6 A borderless world?

Developments in globalization, 1970-2005

To an outside observer we live in an era of globalization. When we wake up, we eat our breakfast, drink a cup of coffee or tea, perhaps a glass of orange juice, all made from ingredients from different parts of the world, while we are reading the world news in our morning papers. After we finish breakfast, it is time to get in our foreign-made car to get to the multinational company we work for, in the meantime listening to rock classics on the radio. As we arrive at work, we start up our computer and get in touch with the rest of the world by checking our emails from colleagues and customers residing in other countries. During our walk to the coffee machine, we have a conversation about the recent developments within the European Union, discuss matters like the importance of peace missions, as well as lighter subjects like our plans for the next vacation. Drawing a map of all the international flows of money, goods, information, and people would result in quite a messy picture with lines moving all over the globe. At the same time, one would notice that most of the activity is concentrated in specific regions such as America, Europe and Japan.

These examples illustrate that globalization, though taking place at the international level, has multiple consequences at the national and the individual levels. Besides, this process is far from complete and in fact still rather limited and to a large extent path-dependent. That globalization is limited is apparent from the fact that large parts of the world still do not participate in the process of globalization and that the spread of popular culture in Western countries is mainly a matter of the adoption of American practices. How the international relations that we know today have come about is an evolving historical process in which the influence of the colonial relations between countries is still visible. Whereas globalization refers to a worldwide process, countries differ in the extent to which they are involved in it. Therefore, if we want to investigate the impact of globalization on the welfare state and solidarity (as we will do in Chapter 7 and Chapter 8), we need to know what the relevant dimensions of globalization are in which countries can differ.

This chapter provides an overview of the development of globalization over the last thirty years. The discussion is organized as follows. First, we provide a comprehensive definition of globalization, and compare it to earlier work in this field. Our main concern in the present chapter is how to measure globalization. We mention some available data sources and investigate to what extent they are suitable for the purposes of this book. Based on one of the most advanced measurement instruments, the KOF Index of Globalization, we describe the course that globalization has taken.

6.1 What is globalization?

Conventional wisdom has it that the term globalization was first used by Theodore Levitt in his 1983 *Harvard Business Review* article "Globalization of Markets". Though there may be reasonable doubt whether this really is the source of the term, what cannot be denied is that in the beginning of the 1980s the term globalization caught on and soon became a catch-word widely used by countless academics, journalists, activists and politicians. Despite its enormous popularity, or perhaps due to this, there is no generally accepted definition of globalization, and most of the time it is used rather loosely for many different developments. As such, it is an umbrella term that can refer to many different things. As a consequence, it may happen that in the same discussion someone uses the term globalization only for foreign trade relations while another person may have a whole gamut of economic, political, social, and ecological developments in mind. Furthermore, a complicating factor in discussions about globalization is the normative connotation that is often attached to it.

Globalization is not just a factual development, it is something you can be in favor of or opposed to, and many people respond to globalization from an ideological point of view. Those in favor of globalization will argue that a fully integrated world market increases everyone's welfare but asks for a complete removal of all disturbing factors, like government interventions. On the other hand, the people that are opposed to globalization point to its unfavorable effects and the fact that many people will lose as we move towards a global market. In such discussions globalization is either something to strive for, for the benefit of all, or the root of all evil that has to be combated. Notwithstanding the value of this for political decision-making and international actions geared towards fighting poverty and inequality, starting from a normative point of view is a hindrance to scientific investigations. This is not to say that we cannot study the positive and negative consequences of globalization, but a serious investigation of these effects requires both a clear definition and an objective measurement.

Just as is the case with many other concepts in the social sciences, the lack of consensus on the definition of globalization results in a proliferation of terms and ideas. As a consequence, most publications in the field start with a list of definitions proposed by others. An example of this is the overview by Al-Rodhan and Stoudmann (2006), providing a table of no less than 114 definitions. This plethora of definitions warns us of the danger that two people talking about globalization may be referring to completely different things. In that sense, we regard the overviews of definitions as a signal, if not a warning sign, that we should make clear what we mean by the term globalization from the start. We thus begin with a brief discussion of some of the conceptualizations in the literature and the way we relate to them. In Table 6.1 we present a small selection from the available definitions that serve as examples of the different approaches to globalization. They can be put under three headings: economic, normative and comprehensive approaches. The economic aspect of globalization is part of almost all the definitions, but authors differ with respect to whether it is only one of the many different dimensions or in fact the only dimension of globalization. There may be a good reason for emphasizing the economic aspect, since a large part of the literature examines the impact of this kind of globalization (Brady, Beckfield & Zhao 2007). Besides, empirical research quickly developed in this field thanks to the great number of data sources including cross-national and longitudinal data.

Defining globalization exclusively in economic terms has some advantages, but it has the drawback of overlooking some other aspects that may also be important. In Table 6.1, we identify two alternatives to the strictly economic approach, that is, the normative and the comprehensive approaches to globalization. In the normative approach the definitions include the author's opinion

Table 6.1 Examples of different definitions of globalization

Economic approaches
"The integration of the world economy" (Gilpin 2001: p. 364).
"... development of global financial markets, growth of transnational corporations and their growing dominance over national economies" (Soros 2002: p. 13).

