Globalization or Europeanization? Evidence on the European Economy Since 1980*

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ABSTRACT
The past 15 years have witnessed a steep growth in world trade. Almost half of that growth is due to the increased integration of the European economies, The European Union's (EU) decisions to complete the single market and move towards a common currency have created a single set of rules governing economic activity in Europe. We argue that these changes imply a process of 'Europeanization' of Europe's economies. As a result, the largest European corporations have increasingly focused their investments across Europe and worked to gain market share within the EU. Our results imply that at least part of what we call globalization is the result of states' deciding to build rules for market integration in Europe. States continue to play an essential role in market building.

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1. Introduction

Much of the rhetoric about the world economy in the past 10 years has focused on the issue of 'globalization'. The argument usually goes as follows. One of the central features of economic globalization has been the rapid expansion of world trade. Trade increased rapidly during the 1990s and almost doubled between 1993 and 1997.[1] The main actors in this expansion are the world's largest multinational corporations that are viewed as the engines of trade (United Nations 2000). These firms use new information technologies and improvements in transportation to enter new markets and disperse their activities in all parts of the world. One of their main goals is to take advantage of cheap sources of labor around the world (Castells 1997). Several outcomes are frequently predicted by those who have this view of globalization. The developed world, it is argued, is losing jobs and their share of trade to less developed countries. Thus, governments in advanced industrial societies are expected to reduce taxes and social spending, and lower labor market protection in order to avoid capital flight (Cable 1995; Stopford & Strange 1991). Firms are becoming increasingly 'transnational' such that they have lost national identities and are now owned and managed by a world capitalist class (Sklair 2001).

The problem with this neat story lies in the great deal of evidence that undermines it (see the papers in Boyer & Drache 1997; Berger & Dore 1997; Crouch & Streeck 1997; and the work by Rodrik 1999; Garrett 1998a; Wade 1997; Whittington & Mayer 2000). While world trade increased rapidly during the mid-1990s, it has slowed dramatically since 1998, mainly as a result of the economic slowdown in Asia (WTO 2000). If one considers world trade as a percentage of world economic activity, one concludes that this rapid increase still means that world trade only accounts for less than 17% of world economic activity (Fligstein 2001). If one takes a longer view on trade, one can show that world trade hit its previous peak in 1913 when it accounted for about 14% of world gross domestic product (GDP). Two world wars and the depression of the 1930s left world trade at about 6% of GDP in 1950. It took almost 70 years for world trade to hit its

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previous high point again (Bairoch 1996). These numbers suggest that one should be cautious about the degree to which the increase in world trade is a truly revolutionizing phenomenon.

The same can be said about the trade's alleged effects on both governments and corporations. There is little evidence that world trade has reduced the ability of governments to intervene into their economies and engage in welfare state activities. Indeed, it appears that, in societies where trade has expanded, social protection has expanded as well (Rodrik 1999). The globalization thesis assumes that firms will relocate wherever taxes and production costs are lower. *Prima facie*, heavy state involvement, by virtue of the resources it levies and the various regulations it implements, increases production costs substantially. For Garrett (1998b), however, this assertion neglects the positive externalities of state intervention. In order to entrench the market, it is necessary to ensure the compliance of citizens, and this is done through the reduction of inequality and a certain level of decommodification. Firms are not looking for low costs, but for high levels of productivity and market stability. This is especially true in capital-intensive industries, where the wage component of outlays is not crucial and physical capital is difficult to move, but where huge amounts of capital are at stake. In addition to physical infrastructures, the state provides an educated, market-compliant and productive workforce. It also stabilizes the economic environment. Human capital enhancement and social stability constitute a benefit for firms, and this enters into their investment calculus. As a result, increasing levels of economic openness have not caused a decrease in government spending; nor have they caused capital flight in the countries studied. As globalization really took off, effective levels of taxation and government spending have followed an upward trend since the early 1980s. Moreover, fiscal and macroeconomic policies have not converged during this era, pointing to the endurance of substantial state autonomy. Export-dependent countries still spend a lot more on public goods than ones that are relatively closed or that have trade deficits. Similarly, there is little evidence that American, European, Japanese and large corporations from the rest of the developed and developing world have come to be owned by an international group of investors who have no nationality (see the review in Fligstein 2001:Chapter 8). As we shall demonstrate, trade shares for the first world have not declined in the past 20 years, but have in fact increased.

In spite of these results, which contradict the basic globalization story, scholars remain fascinated with the recent trajectory of the world economy. They remain convinced that even if the single capitalist world is not the current reality, it will most probably shape the future. The purpose of this paper is to provide a different way to think about what is going on in world trade and in the world's largest corporations. We defend a provocative thesis: much of what people call 'globalization' is in fact 'Europeanization'.[2] That is, a huge part of what is driving the increases in trade in the world economy is accounted for by the changes going on within Western Europe.

The European Union began as the European Coal and Steel Community (ECSC) and expanded to become the European Economic Community (EEC). The original intent of the ECSC was to stabilize the production of steel across Europe in order to prevent ruinous competition during the 1950s. The EEC formed to expand the activities of the alliance to co-operation in agricultural policies and various industrial policies. The Treaty of Rome (1957), which produced the EEC, had the goal of reducing tariffs and other trade barriers, thereby promoting free trade and economic growth. Both R. Schuman and J. Monnet, the principal intellectual architects of the EEC, felt that if the European societies had economies that were more integrated, governments would be less tempted to engage in military activities that would result in war.

The EC underwent a set of reforms beginning in the mid-1980s and reconstituted itself as the European Union (EU). The EU has moved from being a customs union to a fully fledged 'single market'. The 'single market' means that most tariff and non-tariff trade barriers have been removed, rules have been created to facilitate trade, an apparatus exists to enforce a common competition policy and a single currency has been created for economic transaction across Europe. Europeanization has meant that decisions taken in Brussels by the EU governments and the Commission have produced a single set of rules for market exchange across Europe. This political project has provided the legal underpinnings to European-wide free trade.

To make sense of these processes, our argument begins by trying to define what an

integrated market would look like for a given commodity. We use the theory of fields extended to the context of markets (Fligstein 2001; Bourdieu 2000) to gain conceptual leverage on this question. We argue that an integrated market requires a single system of rules of exchange, property rights, and rules of competition and co-operation. In Europe, the creation of common, transparent 'rules of exchange' that make trade easier in the European space has gone hand in hand with political unification. Especially since the 1979 *Arrêt Cassis de Dijon*, which forced the mutual recognition of national legislation pertaining to commerce, the EU has by and large also come to co-ordinate rules of competition and co-operation for firms involved in trade across borders. While there has been thus far less convergence across Europe in property rights, the European Commission has recently proposed the creation of a common incorporation label, *société européenne*, that should eventually undermine the currently national systems of property rights.

