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GLOBALIZATION: A EUROPEAN PERSPECTIVE

A note prepared by the secretariat of the United Nations Economic Commission for Europe for the Interactive Debate with Heads of UN Regional Commissions at the UNCTAD X Meeting, Bangkok, February 2000

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Introduction

"Globalization" is a catch-all term that came into fashion in the 1980s and early 1990s to describe what many felt to be a new and central reality of the times. This new reality has been created, so it is claimed, by the progressive removal of barriers to merchandise trade throughout the period since the Second World War, by the deregulation of financial markets in the 1980s, and by a technological revolution which has greatly reduced the costs of information processing and of international communications. These developments, it is argued in turn, have so transformed the basis for conducting international transactions that enterprise activity is no longer constrained by national boundaries: the entire world is the corporation's oyster and both capital and labour should migrate to whatever point on the globe yields the highest return. (In practice, and in contrast with an earlier wave of globalization, before the First World War, only global capital mobility receives general support from the developed market economy countries.) The combined pressures of increased capital mobility, technological progress and intense market competition have brought markets closer together and have increased the interdependence of national economies to such a degree that none of them can escape the influence of events in remote parts of the globe - the metaphor, increasingly overworked, is that of the butterfly beating its wings in the Amazonian jungle and influencing the weather in Europe.

One effect of this globalization process, it is argued, has been to alter the relationship between the authority of the state and the power of market forces. The state becomes increasingly powerless before the fact of high mobility of capital, its ability to flee from jurisdictions which it finds inimical to its interests, and as a result there has been a marked shift in the balance of private versus public decision-making, with important consequences for public expenditure and, especially, for spending on social safety nets and welfare. This representation of globalization as an autonomous and irresistible force, sweeping away established institutions and sources of authority, is curiously reminiscent of traditional Marxism in its determinism.

Many of those who accept that the world's economies are being driven ineluctably in the direction described above are nevertheless divided over the probable outcome. Some admit that traditional structures will be broken but that nevertheless the process of globalization will bring about greater prosperity and equality, increase the domain of democratic institutions and strengthen the basis for peace.[1] Others see the process of liberalization as having set in motion forces which contain the seeds of its own destruction: the erosion of traditional sources of authority and the social institutions that previously softened the harshness of free markets have led to increasing insecurity among large sections of the population, to increasing inequalities within and between countries, and to a steady deterioration in the environment and in the general quality of living standards. The removal of the political and social checks and balances that made capitalism acceptable for periods in the 19th Century and, especially, in the aftermath of the Second World War, are in fact more likely to provoke a political backlash against the idea of a global free market than to strengthen it.[2] Some commentators adopt a position between these two, a third way perhaps: they accept that globalization is an established process, that it is unstoppable and irreversible, but although they share the view that it is likely to be beneficial they are not so certain that this will in fact be the case and are more sensitive to the risks created by social disruption and increased anxiety.[3]

This admittedly small, selection of views on the nature of "globalization" indicates that the term is used indiscriminately to cover a large mixture of statements or beliefs on the one hand about how the world economy, and especially the relations between its component parts, is actually developing and, on the other hand, assertions about whether or not progress towards a global economy is in fact desirable. In fact, the term globalization is used to cover

[1] For example, Thomas Friedman, *The Lexus and the Olive Tree: Understanding Globalization*, New York, 1999.

[2] John Gray, *False Dawn. The Delusions of Global Capitalism*, London: 1998. Gray's argument that the process of liberalization has been set in motion by policy makers who fail to appreciate the unintended consequences of their actions recalls Bagehot's observation that "the characteristic danger of great nations is that they may at last fail from not comprehending the great institutions they have created". Quoted in US Federal Reserve, "International Activities of US Banks and in US-Banking Markets", *Federal Reserve Bulletin*, September 1999, p.599.

[3] Along these lines see Anthony Giddens, *Runaway World*, London: 1999.

such a wide range of issues, ideas and assertions, that it is virtually meaningless for analytical as opposed to rhetorical use.

Nevertheless, it is clear that globalization is used in both a descriptive and a normative sense. On the one hand it claims to describe the developments noted above, namely, a process of international integration which has led - or is leading - to the point where national boundaries, and national authorities, become increasingly irrelevant to the decisions taken by economic agents. On the other hand, the process of globalization is also seen in normative terms: many governments and policy makers, especially in North America and Western Europe, as well as large multinational companies, tend to see it as one which is essentially benign in which open trade and foreign investment régimes will lead not only to faster growth for the world economy but also to increasing convergence of national incomes per head across the world, since developing and transition economies can expect to benefit more than average from increased openness. The normative programme is therefore to achieve these objectives by giving as full a reign as possible to market forces and reducing the role of the state, and of any form of interference with market forces, to a minimum. In this normative mode, so to speak, the globalization agenda turns out to be the traditional neo-classical, neo-liberal agenda up-dated for a world where geographic distance is alleged to have little significance for business activity. The pursuit of this agenda by the United States[4] and other G7 countries was greatly assisted by the collapse of communist régimes in 1989 and the early 1990s which weakened the political and intellectual resistance to the enlarged programme of liberalization exemplified by the Uruguay Round of 1986-1994 and the creation of the WTO. However, the opposition to this normative agenda from those who have yet to enjoy the benefits of globalization or have suffered the negative consequences mentioned above has been growing rapidly in the last few years and gained considerable publicity from the collapse of the WTO ministerial meeting in Seattle in December 1999. It is too early to judge whether Seattle marks the highpoint of the current wave of liberalization but it does seem more likely that the agenda will be increasingly modified, if only to prevent the pendulum swinging too far in the opposite direction.

[4] The former United States Secretary of State, Dr. Henry Kissinger has observed "that what is called globalization is really another name for the dominant role of the United States". See his "Globalization and World Order", a lecture delivered at Trinity College, Dublin, 12 October 1999. This frank acknowledgement of the role of national power in international economic relations is relatively rare in mainstream economic analysis of globalization trends.

Some questionable assumptions about globalization

In a short note, intended to raise a selection of issues for discussion, it is not possible to "deconstruct" the idea of globalism and examine all the positive and normative statements with which it is associated, but most of them would appear to be open to question or at least in need of significant qualification. Consider the claim that the late 20th Century has witnessed an unprecedented rate of technical change and, especially, a revolution in communications and information technology. Contemporary estimates of the significance and likely development of innovations are notoriously unreliable with underestimation as common as excessive optimism. But, without denying that there has been significant technical progress in recent years, can it really be claimed that the pace of change is greater than in the late 19th Century when the speed of communication between North America and Europe, for example, was reduced in the 1860s from several days sailing time to the minute or so that it took to send a telegraph message?[5] This development, in conjunction with the technologies of the steamship and railway led to a boom in foreign investment and to a degree of openness (measured by the ratio of merchandise trade to GDP) that for many countries was, before the first World War, as high or higher than in the early 1990s.[6] Nevertheless, the period was still characterized by generally high rates of protection of merchandise trade; what was more striking was the considerable mobility of capital and labour. However, the present *nature* of international trade is said to be rather different from this earlier period of integration notably because of the development of intra-industry trade - this point will be taken up below.