Normative approaches
"The harsh reality about globalization is that it is nothing but 'recolonisation' in a new garb" (Neeraj 2001: pp. 6-7).
"As experienced from below, the dominant form of globalization means a historical transformation: in the economy, of livelihoods and modes of existence; in politics, a loss in the degree of control exercised locally, and in culture, a devaluation of a collectivity's achievements" (Mittelman 2000: p. 6).

Comprehensive approaches
"Globalization can be defined as the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa" (Giddens 1990: p. 64).
"Globalization refers both to the compression of the world and the intensification of consciousness of the world as a whole" (Robertson 1992: p. 8).

on globalization. Most of the time, this is a negative opinion, and this approach thus includes many examples of anti-globalization. From an empirical point of view, these definitions are of little use because they do not make possible a clear distinction between cause and effect. In fact, a normative definition may imply that globalization takes place if certain parts of the world are being colonized (Neeraj 2001) or if collective achievements devaluate (Mittelman 2000). There are several problems with this. For instance, globalization is only one of the many reasons why colonization and devaluation can occur. Therefore, such a definition does not provide us with an unequivocal indicator of globalization. What is more, starting from a normative definition obscures the really interesting question, namely whether it really has such negative impacts or not. To answer this question, one needs a clear measure of globalization. Comprehensive approaches differ from the other two approaches because they are not restricted to a single dimension, such as the economic approach, and try to define globalization without a normative judgment. A common feature of the two examples of broad definitions in Table 6.1 is that they refer to globalization as increasing interconnectedness. Central to this is that the world, so to speak, becomes smaller; worldwide events increasingly affect each other (Giddens 1990), and space is compressed (Robertson 1992). A weak point of this approach is that the definitions of globalization are so general that no measures can be derived from them. It also raises questions about what is meant exactly by a term like compression, let alone how to measure it. Of value for the present discussion is that these approaches challenge the single-dimension approaches like the economic ones; international economic relations lead to a compression of the world and an integration of social relations, but other dimensions are not excluded from this comprehensive approach.

We combine the three approaches as follows. The economic approaches offer the best developed and most measurable definitions of globalization. However, the economic dimensions do not suffice for a satisfactory measurement of globalization, as the comprehensive approaches make clear. Therefore, they will be extended by other dimensions. Finally, with these extended measures of globalization, it is possible to turn the implicit assumptions of the normative approaches into research questions and hypotheses that can be tested empirically.

6.1.1 A definition of globalization

In this book we define globalization as *increasing cross-border interactions*. This definition fits into the class of comprehensive approaches and has to be specified to provide indicators that can be measured empirically. To make clear what is meant by our definition, each of its elements will be further developed in this section.

We start with the *interactions* part of the definition. An interaction takes place when actors are in contact with each other. Both the actors and the kind of interactions can vary. This can be illustrated by distinguishing between the players (the actors) and the game they play (the interactions), and as with a game, to understand globalization one needs to clarify who is involved in what kind of interaction. The players in the process of globalization are either individual actors or collective actors, such as companies and governments. Their interactions can be *economic*, *social* or *political*. For example, companies involved in international trade not only have economic interactions with other companies and customers, they also affect social interactions by employing people with different cultural backgrounds, and they may have political interactions with national and local governments of the host countries. Nevertheless, even though these interactions are interrelated in practice, it is possible to measure their empirical occurrence independently. Moreover, on theoretical grounds one can argue that economic, social, and political interactions differ from each other, and by singling out their effects one can investigate the effects of globalization more closely.

We only include *cross-border* interactions in our definition of globalization. This means that globalization requires exchanges between two or more actors separated by national borders. There are three forms of international exchanges. First, there are cross-border interactions when goods and services are traded between companies located in different countries and when migrants move from one country to another. Secondly, the actors from different countries can be organized in a supranational body of exchanges, such as international political bodies like the United Nations and the European Union. And, thirdly, a company can be located in more than one country. The crucial point is that cross-border interactions are distinguished from within-the-border interactions, giving a central place to the nation-state in the definition of globalization. Therefore, this definition deviates from more general approaches to globalization that include all possible exchanges. Nevertheless, it is closely related to what has been regarded as one of the most important indicators of globalization, namely the trade between countries in terms of exports and imports. Moreover, it also includes the usual way of looking at the globalization aspect of migration; people moving from one place to another within a single country are generally not included in definitions of globalization. Furthermore, the central place of the nation-state in the definition of globalization, separating the inside from the outside, provides us with a theoretical starting point to argue whether globalization decreases the power of the state, and, more specifically, whether it threatens the solidarity within countries, as we will explore in the next two chapters.

The last element of our definition of globalization refers to *increasing* cross-border interactions. This part of the definition refers to an ongoing process instead of a certain state of affairs. It should be noted that whether or not economic, social, and political interactions are indeed increasing is an empirical question. Regarding the definition of globalization, this means that we only speak of globalization if there is an increase over the course of time. A decrease of the interactions should rightfully be termed de-globalization, referring to a decline in globalization. Moreover, some have noticed that globalization does not rule out the possibility of local interactions becoming increasingly important (Keohane & Nye Jr. 2000).