We then consider the degree to which European markets have become integrated, both synchronically and diachronically. Examining cross-border trade reveals that, over time, the share of intra-European trade has increased. On average, trade between European countries now accounts for approximately 40% of their GDP; indeed, 70% of their total exports are directed to one another. The main effect of the EU's political project has been to increase dramatically trade within Western Europe. European corporations have responded to these opportunities in several ways. First, they have undertaken mergers with their principal national competitors and many of their competitors across European borders. Secondly, European multinationals have become more Europe oriented in their investment and sales activities. Non-European multinational corporations have also come to focus more of their activities in Europe.

The data point to a startling conclusion. Market integration in Europe was an explicitly political project carried out by national states and, arguably, savvy political entrepreneurs (for competing views on this issue, see Haas 1958; Moravcsik 1998; Pierson 1996; Fligstein & Mara-Drita 1996). Its effects since the mid-1980s have been to increase trade dramatically in Europe and create a single market. Thus, at least part of what we mean by globalization needs to be recast. European governments intentionally created the possibilities for more trade by removing impediments to trade and producing rules to govern and encourage trade. This has resulted in the densest economic zone in the world with the exception of the USA. Globalization is thus not a mysterious force outside the control of governments and driven by rapacious corporations. Instead, the most successful globalization/trade project is one where governments intentionally have co-operated the most extensively. They have produced a single set of rules and an enforcement mechanism (the European Court of Justice) that by and large encourage cross-border trade. Their co-operation has paid off by creating jobs and economic growth in Western Europe.

There are several lessons to be learned here. First, market integration projects work much better with states and rules that are enforceable. Secondly, there may in fact be multiple globalization projects going on around the world. The idea of 'globalization' is appealing because it suggests a single dynamic for world economic activity. What our analysis suggests, however, is that there may be multiple dynamics at work in the world economy. These dynamics vary greatly depending on the relationships among states, rules and firms. We will return to this issue in the Conclusion.

2. What is an integrated market?

The theory of fields can be invoked as a conceptual apparatus of a distinctively sociological nature to understand how market society functions. As forms of social organization, market structures involve both cognitive understandings and concrete social relations. In this perspective, markets are construed as arenas of objective relations between positions, or fields, that contain collective actors who try and produce a system of domination in the field. In each market, as in each social field, a prereflexive local culture (or doxa) is generated that defines social relations between actors, e.g. incumbent and challenger firms. They also provide actors with cognitive frames with which to interpret the actions of other organizations. Fligstein (1990, 2001) has called these local understandings 'conceptions of control'. Once stabilized, interaction becomes a 'game' where groups in the field that have more power use the acceptable cultural rules to reproduce their domination. This makes action in fields continuously conflictual and inherently political.

The existence of stable markets would be

impossible without the aegis of the state (Polanyi 1944; Fligstein 1990). The state is a set of fields or policy domains where actors claim the power to make and enforce rules for all of the other actors in society (Krasner 1988). In modern societies, these orders are governed by formal (constitutions and laws) and informal rules (practices) that create and limit which arenas can be collectively dominated, who can be a player, and how rule making is to proceed in the domain. The functioning of markets is thus predicated on the existence of a meta-set of rules. Once institutionalized, these rules both enable and constrain subsequent behavior. They constrain behavior by defining how competition and conflict can be legally regulated. They enable incumbent firms to survive and produce stable markets. They also enable firms to create new markets.

Using the idea of markets as fields requires one to specify what a market is, who the players are, what it means to be an incumbent and a challenger, and how the social relationships and cultural understandings that come into play create stable fields by solving the main competition problems and controlling uncertainty. A stable 'market as field' means that the main players in a given market are able to reproduce their firms. The social relations between sellers in a stable market are those whereby one set of firms produces a dominant frame for the market and the other firms fall in line. We thus accept the view that a market is a 'self-reproducing role structure of producers' (White 1981). These organizations manage to create social relations between competitors that govern competition. They use these social relations to remain in existence on a period-to-period basis.[3]

There are four types of rules relevant to producing social structures in markets, which can be called property rights, governance structures, rules of exchange and conceptions of control. It is through the existence of these institutions that actors produce social structures to organize themselves, to compete and co-operate, and to exchange with one another in a regular and reproducible fashion. Each of these types of social structure is directed at different problems of instability. Some are more related to the general problem of creating a market in the first place and others have to do with ensuring the stability of firms in a particular market.

States play an important role in the emergence of stable markets. It is possible to imagine a world where property rights, governance structures and rules of exchange emerge from the interactions of market actors, but such a world would generally be relatively small scaled and probably inherently unstable. We know that in the most advanced industrial societies, states have played a pivotal role in producing stable institutional settings for markets to emerge. As firms have grown and become more sophisticated, they have made demands on states for rules to promote market growth. States provide rules and courts so that market actors can engage in exchange and be able to try and construct stable markets.

Property rights are rules that define who has claims on the profits of firms, akin to what agency theorists call 'residual claims' on the free cash flow of firms (Jensen & Meckling 1974). Property rights are necessary to markets because they define the social relationships between owners and everyone else in society. This stabilizes markets by making it clear who is risking what and who gets the reward in a particular market situation. A given firm's suppliers know who is the responsible entity. Property rights thus function to produce two forms of stability: defining the power relationships between constituencies in and around firms, and signalling to other firms who they are.[4] One aspect of European integration that has not produced convergence yet is around the issue of who owns the largest corporations in Europe. There is little evidence that the single market has produced a capitalist elite that transcends national borders (Pauly & Reich 1999 present similar evidence for all multinationals). Indeed, large firms remain owned by people in particular societies, by and large, and dependent on their home governments for several of their activities (Wade 1996; see the papers in Blair & Roe 2000). This has been the intention of the European governments who have explicitly rejected setting up a European-wide market for corporate control. Note, however, that very significant changes are perceptible. The surge in cross-border mergers and acquisitions (M&As), analysed below, and the increasingly keen interest shown by the European Commission for establishing a pan-European incorporation framework, may alter the evolution of property rights in Europe.