Other claims about the nature of the global economy have also been subject to careful academic research and found to be wanting or exaggerated. The common view that multinational corporations are bringing about a close convergence of national economies

[5] The communications revolution of the 19th Century is highlighted by an Australian woman who wrote in 1799 that "by the capture of a ship off the coast of Brazil we were left without any direct intelligence from Europe for twelve months. We firmly believed that a revolution or some national calamity had befallen Great Britain". Brenda Niall and John Thompson (editors), *The Oxford Book of Australian Letters*, O.U.P., Oxford, 1999.

[6] R. Feenstra, 'Integration of trade and disintegration of production in the global economy', *Journal of Economic Perspectives*, Vol.12(4), 1998, pp. 31-50. Other very useful attempts to place current claims about globalization in historical perspective are Paul Bairoch, "Globalization, myths and realities: One century of external trade and foreign investment" in R. Boyer and D. Drache (eds), *States against markets: the limits of globalization*, London, 1996, and Paul Bairoch and Richard Kozul-Wright, "Globalization Myths: Some historical reflections on integration, industrialization and growth in the world economy", *UNCTAD Discussion Papers*, No.113, Geneva: March 1996.

through their integration of innovation, trade and investment has been shown to be wide of the mark, in large part because "the MNCs themselves are not converging toward global behavioural norms ... the most strategically significant operations of MNCs continue to vary systematically along national lines. The global corporation, adrift from its national political moorings and roaming an increasingly borderless world market, is a myth".[7] This is not to argue that there are not important issues concerning the role of MNCs in the national economies and their relations with governments and society at large - but in the main these concern perennial questions concerning corporate power and are not new.

The rest of this note focuses on selected aspects of the globalization process, namely trade and investment, and then makes some points about the normative agenda.

European trade and investment: globalization or regionalization?

In a truly global economy, meeting the assumptions of neo-classical economics, there would be virtually perfect substitution between goods, factors of production and financial assets, and enterprises would respond to *global* incentives and locate their activities wherever they would be most profitable and without any regard to national jurisdictions. Complete integration would be signalled by the presence of the law of one price, and the institutional underpinnings of the global economy - the protection of property rights, the enforcement of rules, the conduct of regulation, the maintenance of monetary stability, etc. - would become the responsibility of supra-national bodies. This would be the text-book model of a global economy and it is obvious that the current organization of economic activity is nowhere near such a state. A much looser description of globalization, reflected in the views mentioned earlier, is that an increasing volume and variety of cross-border transactions in goods, services and capital flows is moving in the *direction* of a global market by increasing the interdependence of national economies on a world-wide basis. In other words, this involves a statement about the actual direction of flows of goods and capital - which suggests that geography still matters, at least until the global market is finally achieved!

[7] Paul N. Doremus et al., *The Myth of the Global Corporation*, Princeton University Press, Princeton,: 1998.

Table 1 shows the evolution of the *structure* of west European trade from 1928 to 1998. There are of course important differences in the levels of trade and in the openness of national economies over this period but the focus on the distribution of the various flows abstracts from these changes. What is clear from the data is that far from becoming more global west European trade has become more and more concentrated on the European region itself. Well over two thirds of Europe's exports and imports now consist of intra-west European exchanges compared with some 55 and 46 per cent in the inter-war period. Trade with the rest of the world, and especially with the developing countries, has tended to decline in relative importance.[8] There was a brief recovery in the share of developing countries in western Europe's trade as a result of the oil shocks of the 1970s but this was quickly reversed with the subsequent shift in the terms of trade against the Middle East and other oil producers.

Table 2 indicates that the extensive trade liberalization which occurred in eastern Europe and the Baltic states after the revolutions of 1989 has led to a rapid re-orientation of trade away from the former CMEA towards western Europe. Longer-run comparisons are difficult because of boundary changes, the re-integration or disintegration of states, and inconsistent valuation of different trade flows, but the basic picture is that the trade of the transition economies had more or less reverted to its pre-war structure: western Europe in the late 1920s was the destination for around three-quarters of east European exports and the source of a similar proportion of imports. These shares fell to about a fifth to a third under the regime of central planning and the CMEA trading area, but by 1998 they were again in the region of 70 per cent or so. Trade with developing countries which, as in western Europe, increased momentarily in the wake of the oil shocks of the 1970s, is proportionately much smaller than is the case for western Europe and has tended either to stagnate or to fall in the 1990s.[9]

Thus the general evolution of European trade has not been towards a more global distribution of relationships but instead towards a more intense integration with close

[8] On the steady decline in the relative intensity of west European trade with developing countries, see UN/ECE, 'Structural Changes in North-South Trade, with Emphasis on the Trade of the ECE Region, 1965-1983', *Economic Bulletin for Europe*, Vol.36(4), 1984, pp. 481-515. This study uses the so-called delta coefficient of intensity to measure changes in the direction of trade.

[9] Russia has a higher proportion of trade with developing countries (around 20 per cent or so), largely a reflection of its trade with China and other Asian countries, but it has fluctuated with no tendency to rise in the 1990s.

neighbours. Interdependence among the economies of the region has increased but with the rest of the world it has tended to weaken.

With free capital movement it is of course possible that trade flows may be replaced by direct investment abroad, but the data in table 3 suggest that west European FDI, in the main, is positively, not negatively, correlated with the structure of trade by partner country. FDI data by provenance and destination are not among the most reliable of economic statistics, but the basic conclusion from table 3 is that outward flows of FDI from west European countries have been increasingly directed to other parts of the region. In the 1990s some 60 per cent of all west European FDI has remained within western Europe, a much higher proportion than in the 1980s, with another 3.5 per cent on average going to the ECE transition economies. Thus the regional concentration of trade is repeated, if a little less sharply, in the pattern of foreign investment. In a longer historical perspective the change in concentration is especially marked. In 1914, at the end of a previous phase of globalization, just under 19 per cent of the gross value of west European capital invested abroad went to other parts of western Europe; 40 per cent or so was invested in Latin America, Asia and Africa, 27 per cent in "western offshoots" in other parts of the world (the British Dominions, for example), and 14 per cent in eastern Europe.[10] In other words, west European foreign investment was more globally oriented before the First World War than in the 1990s.

Why regionalization?