There are two different levels at which one can analyze the increasing cross-border economic, social, and political interactions. These two approaches correspond with respect to their definition of globalization. Nevertheless, they differ in how they investigate cross-border interactions, with the first approach focusing on the structure of the international interactions and the second on the actors taking part in the process of globalization. There have been a number of studies investigating the global structure of cross-border interactions, such as an analysis of trade globalization from 1795 onward (Chase-Dunn, Kawano & Brewer 2000), the volume of international trade in 1959, 1975, and 1996 (Kim & Sin 2002), a comparison of international telephone traffic between 1978 and 1996 (Barnett 2001), and the structure of Internet traffic between 29 OECD countries (Barnett, Chon & Rosen 2001). These investigations aim to describe the structure of cross-border interactions, whether these structures have changed over time, and how to explain this. This structure of international relations is examined with indicators like the number of ties and the density of the network. Globalization occurs if the number of ties and the density have increased over a certain period. By looking at the network structure of international relations as a whole, one gets a big picture of global exchanges, but one is not informed about separate countries. At a lower level of aggregation, it is possible to examine the place of countries within these global structures and how this affects national policies and social structures within societies. Globalization, however, refers to the structure of worldwide relationships, and therefore we do not speak of a country having a certain level of globalization but of the *openness of countries* with respect to the extent to which they are engaged in cross-border interactions. Theoretically, the level of openness ranges from countries that are completely isolated from the outside world to those that are totally open. In reality, the level of openness varies between countries, but such extreme cases are not likely to be found. Even countries like Cuba and North Korea do have some connections with other countries, and even the most open countries still have borders separating them from other countries.

We distinguish between three dimensions of openness based on the three types of interactions. *Economic openness* refers to the cross-border economic interactions of a country through ingoing and outgoing flows of goods, services, and capital. This kind of openness is indicated with trade openness, i.e. the sum of imports and exports, inflow and outflow of foreign direct investments, and financial liberalization. *Social openness* is the extent to which a country takes part in globalization through cross-border flows of information, ideas (culture), and people. Part of this kind of openness develops due to means of communication, available through inventions like the telephone, television, and the Internet, and the other part consists of the movement of people to different countries due to migration and traveling. The *political openness* of a country refers to its international political relations with other countries and includes both bilateral relations between counties as well as membership of larger organizational bodies like the United Nations, the European Union, and NATO.

6.1.2 Explanations of globalization

The literature on globalization tends to pay more attention to its supposed and actual impact than to the question of what causes it. Partly, this unevenness in the studies is caused by the fact that globalization does not have a starting point, whereas the effects of globalization on everyday life are visible for everyone. Even those who believe that globalization is a relatively new phenomenon have difficulty showing when the process began. Therefore, it is hard to argue what the ultimate causes of globalization are. Nevertheless, several causes are frequently mentioned in the literature, but without it being clear which is the most important force behind globalization. There are several reasons for this. Globalization is likely to have multiple causes, provided that the process itself is made up of different dimensions, each influenced by different international developments. What is more, even these underlying dimensions may not have a single cause and are explained by more than one factor. Besides, although in principle such causes can be distinguished from each other, in practice they are likely to be intertwined, affecting each other, and making it difficult to come up with the exact cause of the openness of countries. For example, a researcher interested in studying economic relations between countries will probably focus on this dimension in isolation, but when it comes to explaining the development of economic openness, references to social and political processes enabling trade relations between countries have to be included.

A further complicating factor is that cause and effect may not be clearly distinguishable when it comes to globalization. On the one hand, the wealth of countries has increased due to international trade; on the other hand, this economic growth has given an impulse to these trade relations in turn. The same line of argument applies to the standardization of time, measures, and weights. When such forms of standardization took a hold, they had a positive impact on the cross border interactions between people, since traveling from one place to another and trading goods became easier. Arguing that the process of standardization is the cause of globalization, however, is one step too far. In fact, the causal relation could be in the opposite direction: globalization increased the need for standardization, compared to a time when people were only trading within their own communities and the local means of measurement sufficed. In other words, it is not possible to find the ultimate cause of globalization since the relationships between factors like a country's openness and its economic, technological, and political development are complex and ambiguous rather than simple cause and effect relations.

Nevertheless, let us discuss a few of the causes that are commonly regarded to be important causes of globalization, keeping in mind the critical remarks we just made. Technology is widely believed to be a main driving force behind globalization. Thanks to technology, the application of knowledge to solve practical problems, establishing connections between individuals and companies has become far easier than before. The means for such connections through communication and transport facilities have grown gigantically in recent times. In addition, the costs of communication and transport have decreased. Because of this, most of the literature considers technology to be the most important explanation of globalization, and economic openness in particular. Nevertheless, some authors are critical of such technological determinism. Their criticism originates from studies of the hypothesis that technology drives globalization. The basic assumption underlying this hypothesis is that technology has become more advanced, in the sense that it has progressed over the centuries, and that we have not experienced a period of technological regression. An implication of this is that there should be decreasing constraints for international trade relations, and gradually these relations should result in a world market, as the possibilities for communication and transport increase and their costs decrease. However, empirical data of international trade in goods and services show that this is not what is happening (Taylor 2002). Contrary to what may be expected, national borders are still a major factor in explaining why there is no integrated world market. This is illustrated by comparing the trade within and between countries. For example, comparing cities in the US and Canada, it turns out that there is twelve times more trade between cities in the same country than between cities in the neighboring countries that are located at an equal distance. Also in Europe, with its emphasis on the internal market, trade within countries is three to ten times higher than cross-border trade, even if the analysis allows for factors like size of the local economy and geographical distance.