Governance structures refer to the general rules in a society that define relations of competition, co-operation and definitions of how firms should be organized. These rules define the legal and illegal forms of how firms can control competition. They take two forms: laws and informal institutional practices. Mar-

ket societies develop more informal institutional practices which are embedded in existing organizations as routines and are available to actors in other organizations. These informal practices include how to arrange a work organization (such as the multidivisional form), how to write labor and management contracts, and where to draw the boundaries of the firm. They also include current views of what constitutes legal and illegal behavior of firms. Governance structures help to define the legal and normative rules by which firms structure themselves and their relations to competitors. In this way, they generally function to stabilize those relations. The European Commission, for instance, has been increasingly involved in implementing a single competition policy in the EU (Dumez & Jeunemaître 1995:241).

Rules of exchange define who can transact with whom and the conditions under which transactions are carried out. Rules must be established regarding shipping, billing, insurance, the exchange of money (i.e. banks) and the enforcement of contracts. Rules of exchange also regulate health and safety standards of products and the standardization of products more generally. For example, many pharmaceutical products undergo extensive testing procedures. Health and safety standards help both buyers and sellers and facilitate exchange between parties who may have only fleeting interactions. Products produced in one country often have to meet the safety standards of those products in another country.

Product standardization has become increasingly important in the context of rules of exchange, particularly in the telecommunications and computer industries. There exist extensive national and international bodies that meet to agree on standards for products across many industries. Standard settings produces shared rules that guarantee that products will be compatible. This facilitates exchange by making it more certain that produce bought and sold will work as intended. Rules of exchange help to stabilize markets by ensuring that exchanges occur under a set of rules that apply to everyone. If firms who ship their goods across a particular society do not have rules of exchange, such exchanges will be haphazard at best. Making these rules has become even more important for trade across societies. The EU's single market program has arguably been the most successful attempt to produce and harmonize international practices around rules of exchange.

The purpose of action in a given market is to create and maintain stable worlds within and across firms that allow dominant firms to survive. *Conceptions of control* refer to both the understandings that structure perceptions of how a particular market works and the real relations of domination in the market. A conception of control is simultaneously a worldview that allows actors to interpret the actions of others and a reflection of how the market is structured. Conceptions of control reflect market-specific agreements between actors in firms on principles of internal organization (i.e. forms of hierarchy), tactics for competition or co-operation (i.e. strategies) and the hierarchy or status ordering of firms in a given market. A conception of control is a form of 'local knowledge' (Geertz 1983). Conceptions of control are historical and cultural products. They are historically specific to a certain industry in a certain society. They are cultural in that they form a set of understandings and practices about how things work in a particular market setting. The local market orders that ensue refer to a set of firms that take one another into account in their actions and, in doing so, are able to reproduce themselves on a period-to-period basis. All markets, whether organized in a city, a region or across societies, can be analysed from this perspective. It will be interesting to study whether and how conceptions of control have converged in Western Europe under the impetus of market integration.

3. The integration of European markets

Two sorts of market integration project are suggested by the analysis above. First is the political–legal project that would produce a single set of rules for exchange, governance and property rights to govern market activities in a geographical area. To say that there exists a single market in a geographical area would imply that there exists a single set of rules to govern exchange, to regulate competition and co-operation between firms, and to define property rights. In the real world, there are no pure 'single' or 'integrated' markets. Even the USA, which is often held up as a single market, does not have a single set of rules defining property rights and there are some differences across states in rules of exchange. These are caused by the fact the USA is a federal system. In the evolution of the national economy, state

governments have kept some jurisdiction over economic activities within their borders. The USA remains nevertheless the most integrated market of its size in the world.[5]

The second way in which markets are integrated concerns exactly who the main market participants are, and whether they use common conceptions of control and rely on a common set of property rights. It is possible that markets are integrated in terms of laws and practices, but that because of which firms are in the markets, they may in reality be fragmented geographically. This is the dimension that we wish to address in this paper. More specifically, we will explore whether and how the convergence in governance structures, rules of exchange and to a lesser degree property rights in the EU has generated a more integrated market for firms. Europeanization implies that the political–legal market integration project ought to encourage European corporations to focus their activities on cross-European border trade. We expect that the completion of the single market has led firms to adjust their focus on all of Europe, and to not focus narrowly on the home country, keeping non-European activities constant.

In earlier work, Fligstein & Mara-Drita (1996) show how the single market project of the EU was mostly concerned with rules of exchange. Between 1986 and 1992 the EU passed about 250 pieces of legislation that were oriented towards completing the single market. The EU has also evolved a competition policy that is concerned with preventing the emergence of monopolies. The only type of policy that was not agreed to over this period was a single system of property rights. There is an ongoing attempt to create a European wide system of incorporation, but it so far has not generated much integration.

As a result, the governance of ownership relations had mostly remained a national matter. In most European countries, the largest firms are owned by families, banks or governments. The only country in Western Europe where stock ownership of large corporations is diffuse is Great Britain. Not surprisingly, British firms are more likely to be targets of mergers or acquisitions. There has been some relaxation of rules around mergers across Europe that has resulted in some hostile takeovers, but in most European societies, firms can resist such overtures. This does not mean that there have not been cross-border mergers, as numerous examples testify: Mannesmann (Germany) and Vodafone (UK), Total (France) and PetroFina (Belgium), Rhône-Poulenc (France) and Hoechst (Germany), ING (Netherlands) and Barings (UK). Indeed, with the completion of the single market, the number of cross-border mergers has exploded.

If one accepts that Europe is a single market in terms of market access, the ease of engaging in transactions across national borders and competition policy, then one can turn to the degree to which Europe is actually a single market in practice. This implies examining the data on trade within Europe and between Europe and the rest of the world over time.

To push the Europeanization thesis, it is necessary to show the importance of the EU in world trade. World trade has been increasing since the 1980s, both in absolute terms and as a share of the world economy. Table 1 presents data on the shares of world trade by region. There are several interesting and important features in this table. First, Western European countries accounted for between 40.2 and 48.3% of world exports and 39.6–44.7% of world imports over the period 1980–1999. The share of world trade in which European countries were involved is extremely high. Moreover, the European share of world trade has gone up and down, but there is clearly no evidence that Europeans are losing market share. When we talk about globalization and world trade, a little less than half of what we are talking about is trade amongst the nations of Western Europe.