Why should the flows of European trade and direct investment become more concentrated in the region when the most powerful forces for integration are supposed to be leading towards a global economy?

Europe's trade relations with the developing countries have weakened for a number of reasons which have been cited over many years. For most of the post-war period the terms of trade have moved against developing countries dependent on commodity exports and their losses in export earnings were especially large in the 1980s.[11] Technological change in Europe and other developed market economies have reduced significantly the

[10] Angus Maddison, *Monitoring the World Economy 1820-1992*, OECD: Paris 1995, table 3-3, p.63. Western Europe here comprises the United Kingdom, France, Germany, Belgium, the Netherlands and Switzerland.

[11] Alfred Maizels, *Commodities in Crisis*, Clarendon Press, Oxford: 1992, especially chapter 2.

natural materials content of industrial output[12] while the shift in the pattern of demand towards services has lowered the material content of GDP. In addition, exports of agricultural products from many developing countries are restrained by the protection of the agriculture sectors of the developed countries while developing country exports of labour intensive manufactures are still subject to a range of non-tariff barriers and to the disproportionate use of "anti-dumping" measures.

Another factor which is alleged to play a role in increased regionalization is the surge in regional trade agreements in the last decade or so. There is however considerable controversy in the literature as to whether the welfare gains from such arrangements are smaller or greater than those resulting from liberalization on a multilateral (MFN) basis, and whether they will ultimately reinforce or undermine the multilateral trading system as embodied in the rules of the WTO.[13] Estimates of whether such regional arrangements lead to more intense trade with the rest of the world or to intra-bloc bias (trade diversion) are inconclusive and sensitive to model specification. But even if the gains are uncertain, such arrangements may well expand if non-members fear that they will suffer from trade or investment diversion if they remain outside. Such fears may be strengthened at a time when transport and communication costs are falling and therefore raising the probability of increased trade and interdependence among the members of the agreement. Such bandwagon or contagion effects have occurred during previous periods marked by trade liberalization and falling transport costs.[14]

Although the above-mentioned factors may all play some role in supporting the regionalization of Europe's trade and investment flows, the fact that such concentration has been high and increasing over a very long period, and especially for trade in manufactures, suggests that more fundamental influences are at work.

One of the characteristics often claimed for "globalization" is that international trade in manufactures is increasingly "intra-industry" as opposed to inter-industry. However, this

[12] Among the factors at work are the increased use of synthetic substitutes (produced largely in the developed market economies) and of lighter materials, as well as general increases in the efficiency with which materials are used. Maizels, *op.cit.*, chapter 11.

[13] For a recent discussion of these issues see Sam Laird, 'Regional Trade Agreements: Dangerous Liaisons?', *The World Economy*, Vol.22(9), December 1999, pp. 1179-1200.

[14] David Lazer, 'The Free Trade Epidemic of the 1860s and other Outbreaks of Economic Discrimination', *World Politics*, Vol.51, July 1999, pp. 447-483.

is not only a long-established feature of trade in manufactures but it has also been long dominated by trade among the industrialized countries themselves and especially among the countries of western Europe. One explanation of this trade is that it reflects the exchange of differentiated (final) consumer goods between countries at similar levels of income per head. This may play a role but it is not convincing as the principal explanation since intra-industry trade consists largely of intermediate and capital goods, although still largely exchanged among countries at similar levels of development.[15] An alternative explanation for this pattern of trade is that, as the extent of the market increases, economies of scale and of coordination allow the intermediate parts and processes required in the production of manufactured goods to be separated and entrusted to specialist producers who can be spread over a larger area and, eventually, over national boundaries. This dynamic division of labour could in principle be extended on a global basis, given the steep decline in coordination costs,[16] but in practice it is likely to proceed more rapidly among countries with similar levels of income per head and hence similar industrial structures - increased specialization in capital or skill intensive machine tools, for example, can only proceed between relatively capital abundant countries with machine tool industries.[17] Since western Europe has for a long time consisted of a cluster of economies at roughly similar levels of development it provides a favourable environment for intra-industry specialization. Moreover, since increased interdependence is a cost, not a benefit, of increased specialization, enterprises will be anxious to minimize the risks of disruption to their supplies of intermediate inputs and to remain close to the sources of specialized services; they will therefore tend to keep their supply lines as short as possible since both geographical and economic distance are likely to increase these risks.[18] These factors working towards increased concentration are also likely to trigger cumulative processes which may reinforce the degree of concentration over time: enterprises tend to migrate to areas with available supplies of skilled labour and good

[15] P.B.W. Rayment, 'Intra-Industry Specialization and the Foreign Trade of Industrial Countries' in Stephen F. Frowen (ed.), *Controlling Industrial Economies*, MacMillan: London 1983; Martin Kurt Schüler, "On Intra-Industry Trade in Intermediates", *Economia Internazionale,* XLVIII(1), Febbraio 1995.

[16] The costs of coordinating a given production process spread over wider geographical areas has been reduced not only by lower transport costs and trade barriers but also by cheaper busines travel and telecommunications.

[17] Such processes underline the importance of historical factors in the explanation of current trade flows. Eichengreen and Irwin have suggested the importance of history by including lagged trade variables in a traditional gravity model of trade flows. See Jeffrey A. Frankel (ed.), *The Regionalization of the World Economy*, Chicago: University of Chicago Press, 1998.

[18] They are not of course *eliminated* in Europe. The risks of increased interdependence are illustrated by the fact that a strike of metal workers in Germany, for example, can sometimes lead to warnings of job layoffs in Paris and Birmingham within a week or so.

transport systems, and if the enterprises succeed they will in turn attract further supplies of similarly skilled labour to the region and increased investment in communications.

The important point to stress from this discussion is that traditional economic models assume constant returns to scale and therefore predict no gains from concentrating activity in a particular location or region. But observation of the real world suggests that with few exceptions similar activities do tend to congregate in particular areas - and this seems to be as true of modern "high-tech" activities (Silicon Valley, university science parks) as for the old smoke-stack industries. In other words, the strong evidence of regionalization in trade and FDI flows is not so much a sign that protectionism or other policies are obstructing the development of a global economy but that the underlying theory of an inevitable globalization is basically flawed.

Liberalization of international capital flows

The explosive growth of international capital flows in the wake of the financial deregulation that got under way in the 1970s is perhaps the most dramatic of the various components included under the term globalization - and, since the Asian Financial crisis of 1997, it is also one of the most controversial. (In this section the focus is on portfolio and other short-term capital, rather than FDI, which is generally regarded as "different". This may not always be justified but FDI flows are not dependent on full liberalization of the capital account.)