An additional argument that the world market is not integrated holds that the prices for the same products should not differ between countries if there were such a full integration. Again, empirical research refutes this expectation; a number of studies show fluctuations of internationally traded goods like oil, computers, cars, and televisions within countries but not between countries. These examples lead to the conclusion that the technology argument is not capable of explaining developments in international trade and the internationalization of production (Garrett 2000). Against this, it can be argued that focusing on trade in goods does not suffice to show how technology has affected international trade. Goods like cars and flowers still need to be transferred from one place to another, and even if transportation costs have declined, they have certainly not disappeared (Keohane & Nye Jr 2000). Therefore, a considerable impact of technology has to be found in the trade sectors using information technology and data instead of moving physical goods from one country to another.

This should lead to the prediction that national borders should not matter in the case of financial transactions. Once again, empirical research counters this expectation (Taylor 2002). Investors have a strong tendency to invest in their home market. At the end of the 1990s, US investors held 90 percent in US stocks, Canadian investors held 88 percent of Canadian stocks, and Japanese investors held 94 percent of Japanese stocks. In Europe, investors in the UK and Germany held 80 percent of the stocks from their own countries. This shows that there is only a small amount of market integration at the global scale when it comes to financial markets.

The examples indicate that the world is far from borderless and raise the question of why the world market is not more integrated, as might be expected. One possible explanation is that transport costs are a smaller fraction of the total costs of importing goods than is sometimes assumed – somewhere around 2.8 percent for different products (Hummels 2007). So, even though transport and communication costs have been decreasing (Crafts & Venables 2003; Hummels 2007), this has only a minor effect on the total costs of international trade. Furthermore, there are various explanations why national borders have a persistent influence on trade between countries, like preferences of consumers, different currencies and exchange rates, transaction costs associated with contracts, and the importance of trade networks within countries (Anderson & Marcouiller 2000; Parsley & Wei 2000; Rauch 2001; Frankel & Rose 2002). All of these factors provide additional costs and benefits influencing the choices made by companies and customers.

That national borders and distance still matter is the major reason to be skeptical about the technological explanation of globalization. Empirical research into the development of globalization over the course of time points in the same direction. If technology progresses over time, then it can be expected that globalization will increase as well. However, the actual development does not show such a pattern. Through the course of history, there have been periods of rising globalization but also times in which the level of openness of countries dropped considerably. In their study of waves of globalization since 1795, Chase-Dunn, Kawano & Brewer (2000) construct a measure of trade globalization that relates the worldwide exports of goods to the total GDP of all countries. Using this indicator the following pattern appears: until 1880 international trade increased, then it decreased until 1905, followed by an increase until 1929 (with a short break during World War I), after which it dropped again to reach the lowest historical point in 1945. Since World War II, international trade has grown steadily towards the point that we know now. To account for this pattern, the authors state that the first two waves of international trade were due to the rise and fall of hegemonic regimes that provided stability for the world markets and that the recent increase is caused by the growing number of countries trading their goods on the international market (Chase-Dunn, Kawano & Brewer 2000).

With a different indicator of economic globalization, the level of market integration based on price convergence for similar goods, Findlay and O'Rourke (2001) identify somewhat different periods of increasing and decreasing globalization. Their research concludes that there was increasing globalization until the start of the First World War, at which point world trade decreased for a while, then at the end of the war it increased again. During the big recession of the 1930s, world trade declined, and after the Second World War it increased again.

These studies provide evidence for the disturbance created by the two world wars, putting world trade on hold. Robertson (2004) argues that there have been three distinct periods of globalization, differing qualitatively from each other. The first period was related to the spread of European trade to other parts of the world that started in the sixteenth century, the second one with industrialization and technological changes during the nineteenth century, and the third with the establishment of the US as a hegemonic power from the 1930s onwards. Although these studies lead to partly contrasting patterns of globalization, they show that technological developments and decreasing costs of international trade cannot fully account for changes in globalization. Other factors, such as world wars and the presence of powerful countries, have an equal and perhaps even stronger impact on the course of globalization.

Then there is a list of other possible explanations of globalization, like rationalization, capitalism, and regulations (Scholte 2000), that have attracted less research attention than technology but are nonetheless worth considering. Rationalization is a process of secularization in which humanity has a central place and that is associated with scientific and instrumental thinking. One of the consequences of rationalization is that people's thinking is less attached to their nationality, religion, and ethnicity, which used to constrain globalization, and this has thus enabled the opening up of countries. Capitalism is a specific type of economic organization aimed at profit-making. This may foster openness because companies have a permanent incentive to look for places where they can save on production costs and for new markets to sell their products. Regulation is the political and juridical framework governing international relations. A major difficulty with these possible explanations is that it is very hard to tell whether they are the causes or, actually, the effects of increased openness. If cross-border interactions between actors from different countries increase, it may be expected that their relationships are rationalized to create stability and predictability, that capitalism arises to organize economic exchanges, and that they develop regulations to back up the system of exchanges and let them run smoothly.