There are several other important features to note about this table which also relate to the globalization story. First, the developed world's share of world exports (i.e. North America, Japan and Western Europe) was roughly 60% in 1980 and increased to about 68% in 1999. This is evidence that globalization is not about the developed world losing ground to cheap labor in the undeveloped world. Instead, it is about how the largest and most advanced economies are increasing their interdependence. Secondly, there was a huge increase in the shares of imports and exports for Asia (not including Japan) over the period as these increased from about 10% to about 18% of exports. This fits the generally held view that part of globalization has been about the rapid rise of the East Asian economies. The real losers in world trade over time were the former communist countries and the rest of the developing world. Globalization from 1980 to 1999 showed that the most

Table 1. *Percentage of world merchandise imports and exports by region, 1980–1999.*

	1980	1985	1990	1995	1999
North America					
Exports	14.4	16.0	15.4	15.9	17.0
Imports	15.5	21.7	18.4	18.7	21.8
Latin America (with Mexico)					
Exports	5.4	5.6	4.3	4.6	5.2
Imports	5.9	4.2	3.6	4.9	5.6
Western Europe					
Exports	40.2	40.1	48.3	44.8	43.0
Imports	44.8	39.6	44.7	43.5	42.2
Eastern Europe (with CIS)					
Exports	7.8	8.1	3.1	3.1	3.8
Imports	7.5	7.4	3.3	2.9	4.0
Africa					
Exports	5.9	4.2	3.0	2.1	2.0
Imports	4.7	3.5	2.7	2.4	2.2
Middle East					
Exports	10.6	5.3	4.0	2.9	3.0
Imports	5.0	4.5	2.8	2.6	2.2
Japan					
Exports	6.4	9.1	8.5	9.1	7.5
Imports	6.8	6.5	6.8	6.7	5.3
Asia					
Exports	9.2	11.7	13.3	17.5	20.0
Imports	9.9	12.3	14.5	18.3	17.7

Source: World Trade Organization, Annual Report (1996: Tables III.1, III.2; 2000: Table III.3).

developed societies increased their relative shares of trade and Europe continues to dominate world trade. The real winners were the developing countries of Asia, while the real losers were the former Soviet Union and the rest of the developing world.

Table 2 shows a snapshot of the ultimate destination of trade in 1999. Exports are divided into three regions: Asia, Western Europe and North America. Most of the exports from Western Europe (almost 70%) end up in Western Europe; 46.5% of Asia's exports end up in Asia while only 35.6% of North America's exports end up in North America. Tables 1 and 2 provide convincing evidence that world trade in the past 15 years is greatly centered on Western Europe. The countries of Western Europe account for almost half of world trade and about 70% of that trade ends up in Europe. This snapshot is evidence for Europeanization being an important part of globalization.

Table 2, however, does not show us much about the trend in EU trade over time. If we are right and the EU's project to remove trade barriers was successful, then European trade would be expected to increase as a percentage of European exports. Figure 1 provides evidence on this from 1980 to 1999. In 1980, about 60% of European exports ended up in Europe. Beginning in 1985 (as the single market was

Table 2. *Share of intraregional and interregional trade flows in each region's merchandise exports, 1999.*

	Destination				
Origin	North America	Western Europe	Asia	Rest of world	Total
North America	39.9	19.4	21.1	20.6	100.0
Western Europe	9.9	69.1	7.5	13.5	100.0
Asia	26.3	18.1	46.6	9.0	100.0

Source: World Trade Organization, Annual Report (2000: Table III.3).

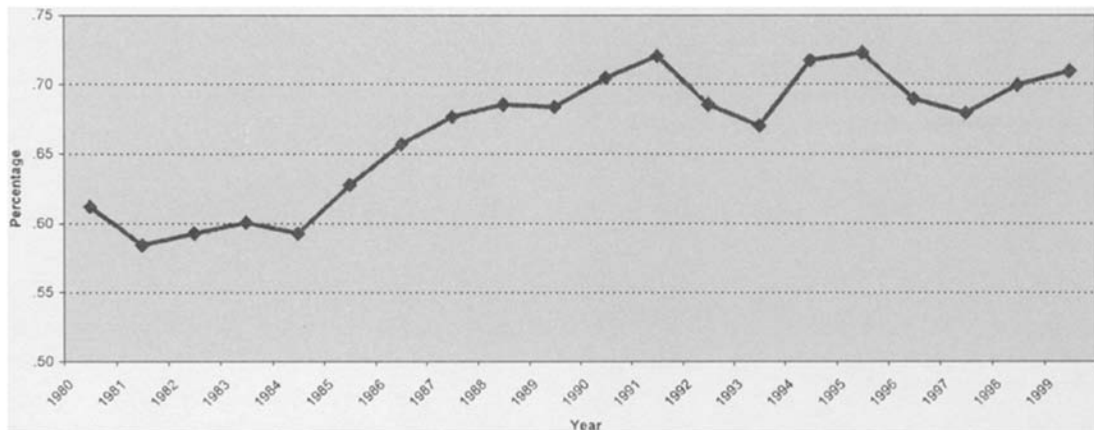

Fig. 1. Percentage of European Union trade with a destination of Europe.

announced), this increased to a peak of about 72% in 1994. It now stands at 69.1%. Figure 1 provides clear evidence for Europeanization as a trend that increased in the wake of the EU's market-making project. European firms focused more clearly on their European markets and those markets grew absolutely in volume and relatively in terms of their importance to European firms. Since Europe maintained its share of world trade as world trade doubled in the 1990s, this suggests that part of the surge in world trade that occurred during the 1990s was the direct result of the EU removing market barriers and creating a single political–legal structure to govern trade.

It is useful to disaggegrate these trade patterns over time and country. Table 3 provides data on the destination of manufacturing exports for most countries in the EU between 1970 and 1997. Every member of the EU increased its manufacturing exports to other EU countries over time. This is evidence that the single market was an opportunity that European firms used to increase their European exports. By 1997, 90% of French and 81% of German manufacturing exports ended up in the EU. One can also see the dramatic effect that joining the EU had on the export orientation of producers. Once inside, they found restrictions on exporting had been removed and they expanded their sales across the EU. So, Austrian manufacturers increased their EU share of exports from 53% in 1970 to 78% in 1997, Ireland from 27% to 42%, Portugal from 28% to 64% and Spain from 43% to 81%.

Table 3. *Percentage of total manufacturing trade of European Union (EU) countries with others in the EU.*

	1970	1980	1990	1997
Austria	53	65	79	78
Belgium	77	86	83	89
Finland	21	35	41	51
France	82	84	86	90
Germany	70	75	79	81
Ireland	27	61	54	42
Italy	70	61	67	70
Netherlands	68	69	77	77
Portugal	28	41	53	64
Spain	43	69	75	81

Source: OECD Outlook #64 (1998:154).

Taken together, these tables clearly point in the direction of the important role that European market integration played in changes in trade in the world since the early 1980s. They suggest that the very concrete view that the EU political–legal project to produce a single market has by and large succeeded in the sense that European firms responded to these opportunities by expanding European trade. Moreover, joining the EU and accepting the common structure of trade rules in Europe had a similar effect. Firms in Western Europe have come to increase their trade generally and focused more and more of their export activities on European markets.