The standard case for free capital movements is that it is merely an extension of the argument for free trade in goods[19] - countries with insufficient domestic savings to finance their own investment can draw on the surplus savings of others, and by searching out the most profitable projects foreign capital will lead to a more optimal allocation of world resources and a convergence of per capita incomes. Some also argue that the mobility of capital is an encouragement to those countries that seek to attract it to adopt responsible and disciplined macroeconomic policies and thus reduce the risks of major policy mistakes. Countries with low levels of fixed capital and savings per head can therefore draw on the

[19] S. Anjaria, "The capital truth. What works for commodities should work for cash", *Foreign Affairs*, November/December 1998, pp. 142-143. (The author is Director of the External Relations Department of the IMF.)

savings of the rest of the world in order to boost fixed investment, raise their growth rates, and thereby start to catch-up with the income levels prevailing in the more developed economies.

However, the presumed benefits of free capital movements and the efforts directed at removing obstacles to them are largely based on implicit or simple static theorising rather than firm empirical evidence - indeed, there have been surprisingly few attempts to quantify the benefits and costs of capital account convertibility (as opposed to trade liberalization).[20] The evidence that is available suggests that the benefits have fallen rather short of expectations. Contrary to expectation, domestic investment and domestic savings rates tend to be closely correlated across countries: different rates of return on capital persist and are not equalized by foreign capital flows. This is not surprising if it is recalled that different rates of return will affect the flows of foreign capital, *other things being equal*. But "other things" are not equal in most of the transition and developing countries: legal and institutional structures are often inadequate to attract foreign investment, while economies of scale and conglomeration in the highly integrated economies of western Europe and North America still provide the major attraction for investors. Some 80 per cent of OECD FDI still flows to other OECD countries and despite the large absolute flows to the rest of the world in the 1990s most portfolio investment in the United States and western Europe still goes into United States and west European securities respectively.[21] Despite popular claims to the contrary, both capital flows and international trade are still more regionally concentrated than global. This helps to explain - but only helps since there are many complex factors involved - why there is little evidence in favour of income convergence in the world economy.[22]

[20] J. Bhagwati, "The capital myth", *Foreign Affairs*, May/June 1998, pp. 7-12. Barry P. Bosworth and Susan M. Collins, 'Capital Flows to Developing Economies: Implications for Saving and Investment', *Brookings Papers on Economic Activity*, 1999 No.1, pp. 143-180.

[21] The "home bias" of equity investors is a long-standing phenomenon, but its persistence is somewhat surprising in that many of the suggested reasons for it - transaction costs and international differences in taxation - have been, supposedly, considerably weakened by globalization. Asymmetric information, despite the claims for the new information technologies, may still be an important constraint on portfolio diversification

[22] UNCTAD, *Trade and Development Report 1997* (United Nations publication, Sales No. E.97.II.D.8), chap. II; R. Kozul-Wright and R. Rowthorn, "Globalization and economic convergence: an assessment", *UNCTAD Discussion Papers*, No. 131, February 1998. Even if the institutional framework favours foreign investment flows the net effect on the domestic economy may not always be favourable since FDI can sometimes "crowd out" domestic investors. The impact of FDI is essentially an empirical issue.

The larger claims made for free capital movements in promoting better economic performance in general also fail to find much support in the data. Growth rates of GDP in the last two decades have generally been much lower than in the 1960s, in both the developed and developing countries, and investment ratios (to GDP) have generally fallen. Although there are many factors involved in this deterioration, and it should not be denied that some countries and sectors have benefited from increased liberalization, the proponents of unfettered international capital movements cannot claim that they have been generally associated with higher growth rates, more efficient resource allocation, or a more equitable distribution of incomes per head.

What is clear, however, is that the liberation of international capital flows, particularly by the developed market economies, has been accompanied in the 1980s and 1990s by a considerable increase in financial market volatility - interest rates, exchange rates and capital flows themselves all exhibit very much larger fluctuations than in the 1960s and early 1970s. Sudden inflows, and equally sudden outflows, of foreign capital create considerable difficulties for the management of domestic monetary policy;[23] the resulting uncertainty and higher risks implied by financial volatility lead to caution on the part of governments (which tend to set interest rates higher than they might otherwise have been) and of private business (faced with increased costs of capital and increased uncertainty over future demand). The net result is a tendency for growth rates to fall below what is feasible,[24] a particularly serious consequence for the transition economies intent on closing the considerable income gap between themselves and the members of the EU. The transition economies in the ECE region may have suffered less than countries in south east Asia and Latin America from the global financial turmoil of 1997 and 1998, in part because of their less advanced degree of integration with international capital markets, but the negative impacts were still significant.[25]

The European Union, and more specifically the Economic and Monetary Union, was frequently described as a "haven of stability" during the turmoil that followed the Asian crises of 1997 and 1998. Such turmoil is transmitted through two channels, namely trade and financial links. Since, as noted, western Europe's trade links with the rest of the world

[23] See UN/ECE,."Surges in capital flows into eastern Europe, 1990-1996", *Economic Bulletin for Europe*, Vol. 49 (1997), pp. 99-147.

[24] UN/ECE, *Economic Survey of Europe, 1998, No.1,* pp. 9-10.

are relatively weak, the impact of the collapse in Asian import demand was relatively muted although it was still negative and forecasts of GDP were subsequently lowered through 1998.[26] On the financial side, the effects on European exchange rates were also negligible. Previous periods of exchange rate turbulence, especially of dollar depreciation, often led to severe tensions within the ERM mainly because of asymmetric appreciation of the deutsche mark. In 1998, however, this did not occur as the future members of the EMU had irrevocably fixed their bilateral exchange rates in anticipation of the introduction of the euro on 1 January 1999. The risk premia on individual currencies had thus already disappeared before the formal introduction of the euro.[27] Thus individual member countries of the EMU are no longer subject to the risk of asymmetric effects of external shocks on their national exchange rates, but the Union as a whole is not immune to developments in the financial markets and to exchange rate volatility against the US dollar and the yen. Moreover the exposure of European companies and banks to emerging economies and other parts of the world, albeit relatively limited, is still sufficient to cause large movements in equity prices and differential bond yields, as was shown in the wake of the Russian crisis in 1998. Large, rich economies may be better placed to absorb and respond to global financial instability, to which the activities of their own financial institutions make a significant contribution, but in the end all are vulnerable.

Are capital controls needed to support stability and the liberal trading system?

The instability of the international financial markets[28] and the associated risks of contagion have been the focus of considerable discussion in the last year or so. At first, the general reaction of those who stress the benefits of free capital flows and the desirability of moving towards a true global economy was to put the blame for financial crises on deficient policies and institutions in the capital-receiving countries, conditions which eventually created negative exchange rate expectations and a rush of foreign investors for the exit.