To summarize, explaining the openness of countries is not an easy task. There is a great variety of factors influencing the process of globalization, and periods of increased openness are followed by times of decreasing integration at a global scale. In this process, factors like technology, rationalization, capitalism, and regulations are necessary but not sufficient conditions to bring about globalization. That is, they have made cross-border flows easier, but they did not cause them. Maintaining international exchanges would have been difficult if not impossible without technological breakthroughs such as steam engines, telegraphs, telephones, and the Internet, which provide the means to cross long distances. The same holds for rationalization, capitalism, and regulations, which support these international interactions. Along with these factors and others like trust relations between countries, national cultures, increased welfare, as well as the global inequality of incomes, worldwide interactions have developed. These developments have occurred not as a matter of one cause and one effect but through mutually affecting processes and feedback mechanisms that have influenced each other. In some cases they have strengthened each other, and in other instances opposing forces have been at work.

In the globalization process, the three dimensions of openness are interrelated. A large part of human history is made up of people living at different locations. Then, over time, there was migration, cultural exchanges, through which people learned from each other, innovations like technology and language diffused, goods were exchanged, and societies gradually developed and became more complex (Diamond 1997). As such, there is nothing new about globalization. However, if we move far back in time, we cannot speak of cross-border interactions because there were no nation-states yet. Modern states, based on sovereignty of the state, only came about in the sixteenth century, creating a distinction between national and international relations. Within the national boundaries, one of the government's main tasks was the protection of security, rights, and the economic welfare of its citizens. At the same time, with the development of the modern state, the question of how to deal with the relations between states arose. At first, this question may have been a matter of political relationships and how to regulate them. With the growing interdependence among states through economic and social exchanges, the demand for regulation increased even further, leading to bilateral relations between countries as well as larger international organizations. As such, the political openness of countries was a response to increasing economic and social openness, as a means to regulate exchanges and prevent and solve conflicts between countries. If the dimensions of globalization are indeed as strongly interrelated as is suggested here and if all of them are affected by a multitude of factors, it should be clear that finding the ultimate cause of globalization is impossible.

6.2 Measuring the openness of countries

Investigating to what extent countries differ with regard to their openness and how this developed requires reliable and comparative data. Such data enable us to research whether globalization is indeed happening, that is, whether the openness of countries is increasing, or whether other patterns are found. Data for many countries over a longer period of time allow us to answer basic descriptive questions. For a long time, answering these relatively simple questions was difficult due to a lack of data. Quite recently, datasets have been compiled of the different kinds of openness. A common feature of these datasets is that they bring together data from existing sources instead of gathering new data. These data are organized in such a way that they can be interpreted as indicators of the openness of countries. We will take a look at a number of these datasets and discuss their strengths and weaknesses.

Researchers from AT Kearney developed the *Globalization Index* after a request from *Foreign Policy Magazine* and labeled it the first effort to measure globalization (Kearney 2002). This index aims at providing a broad image of globalization, that is, broader than the then existing indexes that exclusively focused on the economic dimension. An example of such an approach is the *G-Index* provided by the World Markets Research Centre (WMRC). Even though this index measures fewer dimensions of globalization than the AT Kearney index, its major strength is that it includes data for no less than 185 countries for a period of 30 years. The data from AT Kearney were compiled for the first time in 2001, generating information for 62 countries, which include 85 percent of the world population. As long as only these two datasets were available, the choice was between a narrow approach, measuring only the economic dimension of globalization, but for many countries and over a long period of time, or a more inclusive measure providing data for fewer countries and without the possibility of making analyses through time.

This situation has improved recently, since there are now two datasets available combining the strengths of the two approaches that include information about several dimensions for a large number of countries. Moreover, developments can be investigated both across countries and through time, as these data sources span a long period. The first of these sources is the *CSGR Globalisation Index* developed by the Centre for the Study of Globalisation and Regionalisation (CSGR) of Warwick University, containing information for the period 1982 to 2004 (Lockwood & Redoano 2005). The second one is the *KOF Index of Globalization* from the Konjunkturforschungsstelle in Zürich. The KOF Index is comparable to the CGSR Index in that both provide data about economic, social, and political openness. The main difference is that the first goes further back in time, namely to 1970 (Dreher, Gaston & Martens 2008). As the CGSR and the KOF Index are similar, we chose to use the KOF Index in the remainder of this chapter to investigate developments in economic, social, and political openness. In Chapters 7 and 8, we examine the effects of openness with information from this index.