At the very least, the story about globalization that opened this paper is too broad as a description of what is happening to world trade. In fact, what has been going on in the world economy comprises at least three main trends: Europeanization, the growth in trade in Asia

and the increasing trade shares generally of the developed societies. Asian societies have increased their share of world exports, not at the expense of the developed world, but at the expense of the less developed world. Western Europe continues to be the largest trade zone in the world, with almost half of world trade occurring across its borders. This share has remained stable over time. What has changed is that European countries, as a result of the single market, are trading more with each other and less with the rest of the world. Taken together, this is evidence that European markets are continuing to integrate in the sense that European firms are coming to face one another more and more in European product markets.

4. Europeanization and the strategies of large firms

If trade across Europe has grown more dense, it is interesting to consider exactly what this means for corporations. One can imagine that firms engaged in export would pursue one of two strategies as they expand their activities in Europe. First, they could decide to redistribute their activities across Europe. This would mean that they would make investment in plant capacity and buy up firms in other countries. They could do this to lower the costs of their wage bills or to just be closer to finished markets. Alternatively, since the single market means that European firms are theoretically free to ship goods anywhere in Europe with few barriers, firms could decide to stay at home. Indeed, as trade barriers decrease and transportation and communications costs decrease, firms would feel less compelled to relocate facilities to other societies.

The first data we consider come from a study of the world's largest multinational corporations in 1987 and 1997 (Stafford & Purkis 1989, 1999). This dataset is unique in that it contains information on more than 300 of the world's largest multinational corporations of all nationalities. It attempts to disaggregate where firms have their main investments, assesses their major markets and considers their main strategies. When the information was not available or incomplete for a specific firm at a specific point in time, annual reports and 10K forms were used. In addition, the information was sometimes available only for one year before or after the years chosen as cut-off points; consequently, the time span covered for a firm is sometimes 9 or 11 years instead of 10. Still, having data at two time points allows us to see whether the world's largest multinationals have converged or diverged in their strategies of spreading productive activities. This dataset only contains information on corporations that are doing business in three or more countries and rely on foreign sales for more than 10% of their activities. Thus, the sample is highly biased towards including

Table 4. *Comparison of the world's largest multinationals in 1987 and 1997.*

	EU firms			Non-EU firms		
	1987	1997	Significance level	1987	1997	Significance level
% of assets in home country	64 (10)	57 (15)	ns	71 (160)	64 (176)	.000
% of assets in Europe, not home country	17 (10)	25 (14)	ns	20 (91)	24 (102)	.01
% of employees in home country	53 (43)	47 (50)	.05			
% of employees in Europe, not home country	25 (23)	32 (31)	.05			
% of sales in home country	42 (87)	35 (87)	.02	70 (186)	62 (188)	.000
% of sales in Europe, not home country	30 (69)	35 (80)	.04	19 (102)	24 (109)	.01
% of assets in Europe, total	81	82	ns	20	24	.01
% of employees in Europe, total	78	79	ns			
% of sales in Europe, total	72	70	ns	19	24	.01

Number of cases reported in parentheses.
Significance level refers to the t-test between the means for 1987 and 1997: $p \leqslant .05$ is statistically significant; ns: $p > .05$.
Source: Stafford and Purkis (1989, 1997).

only the most globalized firms in the world. This dataset provides a stringent test for the view that the largest corporations in Europe are becoming Europeanized. If there is a more general homogenization of the spread of economic activities of the largest multinationals around the world, then this sample of firms is the most likely to reveal it.

Table 4 presents data on investment by the world's largest multinationals broken down by whether or not the firms have their headquarters in the EU or elsewhere at two points in time. EU firms had about 64% of their assets invested in their home countries in 1987 and this decreased to 57% in 1997. This compares to non-EU multinationals that had 71% of their assets in their home country in 1987 and only 64% in 1997. The former change is not statistically significant while the latter is. This is probably due to the small sample size for European firms. This is evidence that the largest multinationals in the world decreased their asset investments in their home country between 1987 and 1997 as the globalization thesis posits. Where did firms move their assets? The next row shows that European multinationals increased their share of assets in Europe (not the home country) from 17% to 25% over the period. This evidence suggests that most of the disinvestment at home went into Europe. Thus, European firms had invested 81% of their assets on average in Europe in 1987 and 82% in 1997. What changed is that firms redistributed their assets across Europe. Non-European multinationals also increased their presence in Europe at a statistically significant level as they shifted from 20% of their assets to 24% over the period. Over half of the redistribution of assets for the largest multinational corporations in the world was invested in Europe. This suggests an interesting twist to the globalization story. The single market project did not just present opportunities to European multinationals to enter markets in neighboring countries, but also presented opportunities to non-European multinationals to take advantage of the single market.

Unfortunately, the number of European firms that reported the geographical distribution of their assets was extremely low compared to non-European, mostly American firms. To remedy this limitation, we also looked at the geographical distribution of their employees, a figure that was provided by a much larger number of European firms. If not as a proxy, this data can at least be used to complement the trends observed in the geographical distribution of assets. The results are as striking. While, on average, 53% of the personnel of EU firms was located in these firms' home country around 1987, the number had decreased to 47% around 1997. Conversely, the percentage of employees of EU firms working in Europe surged to 32% in 1997, from 25% in 1987. This is a very clear indication that, for EU firms, the decline in strictly domestic employment was more than offset, or absorbed, by a parallel increase in European activities. As a result, the biggest and most internationalized EU firms still have approximately 79% of their employees in Europe alone. Globalization still has a very long way to go, at least with regard to the employees of European 'multinational' corporations.