[25] UN/ECE, *Economic Survey of Europe, 1999, No.1*, Chapter 3.2.ii. See also footnote 30.

[26] On average, the openness of the Euro area - the average of imports and exports of goods and services as a proportion of GDP - was just over 14 per cent in 1996. *Economic Survey of Europe*, 1999, No.1, p.42.

[27] There were two examples of incidents in 1999 that in the absence of EMU might well have led to sharp exchange rate movements for the countries concerned, viz., the contamination of food with dioxins in Belgium and the unexpected resignation of the Finance Minister in France.

[28] One of the best available analyses of the Asian crisis and international financial instability can be found in UNCTAD, *Trade and Development Report, 1998*, United Nations: New York and Geneva, chapters 2 and 3.

Since then there has been a better appreciation[29] of the fact that creating sound institutional and regulatory frameworks are in fact central to the entire process of transition and economic development and, as such, require time to be put into place. As a result greater stress is now placed on the need for a more gradual approach to the liberalization of capital accounts and for effective financial institutions to be in place before capital account convertibility is introduced.[30] There is also increased, albeit limited, acceptance of direct capital controls of the type applied by Chile, for example, but only as a temporary and emergency measure. At the same time there have been a number of proposals for improving global governance of the international financial system as a whole[31] although the political enthusiasm for such reforms appears to weaken when a period of relative stability returns to the international financial markets.

In most of the reactions to the recent spate of financial crises and underlying the proposals for reform, the assumption tends to be that capital market instability can be tamed by better institutional frameworks, better supervision, greater transparency, and a more careful preparation of transition and developing economies before they enter the liberalized international environment. Although all these steps may help, and many are desirable in themselves, a more fundamental question is whether instability is inherent to the international capital markets or whether it arises from inappropriate institutions and unwarranted interference in the market mechanism. This in fact reflects one of the basic issues over which economists have divided for most of this century, namely, the origins of uncertainty and the source of dislocation in the system of market coordination. One view, exemplified by von Hayek, is that uncertainty is created by the distortion or suppression of information by interfering governments and central banks; left alone, individuals will show a natural tendency to coordinate their various plans in an orderly and predictable manner. The other view, exemplified by Keynes, located uncertainty and coordination failures not in

[29] The shift in emphasis was also influenced by the collapse of the LTCM "hedge" fund in September 1998 which revealed not only a failure of its model-based prediction of convergence of interest rates but also gaps and weaknesses in governance and regulation in the developed market economies themselves.

[30] Since the Russian crisis the impression is often given that this has always been the approach but, in his resignation letter in mid-1998, the Chairman of the Interim Committee of the IMF's Board of Governors felt it necessary to warn that it was important "to proceed cautiously and with good advice. No country should be forced to liberalize immediately, or to remove controls when they are justified by legitimate reasons".

[31] On the broader agenda for reform see United Nations, "Toward a new international financial architecture", *Report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations*, New York, January 1999 (known as "the Ocampo Report"); and J. Eatwell and L. Taylor, *International Capital Markets and the Future of Economic Policy. A Proposal for the Creation of a World Financial Authority*, paper available at www.newschool.edu/cepa.

exogenous sources but in the system itself. Contrary to Hayek, Keynes thought government could play a role in reducing uncertainty and raising expectations. The influence of these two very different points of view about how a market economy works has dominated the post-war period in roughly equal halves, the Keynesian for some 28 years from 1945 and the Hayekian from roughly 1973.

The Keynesian view of the inherent instability of capital markets was reflected in the original design of the IMF and the post-war international monetary system. Both Keynes and White[32] saw the new institution's primary function as promoting growth via an open international trading system and the preservation of financial stability. International capital flows, which of course were considerably smaller than now, had to be subject to controls as part of the fixed exchange rate system but also because, otherwise, it was feared they would develop an independent existence of their own and disrupt rather than support international trade. From today's perspective, when international monetary transactions massively exceed the value of international trade, those fears seem exceptionally prescient.[33]

If the view that instability or volatility is inherent in international capital markets is accepted, although it may be reduced by better regulation, etc., it may be desirable to accept capital controls as a permanent instrument in the national policy took-kit and to abandon attempts to include capital account convertibility as an ultimate objective for all IMF members. Under present arrangements legitimate attempts to control foreign capital flows are in fact made, by changing interest rates and increasing the permitted fluctuation bands of exchange rates, but these are clumsy tools for this purpose as they may conflict sharply with other national objectives such as growth or macroeconomic stability. More direct controls, such as those employed in Chile, would help to contain the disruptive effects of surges in short-term capital flows on economic growth, which if successful would actually make the environment more attractive for longer-term direct investment. It should also be stressed that most transition economies possess extremely small financial sectors in relation to global capital flows, most of which come from the more advanced market economies. A minor portfolio adjustment for a large hedge fund could deliver a major shock to such an economy.

[32] Harry Dexter White was chief international economist at the United States Treasury in the early 1940s and, with Keynes, one of the two principal architects of the IMF and the World Bank.

[33] Capital controls came to an end with the collapse of the Bretton Woods system of fixed exchange rates in the early 1970s; that collapse, by transferring the management of foreign exchange risk to the private sector was a major factor behind the general move to financial deregulation in the 1970s. Eatwell and Taylor, *op.cit.*

If import surcharges and import disruption clauses can be provided for under WTO rule for merchandise trade it is difficult to see why similar provisions cannot be allowed in the case of foreign capital flows, especially when some of the strongest supporters of capital liberalization claim that the arguments for liberalizing trade and capital are equivalent.

One of the standard objections to such controls is that it is too late to "turn the clock back", that the process of capital liberalization - which in this context is identified with "globalization" - is unstoppable. This is often little more than self-interested determinism by market operators (who make money from instability, not stability) and there seems to be no reason why Chilean-type controls could not be adopted by a country if it so chooses,[34] although it is probably advisable to introduce them during a period of relative calm in the financial markets rather than as an emergency measure during a crisis. More to the point, however, is that the majority of central European transition economies still retain a wide array of capital controls;[35] for the most part inward direct investment is generally free but controls remain on many portfolio flows. These have helped to insulate these economies from the worst effects of financial contagion by the crisis in emerging markets elsewhere and it would appear to be unwise to abandon them hastily, if at all.[36]

It is sometimes argued that if countries dislike the results of foreign capital inflows they should simply let the exchange rate rise. But this is not very helpful - how far it would have to rise is uncertain and it may increase rather than ease the country's problems. In fact if direct controls are ruled out of court, countries will inevitably seek alternative ways to protect themselves from instability in the international capital markets which may be more damaging to the market economy system. In the absence of alternatives, the need for such

[34] On the effectiveness of capital controls in a number of developing countries and on the dangers of capital account liberalization in a global system that has still to find ways to prevent the international transmission of financial shocks, see UNCTAD, *Trade and Development Report, 1998* (United Nations publication, Sales No. E.98.II.D.6), especially chap. IV.