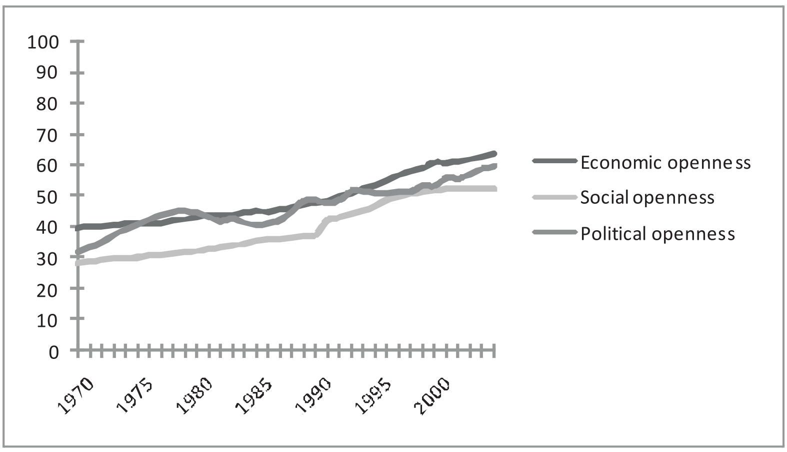
The 2007 version of the *KOF Index of Globalization* is constructed as follows. *Economic openness* is measured with data on trade, foreign direct investment, both flows and stock, portfolio investment, income payments to foreign nationals (all in percentage of GDP), hidden import barriers, mean tariff rates, taxes on international trade (in percentage of current revenues), and capital account restrictions. *Social openness* includes data on outgoing telephone traffic, government and workers' transfers received and paid (in percentage of GDP), international tourism, foreign population, international letters, Internet users, cable television, trade in newspapers, radios, number of McDonald's restaurants, number of IKEA stores (all these indicators are per capita), and trade in books (percentage of GDP). *Political openness* combines information about embassies in a country, membership in international organizations, participation in UN Security Council missions. Each variable is transformed to an index with values between one and a hundred, with a hundred being the maximum value for a specific variable between 1970 and 2005. A higher value indicates a higher level of openness. The weights of the different indexes are calculated using principal components analysis for the whole sample. The variance of the variables in each sub-group are partitioned. Since the weights are determined in a way that maximizes the variation of the resulting principal component, the indices capture the variation as fully as possible (Dreher, Gaston & Martens 2008).

6.2.1 Developments in globalization

With the information from the *KOF Index of Globalization*, we show how the economic, social, and political openness of countries developed between 1970 and 2005. We start with a description of the average development of the openness of countries. This answers the question of whether globalization, an increasing openness of countries, has been taking place during that period of 35 years, and if the developments in the three dimensions of openness are similar or not. After this, we investigate which are the most open countries, for each of the dimensions and for different points in time.

Figure 6.1 represents the mean economic, social, and political openness between 1970 and 2005. Comparing the 2005 levels of openness with those in 1970, we see that the three kinds of openness increased on average, but that there are some differences between them. The level of economic openness increased steadily between 1970 and 1990 and accelerated in the 1990s. Around 2000, the growth in economic openness suddenly paused and started to increase again in recent years. Until the 1990s, social openness developed on a similar track to economic openness. A marked difference is the jump that the line shows in the beginning of the 1990s, and then at the end of the 1990s social openness stops growing and remains at the same level afterwards. Political openness developed in a completely different way to economic and social openness. Most notably, the pattern of political openness fluctuates far more than the other two dimensions. After a steep increase between 1970 and 1980, political openness decreased and almost returned to its initial level. From the end of the 1980s there was again an increase in political openness, with a steeper growth at the end of the twentieth century.

Figure 6.1 Openness 1970-2005, 122 countries



Source: KOF Index of Globalization

These figures confirm that globalization has increased during the last 35 years. At the same time, it provides evidence that there is little support for the view that globalization is on the loose. The main reason to be skeptical about this is that most of the time the levels of openness are increasing gradually. And, although the world is experiencing higher levels of openness now than in the 1970s, it is conceivable that globalization will not increase a lot further in the near future. This expectation applies in particular to social openness, which has stayed at the same level since 2000. Clearly, the future cannot be predicted from the current situation, and social openness may catch up, but it may well stay at the same level for a longer period. Figure 6.1 further illustrates that future changes in political openness are hard to predict, given its whimsical evolution over the past 35 years, and although recently this kind of openness has increased, it may just as well decrease in the coming years.

Historical events can explain some of the patterns we just described. The gradual growth in economic openness can be related to the growing number of countries involved in international trade, as is argued by Chase-Dunn, Kawano and Brewer (2000), and other factors like technological developments and the increased liberalization of international trade. Possibly, the sudden deviation from that growth results from the 9/11 attacks and the economic crisis that followed. The growth in social openness during the 1990s is most likely caused by the start of the information age that is marked by the introduction of the Internet and its rapid spread in many countries. Why social openness did not increase in the last five years is unclear, but partly this may be due to the fact that in the rich countries most people already have Internet access, and less growth can be expected in that part of the world. As access to the Internet increases further in the rest of the world, this kind of openness should start to increase again. Developments in political openness during the 1970s and 1980s are clearly related to the Cold War. In the beginning of the 1970s, the relationship between the Soviet Union and the United States became less tense than before, which resulted in the SALT agreement of 1972. From 1981 on, their relationship was growing more tense again, and remained that way throughout the 1980s until they started negotiating once more. The fluctuations in political openness after this period are harder to connect to large-scale developments like these.

6.2.2 The ten most open countries

In the previous section, we examined the average openness of all countries in the sample. This indicates whether economic, social, and political globalization occurred during the period under study. Up to this point, we have not looked at the openness of individual countries. This section, therefore, will focus on identifying the most open countries, and will answer the following questions: Which are the most open countries? Is the rank order of countries stable or has it changed in the past 35 years? Are countries that are open in one dimension also open in the other dimensions? To answer these questions, we present a summary of information for the top ten most open countries with respect to the different dimensions, for the years 1970, 1980, 1990, 2000, and 2005 in Tables 6.2, 6.3 and 6.4.