EU and non-EU multinationals show similar patterns when it comes to sales. EU firms sold 42% of their goods in the home country in 1987 and this decreased to 35% in 1997 (this difference was statistically significant as the sample size increased). At the same time, they increased their sales to the rest of Europe from 30% to 35% (again statistically significant). European large multinationals sold 72% of their products in Europe in 1987 and 70% in 1997. However, they greatly increased the share of their sales that went to other European countries. Non-EU multinationals saw their sales shift from 70% in the home country in 1987 to 62% in 1997 (a statistically significant decrease). The European sales increased by 5% over the period, showing that over half of the total sales shift occurred as non-EU multinationals increased their sales to Europe (again statistically significant)

These results, taken together, suggest that EU multinationals are much more Eurocentric than multinationals in general. They tend to invest more in Europe, export more of what they produce in general than large multinationals, and export most of their products to the rest of Europe. Over time, they have increased their investments and sales to the rest of Europe and have shifted away from the home market. It is no exaggeration to say that EU multinationals are predominantly 'Europeanized'. Non-EU multinationals have increased the size of their EU operations as well. The EU's single market has encouraged those firms to invest more in Europe and sell more in Europe. Since the bulk of these firms are from the USA and Japan, this confirms the view that to the degree that there is a globalization project going on, it is about the growing closeness of the developed world. One

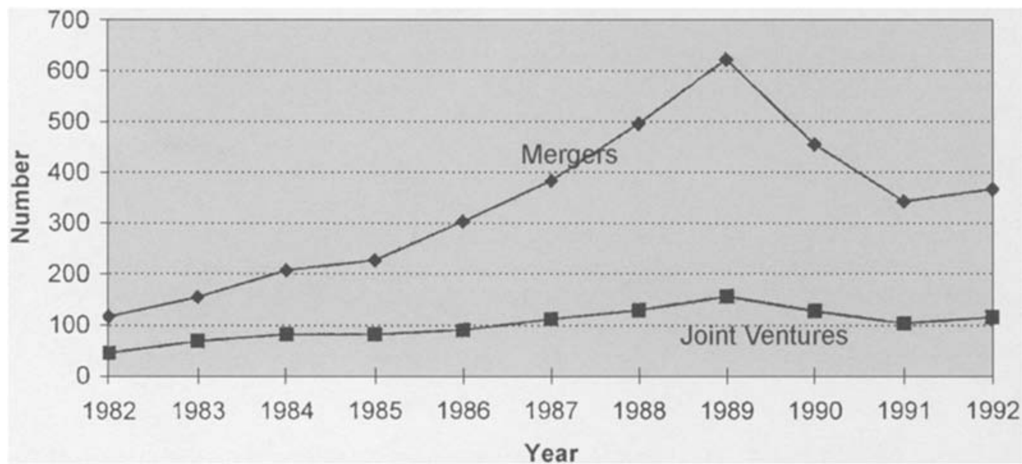

Fig. 2. Number of mergers and joint ventures for the 1000 largest European Union firms. (Source: OECD 1996: Table 1:12.)

needs to be cautious in overinterpreting these data as evidence for globalization. After all, fully three-quarters of investment and sales of non-EU multinationals occurs outside Europe.

5. Changes in investment patterns in Europe

One of the main problems of this analysis is that it focuses only on the largest corporations. Thus, while it tells a story that is fairly consistent with the Europeanization story, it is a story about the top of the pyramid of firms. It is therefore useful to explore more fully how investment patterns have changed across Europe since 1980. Europe has seen two important M&A waves in this period, during the second half of the 1980s and the second half of the 1990s, arguably as responses to the opportunities opened up by the 1987 Single Market Act and the post-Maastricht adoption of the euro currency. In 1993, Germany, France and Great Britain alone accounted for 43.7% of all transnational M&As across the globe. Most of these M&As took place within the EU: in 1989, 73% of French firm-led and German firm-led transnational acquisitions were directed at other EU firms; these figures were 100% for Belgium, 96% for Spain, 75% for Italy, 60% for The Netherlands and 51% for Great Britain, respectively (Mertens-Santamaria 1997:24–25). Figures 2 and 3 show how merger patterns for the largest 1000 corporations in Europe changed in the wake of the announcement of the single market. Our analysis of the largest firms suggests that between 1987 and 1997, the largest multinationals increased their investments across Europe. One of the main strategies they chose was to use mergers.

Figure 2 shows data on the number of mergers and joint ventures that occurred between 1982 and 1992 in the 1000 largest European corporations. As it became clear that the single market program was going to be launched in 1984, mergers began to increase. Joint ventures also increased, but to a lesser extent. During this merger movement, mergers peaked in 1989 and dropped off subsequently. Firms were obviously viewing the single market as an opportunity to expand their activities and they chose to grow bigger by merging.

Figure 3 shows the national identity of buyers and sellers. In the early 1980s, the typical merger in Europe was between two producers within a single society. In 1982 about 50% of all mergers were of this variety. About 32% of mergers were cross-border between European firms and only 18% involved firms from non-EU countries. During the merger movement that followed in the wake of the single market, this pattern shifted dramatically. In the peak years of the merger movement (1988–1989), over 40% of the mergers were cross-border while about 40% were within national borders and foreign mergers accounted for about 20% of the total. As the merger movement wound down, national mergers became the norm again and cross-border mergers fell off.

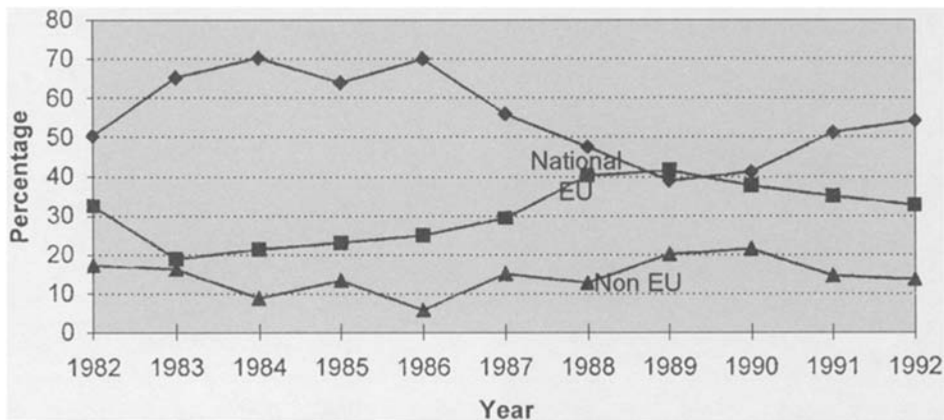

Fig. 3. Percentage of mergers of the 1000 largest European Union (EU) corporations within nation, across the EU and by non-EU firms. (Source: OECD 1996: Table 1:12.)

These two figures show three sorts of process at work in the wake of the single market. First, European firms generally wanted to grow larger and they often did so by merging with other firms to create bigger players for entering the European market. Secondly, they chose to grow large by merging with both other national firms and firms across borders. While the share of national mergers dropped at the peak of the merger movement, they still accounted for a large share of total mergers. There was also a rush by European firms to engage in cross-border mergers to enter nearby markets. Large European firms did not just merge with those within their country but they also merged with those across Europe in order to grow bigger. Finally, foreign firms played a less important role in European mergers, but still accounted for about 20% of all European mergers. They increased their European presence in this period by engaging in mergers. These data also provide evidence that during the period 1982–1992, the process of Europeanization was pushed forward as large European firms grew larger by merging with their principal competitors at home and across borders.