[35] Slovenia is often singled out as an economy where capital controls have helped to maintain stability in the domestic economy. See H. Davidson, "Slovenia's splendid isolation", *Central European*, November 1998. A useful summary of selected capital controls in 11 transition economies is given in R. Feldman, et.al., *Impact of EMU on Selected Non-European Union Countries*, IMF Occasional Paper, No. 174, Washington D.C., 1998, table 2.9. According to the IMF's index of capital account liberalization (varying from zero to 100, the latter representing maximum liberalization), the least liberalized country was Romania (12.5) and the most was the Czech Republic (73.7). For Hungary it was 59.5 and for Poland 55.3; for all the others it was under 50.

[36] A report sponsored by the Council of Foreign Relations in the United States was forthright in approving the use by emerging economies of transparent and non-discriminatory tax measures to discourage surges in capital inflows and to shift their composition in favour of longer-term, less crisis-prone elements such as FDI. *Safeguarding Prosperity in a Global Financial System*, Report of an Independent Task Force Sponsored by the Council on Foreign Relations, Institute for International Economies, Washington D.C., September 1999.

protection will lead to attempts to increase the levels of reserves, which implies aiming for a current account surplus. By definition, not every country can achieve this, but if they all try there will be even stronger pressure to resort to the traditional range of "beggar my neighbour" policies which will risk undermining the liberal trading system - precisely the consequence that was feared by Keynes and White in the 1940s but ignored by the liberalizers of the 1970s.[37]

Concluding remarks

Globalization exaggerated but effects of liberalization significant

It has been suggested above that although the integration of national economies has increased the extent of global markets has been greatly exaggerated in current policy debates, although this does not mean that important global developments have not taken place: the liberalization of the international capital markets is clearly one with important implications for national economic policy making and for the stability of the international monetary system. Similarly, the power of "exit" of international companies and capital is also exaggerated; if, as suggested, there are fundamental reasons for their regional concentration there are a limited number of places to which they can flee.

In many respects what is more important is not so much the exaggeration about actual developments as the emphasis on an ever widening agenda of liberalization to force the pace of development towards a global economy, an agenda which is accompanied by a rhetoric which insists that the process is inevitable and irreversible. The rhetoric which proclaims that "there is no alternative" is effectively an attempt to stifle debate and criticism, and therefore to undermine democratic processes in both national and international institutions. Those who complain about the costs of transition and adjustment, or about increasing inequality and poverty or falling behind other countries, are judged to have only themselves to blame for not introducing and maintaining the appropriate policies. Such

[37] The Secretary-General of UNCTAD has emphasized the role of financial instability in bringing about the collapse of world trade growth from almost 10 per cent in 1997 to some 3.7 per cent in 1998. R. Ricupero, *Keynote Address to the High Level Symposium on Trade and Development*, WTO (Geneva), 17 March 1999.

policies may hurt at first, but if they are maintained "all will be right in the end".[38] The proposal of the Secretary-General of UNCTAD that UNCTAD X should be seen as a parliament for an ordered debate on globalization is a recognition of the need to combat this corrosion of democratic principles. But democratic process will also have to be embedded in any new systems of rules and governance for the international economic system if its stability is to be preserved.

The importance of the state

One of the major problems with the wider globalization agenda is that it is based on assumptions about how economies work that many economists and policy makers consider unrealistic, especially those confronting the problems of transition and developing economies. Essentially these are the assumptions of neo-classical general equilibrium theory and they imply that economic development is essentially a process of reallocating resources to more productive uses and that this can be done largely by relying on the signals emanating from the price system. Hence the emphasis on liberalization of domestic prices and trade to provide a more effective signalling system. However, many development economists - and the problems of European transition economies are for the most part problems of development - see the re-allocation processes seriously hindered by institutional and technological rigidities, incomplete and missing markets, inadequate infrastructure and so on, all of which lead to coordination failures and low rates of investment and prospective rates of return. Hence the importance of taking into account initial conditions and giving high priority to the creation of an appropriate institutional framework for a marked-based economy, *a process in which the state must play a key role.* This is not to suggest that a rapid rate of liberalization is never appropriate: for some of the most advanced transition or developing economies it may well produce the intended effects. The essential point is to recognize the limits of our knowledge of how economies work and especially of the development process and to give more attention in policy making to context and the need for awareness of contingency. The one-policy-for-all approach implicit in the globalization agenda often appears as inflexible as the system of central planning which collapsed in 1989. There are signs that this is now increasingly understood by many policy makers in the

[38] When Lenin was facing complaints about the costs of transition to the new Soviet economic and social system he brushed them aside with the old remark about having to break eggs in order to make an omelette. However, George Orwell retorted: "That's all very well, but where's the omelette?".

developed market economies and international economic institutions, not least in the acceptance that capital account liberalization should not be attempted until national institutions and economic agents have had time to adapt. But if this is necessary for the financial sector it is also the case for most other sectors as well.

The role of the state in economic development is not confined, however, to institution building. In a world where dynamic economies of scale and agglomeration effects are important, as suggested above in the remarks about regionalization, there is plenty of scope for industrial and trade policies to shape the evolution of national comparative advantages. This is recognized in the developed market economies where a wide range of policies, from regional grants, subsidies for R&D, support for small and medium-sized enterprises, anti-dumping and other forms of contingent protection, defence expenditure, and so on, add up to a considerable degree of state intervention to shape national economic structures. There is much discussion about which forms of intervention are most effective but it is widely accepted that it is normal for governments to employ one form or another. (An important gloss, however, is not to refer to "industrial policy" but to competitiveness or modernization strategies.) The need for such strategies is particularly important for transition and developing countries aiming for closer integration with their more economically advanced trading partners. For most of the former countries their trade still consists largely of the exchange of relatively "unskilled" labour-intensive goods for relatively capital or skill-intensive products, what was once called the "Great Specialization of the 19th Century" but which might now be characterized as "North-South trade". However, the deep integration of the west European economies is marked by intra-industry exchange in capital and skill intensive products, a relationship of greater equality between partners. The challenge for the transition economies is to insert themselves into this advanced division of labour by "catching up" in terms of skill and capital endowments and, more generally, in creating the institutional infrastructure required to support a dynamic market economy. The economic history of the present advanced economies of Western Europe and North America - and indeed of the rapidly industrializing economies of south east Asia - provides little or no evidence that this can be achieved without the active support of government policies.