The information in Table 6.2 shows that the top ten of economically most open countries is quite stable. Luxembourg, Singapore, and Belgium have a high position throughout the whole period. There have also been some changes. Compared to other countries, the economic openness of Canada decreased, and this country disappears from the top ten in 1990. At the same time, the Netherlands and Switzerland also lost the positions they used to have. On the other hand, the economic openness of countries like Sweden, Finland, and Austria has increased, and they have been among the most open countries for ten years now. Furthermore, the list shows that Malta, Estonia, and Hungary have experienced a large growth in economic openness and are currently among the leaders in that respect.

Table 6.2 Economic openness: 10 most open countries

1970	1980	1990	2000	2005
Luxembourg (92.65)	Luxembourg (93.41)	Luxembourg (94.59)	Luxembourg (96.88)	Singapore (95.90)
Singapore (86.75)	Singapore (92.46)	Singapore (94.41)	Ireland (96.53)	Luxembourg (95.14)
Ireland (77.25)	Ireland (84.04)	Belgium (89.88)	Netherlands (95.90)	Belgium (91.94)
Netherlands (73.82)	Netherlands (82.90)	Netherlands (87.82)	Belgium (95.77)	Malta (91.39)
Belgium (73.24)	Switzerland (77.27)	Ireland (87.00)	Singapore (93.51)	Estonia (90.76)
Switzerland (67.31)	Belgium (76.38)	Switzerland (83.23)	Switzerland (92.52)	Sweden (89.51)
Canada (66.98)	Bahrain (75.30)	Sweden (80.98)	Denmark (92.45)	Finland (88.85)
Oman (63.91)	Canada (73.01)	Norway (80.30)	Finland (92.34)	Hungary (88.83)
Namibia (62.90)	Botswana (71.08)	Bahrain (76.87)	Sweden (90.85)	Austria (88.48)
South Africa (61.93)	United Kingdom (71.02)	United Kingdom (74.70)	Austria (89.86)	Netherlands (88.04)

Source: KOF Index of Globalization

In Table 6.3 we present the top ten of most socially open countries. Some of the countries that are economically open turn out to have a high level of social openness as well. For instance, this is the case for Singapore and Belgium. For the whole period, it is clear that Switzerland is the most socially open country. Furthermore, Canada and the Netherlands have quite a stable position in this list, and Austria and the United Kingdom have increased in social openness since entering the list in 1980 and 1990, respectively.

We examine the results for political openness in Table 6.4. Here we see that over a period of 35 years, France is one of the most politically open countries. Some other countries, like Italy and the United Kingdom, also have a firm position in the top ten.

Table 6.3 Social openness: 10 most open countries

1970	1980	1990	2000	2005
Canada (68.72)	Switzerland (87.22)	Switzerland (89.64)	Switzerland (95.01)	Switzerland (95.38)
Switzerland (62.03)	Canada (83.91)	Canada (86.00)	Singapore (91.35)	Austria (92.49)
Denmark (61.33)	Netherlands (77.81)	Netherlands (85.16)	Belgium (91.03)	Singapore (92.26)
Norway (58.55)	Austria (77.56)	Belgium (84.54)	Austria (91.01)	Belgium (90.82)
Ireland (57.29)	Singapore (70.73)	Austria (83.00)	Canada (90.07)	Netherlands (89.41)
Singapore (56.43)	Belgium (68.35)	Sweden (82.38)	Denmark (89.34)	Denmark (88.64)
Belgium (55.89)	Sweden (68.29)	Denmark (80.48)	Netherlands (89.11)	United Kingdom (87.87)
Luxembourg (54.27)	Germany (67.43)	United Kingdom (77.26)	Sweden (87.47)	Sweden (87.43)
Sweden (53.95)	Denmark (62.73)	Germany (77.17)	United Kingdom (87.08)	Canada (86.85)
Netherlands (50.40)	Norway (60.93)	Norway (76.74)	Finland (85.02)	Czech Republic (84.91)

Source: KOF Index of Globalization

Table 6.4 Political openness: 10 most open countries

1970	1980	1990	2000	2005
Belgium (88.14)	France (90.95)	Sweden (92.93)	France (99.00)	France (98.64)
Italy (88.12)	Canada (89.99)	France (92.51)	United Kingdom (95.38)	USA (96.67)
France (85.81)	Belgium (89.50)	Belgium (91.77)	Sweden (95.09)	Russian Federation (96.04)
United Kingdom (85.45)	Italy (88.98)	Italy (91.59)	Italy (94.84)	Italy (95.62)
Netherlands (83.66)	Denmark (88.81)	Germany (90.21)	Belgium (94.58)	United Kingdom (95.52)
Denmark (82.77)	Sweden (88.80)	Canada (89.08)	Germany (94.46)	Germany (95.17)
USA (82.54)	Finland (87.91)	United Kingdom (88.40)	USA (93.77)	Sweden (94.69)
Sweden (81.67)	United Kingdom (86.12)	Austria (88.02)	Russian Federation (92.48)	Belgium (94.22)
Austria (81.18)	Netherlands (85.41)	India (86.58)	Egypt (92.12)	Austria (93.86)
Canada (80.17)	Austria (88.02)	Spain (86.13)	Canada (91.74)	China (92.39)

Source: KOF Index of Globalization

The USA and the Russian Federation are two countries showing an increase in political openness in recent years (although the USA was among the most politically open countries in 1970, it does not appear in the top ten during the 1980s and 1990s). USA was among the most politically open countries in 1970, it does not appear in the top ten during the 1980s and 1990s).