This data series, unfortunately, ends in 1992. Scholars who want to push the globalization thesis could argue that the 1990s have brought many more cross-border mergers and that it was these mergers that were really driving the globalization process. It is difficult to gather data like those in Figures 2 and 3 for the 1990s, so one has to approach the issue in a more piecemeal fashion. There are two ways that firms can choose to make investments in other countries: they can buy other firms or

Table 5. *Foreign direct investment by European Union (EU) countries in other EU countries.*

	Inward investment from other EU countries		Outward investment to other EU countries	
	1986–1990	1991–1995	1986–1990	1991–1995
Austria	.26	.28	.17	.24
Belgium	1.86	2.93	1.32	3.01
Finland	.07	.13	.45	.28
France	.29	.55	.63	.78
Germany	.12	.10	.46	.66
Ireland	.15	.17	–	–
Italy	.16	.27	.28	.32
Netherlands	.62	.98	.65	1.44
Portugal	.88	1.13	.05	.37
Spain	1.12	1.33	.12	.18

Data are shown as % of gross domestic product (GDP), yearly averages.
Source: OECD Outlook #64 (1998: 154).

Table 6. *Foreign direct investment and the European Union (EU) (in billions of dollars).*

Year	EU foreign direct investment	Intra-EU foreign direct investment	% of foreign direct investment in Europe
1985	40	18	45.0
1986	59	21	35.6
1987	81	22	27.1
1988	104	55	52.9
1989	122	78	63.9
1990	121	81	66.9
1991	109	69	63.6
1992	98	58	59.2
1993	112	79	65.8
1994	143	82	57.3
1995	158	83	52.5
1996	142	85	59.8
1997	183	111	60.6

Source: United Nations, World Investment Report (1999:154, Table V.6; 156, Table V.7).

they can build new plants and businesses from scratch. Some of the best evidence on how investment has changed across Europe comes from data on foreign direct investment.

Table 5 presents data on the direct foreign investment from many European countries. The first part of the table contains data on the inward investment from other EU countries as a percentage of GDP. There was an increase in investment from the rest of the EU for every country from 1991–1995 over 1986–1990 except for Germany. This shows that even beyond 1992, European firms were increasing their involvement in other European countries. There were large increases in investment from the rest of Europe in Belgium, France, The Netherlands and Portugal.

Table 5 also presents evidence on the changes in outward investment to other EU countries. Here, there were increases in every country except for Finland and Ireland from 1986–1990 to 1991–1995. The largest changes were in Austria, Belgium, The Netherlands, Germany and Portugal. European foreign direct investment to other European societies was increasing during the first half of the 1990s. Firms were spreading their activities to other European societies and they were doing so at an ever higher rate.

Table 6 explores the direction of the overall rate of European foreign direct investment between 1985 and 1997. One can see that total Europe foreign direct investment was on the increase from 1985 to 1990, it decreased slightly and then increased dramatically from 1994 to 1997. The intra-European share of this investment followed a similar pattern. It increased between 1985 and 1990, decreased from 1990 to 1992 and then increased from 1993 to 1997. The share of total European direct foreign investment was relatively low from 1985 to 1987 (between 27 and 45%), but it began to increase dramatically from 1988 to 1991. This reflects the merger movement of the late 1980s and the predominance in that merger movement of cross-European border mergers. Since 1991, the share of total foreign direct investment that has remained in Europe has bounced around from a low of 52.5% in 1995 to a high of 65.8% in 1993. In 1997, it stood at 60.6%. This is more evidence that European foreign direct investment was increasing over this period and that it was focused during the 1990s predominantly in Europe.

During the late 1990s, there was a huge increase in corporate mergers around the world. Between 1995 and 1999, cross-border mergers rose from 186.6 billion dollars to 720.1 billion dollars (386% increase). Table 7 presents evidence on who were the purchasers and who were the sellers. This table has a major limitation: one cannot tell how much Europeans bought in Europe or the USA, only what their total buying and selling was. Yet, it shows that Europeans were the largest buyers and sellers of firms in all years except for 1998 when the USA was the largest seller. The USA, the EU and Japan accounted for 70–80% of sales and 68–90% of purchases over the period. In 1999, the year of the largest number of mergers, the EU, USA and Japan accounted for 82.4% of sales and 90.4% of purchases of cross-border mergers. Worldwide investment was not predominantly first-world countries buying up third-world firms. Instead, it was about first-world firms investing in other first-world firms.

Is this evidence for Europeanization or globalization? One could argue that the increase in cross-border mergers between the most developed countries was *prima facie* evidence that firms were losing their national identities and becoming world corporations. Without data broken down by where firms were buying other firms, it is difficult to answer this question. However, Table 7 provides some evidence on this point. First, in Europe engaging in mergers and acquisitions is more difficult, especially without the co-operation of the target firm. It is only in the USA and Britain that there are

Table 7. *Cross-border mergers by region, sales and purchases, 1990–1999.*

Region	Sales (billions of dollars)					Purchases (billions of dollars)				
	1990	1995	1997	1998	1999	1990	1995	1997	1998	1999
EU	62.1	75.1	114.6	187.9	344.5	86.5	81.4	142.1	284.4	497.7
USA	54.7	53.2	81.7	209.5	233.0	27.6	57.3	80.9	137.4	112.4
Japan	.1	.5	3.1	4.0	15.9	14.0	3.9	2.7	1.3	9.8
Rest of world	16.4	21.9	70.1	85.8	73.7	7.0	12.9	32.7	20.2	42.8
Total	150.6	186.6	304.8	531.6	720.1	150.6	186.6	304.8	531.6	720.1
	Sales (%)					Purchases (%)				
	1990	1995	1997	1998	1999	1990	1995	1997	1998	1999
EU	41.2	40.2	37.6	35.3	47.8	57.4	43.6	46.6	53.4	69.1
USA	36.3	28.5	26.8	39.4	32.4	18.3	30.7	26.5	25.8	15.6
Japan	.0	.0	1.0	.8	2.2	9.2	2.1	.9	.0	5.7
Rest of world	23.5	31.7	34.6	24.5	17.6	15.1	23.6	36.0	20.8	9.6

Source: United Nations, World Investment Report (2000:15, Table 5).

well-developed markets for corporate control that allow for hostile takeovers. It should not be surprising that the largest numbers of mergers were done in these countries (UN 2000:8).