The "third way"

Perhaps the real triumph of capitalism in the 20th Century was its ability to regain popular legitimacy via the intervention of government to ensure low levels of unemployment and more acceptable distributional outcomes - capitalism with a "human face". This, essentially, was "the third way" and derived from a conjunction of the welfare state with "Keynesian" economic policies. (Keynes, it should be remembered, was a liberal who was acutely aware in the 1930s that if ways were not found to make capitalism more socially acceptable then the likely outcome would be a swing to one of the two totalitarian alternatives then on offer.) To put it crudely, for any economic system to survive it must deliver the goods and distribute them in a reasonably equitable manner. The former centrally planned economies failed this test and they have been dismantled; but it is well to remember that there was also a backlash against an earlier round of "globalization" in the 0market economies, in the period before the First World War, triggered by rapidly increasing inequality and a failure of the system "to deliver" for significant groups of people.[39]

Another feature of late 20th Century capitalism is that it has developed in many varieties and is supported by different institutional arrangements. This tolerance of national varieties, however, is increasingly seen to be under threat from those who see globalization in normative terms and insist that transition and developing economies should increasingly adjust to the values and institutions of the dominant market economies. This approach, which is partly reflected in the post-Uruguay agenda of the WTO and which seeks to harmonize policies and to set rules in areas which have traditionally been regarded as matters for national policy and national preferences, carries considerable risks. It represents a radical change from the original philosophy behind the creation of the Bretton Woods institutions which was to create an environment of international financial stability that would underpin the development of world trade and allow countries to develop according to their own preferences, subject to their avoiding actions that would "beggar their neighbours". The pursuit of the globalization agenda, however, increasingly appears to deny much room for any national preferences which clash with those of the major market economies.

The crucial danger from this development is to the market economy system itself, because economic and social preferences are closely entwined in the broader framework of social and political values which underpin a country's institutions including its form of

[39] Philippe Aghion and Jeffrey G. Williamson, *Growth, Inequality and Globalization*, Cambridge University Press.

economic organization. This is why the *Economic Survey of Europe* has often stressed the problems of institutional hiatus in transition economies and on the necessity to allow them sufficient time - and to provide them with significant support - to enable the new market institutions to become embedded in the social and political values of the population and to give the institutions time to start working effectively. In a few of the central European economies this process is well advanced, but in many others it is not. If the process does not advance, the new market economies will not function properly and they will not achieve popular legitimacy. But, equally, if those social and political values - and preferences - are attacked in the name of the new global economy, the chances are that there will be a backlash against that system of economy rather than a change in values. It is therefore not surprising that an increasing number of distinguished market economists have recently warned of the dangers of pushing the liberalizing agenda too rapidly and too widely.

The conditions for global stability and maintaining an open trading system

The stability of any social or economic system ultimately depends on it being able to satisfy three crucial conditions: *first*, the rules and procedures which confer authority in the system must be *legitimate* in the sense of being willingly supported by those who submit to them; *second*, the system must be able to maintain *order* by encouraging acceptable behaviour and penalizing the unacceptable, and applying the criteria equally to all participants; and *thirdly* it must produce an acceptable outcome, in terms of the level and distribution of welfare, if support for the system is to be sustained. The international economic order - Bretton Woods, WTO, the UN, etc. - is no more exempt from these requirements than any closed national system.

The increasing number of warnings of a backlash against the liberal economic order are based essentially on the observation that a large number of countries are protesting that the system is failing to meet these basic conditions for stability. The challenge for the international community is whether it can restore confidence in all three elements of the system - but to do so will require significant revisions to the current globalization agenda. But since it is still the most comprehensive multilateral rule system in place, priority should probably be given to restoring a sense of fairness in the WTO especially on the part of developing and transition economies and to giving their concerns and interests *first* priority in any new round of trade negotiations.

In the current heated controversies over the WTO system, in which a growing number of countries accuse it of being a vehicle for hegemonic influence by major powers and releasing the destructive forces of unrestrained individualism (*capitalisme sauvage*) on countries ill-prepared to handle them, it is often forgotten that the creation of the rule-based system of the WTO's forerunner, the GATT, was essentially a reaction to the experience of the 1930s when the lack of any institutional resistance to the proliferation of beggar-my-neighbour policies contributed to the downward spiral into worldwide economic depression. The GATT was created to safeguard a rule-based multilateral system in which the pursuit of national advantage, especially by most powerful members of the system, would be subject to agreed limitations. Yet there is a widespread perception on the part of many developing and transition economies that the present system of rules is unfair or applied unfairly. This perception has increased sharply since the completion of the Uruguay Round and the creation of the WTO, which unlike the GATT was not a response to a global crisis or a breakdown in the international trading system. The major powers who urge rapid liberalization on developing and transition economies are also the countries which are seen to make most use of non-tariff measures, fair trade rules and other devices to protect their own industries from the pressures of international competition. Anti-dumping actions, for example, which are barely disguised protectionist measures, are applied mainly against developing countries, especially the newly industrialized ones in south east Asia, and the transition economies of eastern Europe and Russia. More generally, the fact that various "shock therapies" have been urged on these economies by the major powers, even though the latter never submitted to such rapid adjustments themselves in the aftermath of the Second World War - and despite the fact that "gradualism" is a major feature of the democratic process in all the western market economy countries[40] - also adds to growing resentment and a sense of injustice.

This is a serious and disturbing development because if there is to be respect for the rule of law, the law itself must be seen to be fair and to recognize the interests of all. "If the international economic institutions we have built are to endure, those who participate in them

[40] Richard Kozul-Wright and Paul Rayment, 'The Institutional Hiatus in Economies in Transition and its Policy Consequences', *Cambridge Journal of Economics*, Vol.21(15), September 1997, pp. 641-661, especially section 4.

must believe that they are just; justice and stability form a symbiotic relationship."[41] Thus the crucial issue for the liberal trading system is not so much to extend the 'globalization' agenda into new areas but to restore confidence and trust in the existing rules by applying them fairly and without extensive exceptions for the richer members of the system.

