emergence of a distinct category of specialised branders/marketers in several sectors, together with (partly related) sharp increases in concentration of ownership and market share within the retail sector, led to a restructuring of commodity chains in directions which made them increasingly *trade-based*, increasingly *global*, and increasingly actively structured according to a single specific principle. This principle was the systematic externalisation of lower-profit functions upstream along the chain, away from 'buyers' (i.e., branders/marketers/retailers) and toward different categories of suppliers.

Gereffi appears to have seen this development as involving unprecedented accumulations of power and shares of the total surplus-value generated along a chain on the part of buyers, at the expense of the different categories of suppliers. On this basis, Global Commodity Chain analysis appeared to echo elements of the highly prescriptive version of business economics being adumbrated at the same time by Michael Porter. In order to benefit from globalisation, economic actors had to 'move up the value-chain' in the direction of branding and marketing. Sturgeon's analysis (and the others mentioned a moment ago) suggests that 'Buyer-drivenness' is a more complex process than hitherto suggested, and by no means one with zero-sum power consequences (for arguments suggesting similar conclusions, but from the standpoint of purely methodological reflections, see Raikes, Jensen and Ponte (2000) and Gibbon (2001)). Indeed, insofar as the differentiation of a distinct branding/marketing role opens up, as opposed to closes off, space for innovation and accumulation upstream, Sturgeon's work perhaps even places a question-mark against the notion of 'Buyer-drivenness' itself.

This discussion takes us a long way beyond the point of departure of this contribution, namely the issue of whether or not it is meaningful to speak of (economic) 'globalisation'. Hopefully however it has led to an exploration of more fertile territory – territory where some conceptual tools for the concrete analysis of concrete situations can be found, sharpened and used.

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