There is evidence in the table for both Europeanization, and to a lesser extent globalization. The Europeans sold firms at about the same share as their share in world markets for trade. This suggests that in spite of the difficulty of doing cross-border mergers in Europe, many occurred. The largest dollar amounts of mergers were also in Western Europe, suggesting that the consolidation of European firms across Europe continued and intensified during the late 1990s. The main evidence in the table for a version of globalization concerns the identities of buyers of firms. Here, European corporations were the largest purchasers of firms and much of this purchasing had to be going on outside of Europe (because the buying was so much higher than the selling). Most of the action was in American markets where many European firms bought themselves an immediate American presence through the use of the market for corporate control. Table 7 suggests that while European firms were still busy expanding their European activities in the late 1990s, they were also busy buying assets in America.

6. Conclusion

The EU is the largest trading zone in the world. It accounts for nearly half of world trade. Astoundingly, almost 70% of that total originates and ends up in the EU. As of 1992, Eurostat, the agency in charge of collating statistics for the EU, started to describe this trade as the 'internal market'. They began to consider only trade outside the EU as foreign trade. This clearly is a somewhat symbolic gesture, but it captures a real truth. The single market and the increases in trade in Europe have changed the way in which the largest European corporations operate.

It is clear that large European firms, in the run-up to the single market, engaged in more mergers within their country and across national borders than they had previously done. After 1992, the tendency for the largest European firms to become more Europeanized continued. European firms increased their direct foreign investment in their neighbors across much of Europe from 1985–1990 to 1991–1995. The share of all European foreign direct investment that stayed in Europe increased after 1987 and during most of the 1990s hovered around 60%. During the late 1990s cross-border mergers in the world picked up. Europeans were the largest buyers and sellers in these markets. This also increased the Europeanization of European firms. The main evidence that European firms were investing elsewhere (particularly the USA) came in 1999 when they purchased 152.8 billion dollars more firms than they sold. So, the single market and the euro are now economic facts that push forward Europeanization. The productive activities of the largest European firms have spread around Europe.

There are several lessons to be drawn from this analysis. First, globalization is not a single process, but a set of processes whereby firms and nations around the world are interacting under different dynamics. Secondly, one of the most important of these dynamics is European market integration. The political–legal–monetary project of the EU is now near completion. It has clearly affected the organization of the European economy and European firms in a dramatic way. The rapid increase in world trade in the 1990s was to a large degree driven by European economic integration. The largest European corporations responded to these opportunities by expanding their production across Europe. They made investments in other societies and merged with other national and European firms.

Thirdly, and perhaps most interesting, is the link between politics and markets. If we are right and the market-building project of the EU does account for a large amount of change in the world economy, then this suggests an intimate link between politics and markets. Modern production markets require extensive rules to work. They require rules of exchange, competition policy and a framework for property rights claims. They need some way to adjudicate legal differences. In sum, they need states. Similarly, there is a certain cultural component that cannot be neglected. Convergence in business practices and conceptions of control seems to work better when cultural affinities are present. Hence, with the notable exception of Renault–Nissan and Daimler–Chrysler, there are relatively more mergers between American and British firms and between French and Belgian firms than between culturally dissimilar or geographically remote firms.

There are several lessons for advocates of free trade and globalization from the European project. Most neoliberals favor a mainly negative integration project, i.e. the removal of trade barriers and environmental and labor standards as a prerequisite to free trade. However, without collective governance, i.e. positive integration, there are limits on the degree to which firms will make investments in markets outside their own (Scharpf 1996). The two most successful 'single-market' projects are the USA and the EU. It is not surprising that both occurred, not merely because of opportunities for entrepreneurs, but equally because governments produced rules that provided for positive integration. Secondly, the Europeans have managed to create their single market without lessening labor or environmental standards or weakening significantly the social safety net. This proves that governments that provide social protection for their citizens do not undermine the possible gains to be made from free trade. There is little evidence that European firms are less competitive in the main markets in which they produce goods and services. Collective governance has not come at the cost of social protection.

Europeanization is part of the regionalization of the world economy. It is the result of several dynamics. European governments have systematically set out to create rules that enable trade and promote growth by producing the EU. Firms have responded by reorganizing their activities on a European-wide basis and focusing their attention on their European production. Together, they have pushed forward the mergers, acquisitions and investments of European firms across Europe. However, there are several other 'globalization' projects going on in the world. The USA is actively engaged in creating a free-trade area in North America. US firms have also been one of the biggest investors in Asia, helping to stimulate the smaller Asian economies. The rise of the Asian tigers (and now China) is an important project. Finally, firms from the developed countries are finding themselves more in competition with each other. One indicator of this is the recent push by European firms into the US market for corporate control.

The central message of this paper has been to link political–legal changes to increases in trade activity. So-called multinational corporations do not operate in an institutional vacuum. Their business strategies are eminently shaped by political developments, legal structures and cultural factors. We have shown that the EU market-building project appears to have been successful in changing European business. While large European firms have engaged in mergers with firms from their home country and with firms from other countries, they have maintained their national identity. This can be explained by the fact that they continue to be incorporated in a particular society and dependent on the institutions of that society. In sum, firms are competing more across markets, but they are also maintaining their national character.

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Notes

[1] The term 'globalization' refers to a set of social and economic processes. It includes increases in world trade, the rise of the Asian market economies, the increasingly integrated world financial markets and the alleged shift of manufacturing from the first to the third world. There are also non-economic forms of globalization that concern scholars, such as the homogenization of world culture. Here, we narrowly focus on trade.

[2] It has long been understood that internal trading in the world's three trading blocks, North America, Asia (centered on Japan) and Europe, accounts for most of world trade (WTO 2000). Since Europe accounts for almost 45% of world trade, any changes in world trade would disproportionately have occurred there.

[3] This model, with a little modification, can be applied to labor markets as well where some workers are organized and others are not.

[4] Institutional economics has recognized the importance of property rights for market stability (Jensen & Meckling 1974; Fama & Jensen 1983a, b; Williamson 1985; North 1990). The division of property rights makes the firm possible in the first place, allows investment to occur, and constrains and enables managers and workers. In places where firm property rights do not exist, investment is haphazard and the economy is operated at the point of the barrel of a gun.

[5] It is possible to view the economic history of the USA, particularly during the 19th century, as a move from an unintegrated market to an integrated market. The main players in this drama were the firms that tried to engage in activities across state borders, state governments who tried to protect local businesses, and the US Supreme Court, which acted to preserve the right of foreign corporations to do business anywhere in the USA (Friedman 1973).

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