If we compare the three tables, we notice some differences. Only a few countries are among the most open countries for all dimensions (with Belgium being the best example), some countries are open with respect to two dimensions and do not show up in the third list (Singapore has a high level of economic and social openness), and some have a high score on one dimension but not on the other two (Luxembourg is economically open, and France is politically open). This indicates that the three dimensions of openness are not closely related to each other. We investigated the relation between the dimensions of openness in more detail by calculating the correlation coefficients between economic, social, and political openness for each of the years. According to these analyses, economic and social openness are strongly related, most of the coefficients are around 0.75 and 0.85. Social and political openness are moderately related, and there is quite some variation in the correlations, the scores are somewhere between 0.30 and 0.55. Economic openness and political openness are only weakly related with correlations between 0.20 and 0.30. These results lead to the conclusion that countries that are economically open are also likely to be socially open. This finding can be interpreted in several ways: economic openness fosters social openness, social openness fosters economic openness, or they have a common cause. Whatever the exact interpretation is, that economic and social openness go together is a notable finding. What it shows is that being involved in international trade may also increase the openness of a country in terms of cultural exchanges, creating welfare enabling people to travel abroad and get in contact with others, or that such social relations make economic exchanges easier to bring about and sustain. Furthermore, that political openness is far less related to social openness and even less so with economic openness refutes the idea that political international relations have developed in response to regulating conflicts resulting from social and economic relations between countries.

6.3 Conclusions

Globalization is among the buzzwords of the 1990s. Now that we have entered the next century, the term has become less fashionable, and theoretical and empirical investigations have increased our knowledge about the actual developments of globalization. Now it is time to see what these efforts have taught us about globalization. A first conclusion we draw from the literature is that there are at least two reasons not to talk about globalization in too general a way. On theoretical considerations, three dimensions of globalization can be identified and distinguished from each other, each of them referring to different kinds of cross-border interactions between individual and collective actors. Differentiating between economic, social, and political cross-border interactions is not just of theoretical interest, as is evidenced by the empirical part of this chapter. In that part we showed that economic and social openness are closely related to each other but far less so to political openness. Besides, referring to globalization in general terms overlooks the place that individual countries hold in the process. Much is gained by looking more directly at the extent to which a country is open to worldwide developments. The most valuable information in that respect are comparisons over time, to investigate the evolution of a country, as well as comparisons across countries to examine what place a country has within the worldwide process of globalization. The empirical overview in this chapter shows that some countries are among the most open countries for a long period of time, whereas the openness of other countries is far less stable, in terms of their relative position. Such developments raise questions about the factors that explain these patterns and the impact they have on the countries involved.

Related to this, we touched upon the development of an Index of Globalization. Here we would like to raise the point that this should not be a goal in itself. Our main argument for this is that the three dimensions of openness differ from each other and that an overall index of globalization cannot cover these differences. Although it may be tempting to come up with an instrument that tells us which country is the leader in globalization, we doubt whether such a measure really provides an accurate image. The top ten countries for the different dimensions of openness shows that there are only very few countries that are open in all three dimensions. Combining these dimensions of openness in one measure would only make sense if they are empirical manifestations of the same underlying phenomenon. This would mean that a trade-off between the dimensions is possible, in the sense that a low level of economic openness can be compensated for by a high level of social and political openness. To some extent this is a matter of statistical analyses to find out whether these assumptions hold. However, this issue also has a substantive side since the effects of economic, social, and political openness can differ and should therefore be considered separately from each other. Therefore, from an empirical point of view, much is gained by the availability of a set of indicators measuring the various dimensions of the openness of countries. As we discussed in this chapter, the literature has put much emphasis on the economic dimension of globalization, partly because other data were not available for a large sample of countries and for a long time period. As a result, globalization research was biased towards the economic dimension. Datasets like the ones that have been compiled by AT Kearney, CSGR, and KOF more recently are of great value to complement the existing studies with analyses of the other dimensions of globalization.

From the empirical analysis in this chapter, we conclude that globalization is indeed taking place and that the average openness of countries has increased over the past 35 years. At the same time, we would like to qualify the image that we live in a 'flat' (Friedman 2005), borderless (Ohmae 1990) world. Even if applied to the most open countries that exist, the world is nowhere close to these metaphors. With respect to cross-border interactions between countries, distance still matters, and national borders have not disappeared. Our aim was to come up with a more realistic view of the world based on empirical data. According to our analyses, the openness of countries has increased, but the world today is far from completely integrated in terms of economic, social and political relations. What is more, the openness of countries does not always develop linearly. At certain points in time, openness increases overall, thereby nourishing speculation about an upcoming fully integrated world, but in most instances these periods are followed by a period in which openness decreases, at least in some respects. Since it is likely that such fluctuations will continue in the future, it is doubtful whether we will end up in a fully integrated world.