TABLE 1

Structure of West European trade, 1928-1998
(Per cent)

	Western Europe [a]	*Eastern Europe and former Soviet Union* [b]	*North America*	*Japan* [c]	*Other DVD* [d]	*Developing countries (incl. n.e.s.)*	*Total*
Exports by destination							
1928	55.2	7.7	8.6	1.2	4.8	22.5	100
1935	56.5	6.4	7.4	1.1	5.7	22.9	100
1938	54.3	8.3	6.6	0.9	6.5	23.4	100
1963	63.7	4.4	8.9	1.0	3.8	18.2	100
1970	67.2	4.7	9.2	1.2	2.9	14.8	100
1973	69.0	4.9	8.6	1.4	2.2	13.9	100
1979	68.0	4.9	6.7	1.2	1.6	17.6	100
1981	63.6	4.8	7.3	1.1	2.0	21.2	100
1988	71.3	3.7	8.9	1.9	1.4	12.8	100
1995	69.1	4.4	7.3	2.1	0.8	16.3	100
1998	68.9	5.7	8.9	1.7	0.7	14.2	100
Imports by source							
1928	46.4	7.4	17.1	0.5	4.6	24.0	100
1935	45.6	9.4	12.3	0.8	5.8	26.1	100
1938	43.2	8.9	14.8	0.7	6.3	26.0	100
1963	58.8	4.5	13.9	1.0	2.4	19.4	100
1970	64.1	4.5	12.0	2.0	1.9	15.6	100
1973	66.4	4.7	9.4	2.4	1.9	15.2	100
1979	64.5	5.3	8.4	2.2	1.2	18.4	100
1981	60.3	5.8	9.3	3.0	1.0	20.5	100
1988	71.3	4.4	7.8	4.5	1.1	10.9	100
1995	72.4	4.4	7.0	3.5	0.4	12.2	100
1998	70.8	4.9	7.7	3.4	0.6	12.6	100

Source: For 1928-1938 data extracted from League of Nations, *Statistical Yearbook 1941/42*, Geneva 1943, Annex III; for 1963-1988, from GATT, *International Trade 86-87*, Geneva 1988, Table A13 and GATT, *International Trade 88-89*, Geneva 1989, Table A3. For 1995-1998, WTO, *Annual Report 1998* and *1999 - International Trade Statistics*.

[a] For 1928-1938, includes Albania.

[b] For 1928-1938 comprises Czechoslovakia, Bulgaria, the three Baltic states, Hungary, Poland-Danzig, Romania, Yugoslavia, and the USSR. Includes the German Democratic Republic from 1963-1988.

[c] For 1928-1938 includes Korea and Formosa.

[d] Australia, New Zealand and South Africa except for 1995 and 1998 where South Africa is included in 'Developing countries'.

[41] Ethan B. Kapstein, 'Distributive Justice and International Trade', *Ethics and International Affairs*, Vol.13, 1999, p.177. See also Dani Rodrik, *What Does the Political Economy Literature on Trade Policy (Not) Tell Us That We Ought to Know?*, Cambridge, Mass.: NBER, 1994.

TABLE 2

Structure of transition economies trade, 1992-1998

(Per cent)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Eastern Europe [a]							
Exports to:							
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	23.0	28.2	26.3	25.8	26.1	26.1	22.5
Eastern Europe	10.7	18.5	17.4	17.5	16.7	15.8	15.0
Former Soviet Union	12.4	9.8	9.0	8.9	9.4	10.3	7.5
Developed market economies	63.0	58.0	62.5	64.5	65.0	66.4	71.6
European Union-15	53.8	49.8	53.6	57.6	59.7	60.6	65.8
Developing economies	14.0	13.8	11.2	9.7	8.9	7.5	5.9
Imports from:							
World	100.0	100.0	100.1	97.9	100.0	100.0	100.0
ECE transition economies	24.7	29.3	26.1	25.3	23.8	22.1	19.3
Eastern Europe	6.8	12.8	12.0	12.1	11.1	10.9	10.6
Former Soviet Union	17.9	16.5	14.1	13.2	12.7	11.2	8.7
Developed market economies	64.4	61.5	65.0	64.7	66.6	68.1	70.9
European Union-15	51.4	48.6	52.6	55.9	58.0	58.8	61.9
Developing economies	10.9	9.2	9.0	8.0	9.6	9.8	9.8
Baltic states							
Exports to:							
World	..	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	..	66.3	57.0	49.9	52.9	51.1	42.9
Eastern Europe	..	6.7	4.5	3.8	3.2	2.4	2.7
CIS	..	49.2	40.8	35.9	37.3	36.1	26.7
Developed market economies	..	31.2	40.9	48.2	44.7	45.9	53.6
European Union-15	..	22.8	28.8	43.7	40.8	41.3	47.9
Developing economies	..	2.5	2.2	1.9	2.5	3.0	3.5
Imports from:							
World	..	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	..	59.2	46.8	40.8	39.0	36.3	32.4
Eastern Europe	..	3.0	4.8	4.9	6.2	6.4	6.3
CIS	..	50.5	36.0	29.6	26.1	23.2	19.6
Developed market economies	..	35.8	49.5	57.3	57.5	59.5	62.5
European Union-15	..	23.5	31.6	51.4	51.1	52.3	53.5
Developing economies	..	5.0	3.7	2.0	3.5	4.3	5.1
Russian Federation							
Exports to:							
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	22.3	18.1	15.1	16.8	18.2	19.5	18.1
Eastern Europe	20.7	16.8	11.7	13.2	14.3	14.9	14.2
Developed market economies	57.9	59.7	66.6	60.6	58.1	58.6	60.0
European Union-15	48.9	44.2	45.3	41.3	39.5	40.9	40.3
Developing economies	19.8	22.2	18.3	22.6	23.8	21.9	21.9
Imports from:							
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0
ECE transition economies	15.9	10.6	14.1	15.5	12.6	13.7	11.9
Eastern Europe	15.0	10.0	11.7	12.4	10.6	11.1	9.8
Developed market economies	62.4	60.6	70.3	69.5	67.8	68.3	68.2
European Union-15	44.5	41.7	54.3	54.2	50.4	50.4	48.8
Developing economies	21.7	28.8	15.6	15.0	19.6	18.0	19.9

Source: UN/ECE Database.

[a] "Eastern Europe" covers Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and the successor states of the former Yugoslavia. China, Cuba, Democratic People's Republic of Korea, Mongolia and Viet Nam are included in "Developing economies".

TABLE 3

West European outflows of foreign direct investment, 1980-1997

(Billion dollars and per cent)

	Western Europe	*Eastern Europe and former Soviet Union*	*North America*	*Japan*	*Other DVD*	*Developing countries (incl. n.e.s.)*	*Not allocated*	*Total*
Billion dollars								
1980-1989	186.2	0.6	174.3	2.8	13.3	40.6	52.7	470.6
1990-1997	662.1	41.7	196.5	6.8	28.3	142.6	50.5	1 128.5
1980-1997	848.3	42.3	370.9	9.6	41.7	183.3	103.1	1599.1
Percentage shares								
1980-1989	39.6	0.1	37.0	0.6	2.8	8.6	11.2	100.0
1990-1997	58.7	3.7	17.4	0.6	2.5	12.6	4.5	100.0
1980-1997	53.0	2.6	23.2	0.6	2.6	11.5	6.4	100.0

Source: Calculated from data in OECD, *International Direct Investment Statistics Yearbook 1998*, Paris 1998.