Developments in economic activity over the last two decades have challenged aspects of both the units of measurement employed in economic analysis and many of the economic theories for which the measures were based. In particular, the growth in volume and range of cross border exchange (in trade, investment and especially finance) have challenged established notions about nations as discrete economic entities. Much of this change has been discussed under the emerging rubric of ‘globalization’ and global integration. The ease with which the terms have become employed in economic and popular discourse suggests that the changes have stretched the limits of earlier categories and concepts. At this stage, however, a theory of globalization remains embryonic and globalization can be regarded more a concept in search of a theory. In the absence of solid theoretical developments there is, however, important work to be done in attempting to develop analytical insights to the topic.

Lars Oxelheim’s current book—Financial Markets in Transition (hereafter FMT)—is thus a welcome addition to the field. Using countries in the Nordic region as case studies, FMT seeks to examine the process of the growing global integration of financial markets between the 1970’s and the early 1990’s. In particular, FMT focuses on the transformation in the role of bond markets in the funding of domestic non-financial companies, and the efficiency of secondary financial markets in transmitting global information and prices. The use of these two areas is justified for at least three reasons:

First, Oxelheim suggests that developments in the bond market (as a sort of proxy for the global mobility of credit) influences the availability of funds for ‘real’ investment (via interest rate and cost of capital effects). The influence of developments in bond markets ‘... may have been temporary or permanent, and may have expressed itself in effects on the size and potential inefficiencies and risk premiums. The influence runs from interest rate... to economic growth in the particular country’ (p. 6). Second, bond markets also provide a secondary market where liquidity and price discovery functions help to ‘supplement’ the primary market. Thus, developments in the efficiency of these secondary markets should provide a guide to aspects of global integration. Third, many other measures of globalization (such as cross-border capital flow data) have become unreliable. The analysis in FMT proceeds along two stated lines, ‘... one describing structural changes in national bond markets and another measuring the levels of international integration of these markets and the potential effects that any disintegration may have had on national economic growth. Both these aspects- the formal (to the extent that the structural changes have consisted of de-regulative measures) and informal degree of integration-are seen as important to an understanding of the transition from national financial markets to well-integrated parts of the global market, and of the implications of this process for the national
FMT offers perhaps the most comprehensive descriptive statistics on recent trends in Nordic financial markets available in one book. And these are backed up by an excellent summary of the changing regulation of finance in the Nordic countries. For anyone wanting to understand developments in financial markets in the Nordic region, this book is indispensable reading. Indeed it may have been informative to potential readers to indicate the Nordic regional emphasis in the book’s title. That the book’s discussion is set against the issue of globalization of financial markets, makes it a more than useful counterpoint to the virtual ocean of material that focuses on the US experience. It is these aspects of the book that will be of interest to the general reader, and to which the review now turns.

It is in relation to these key general themes that both the strengths and weaknesses of FMT become most evident. One of the main strengths of the book, is that because it assembles a number of case studies, it is possible to test the generality of some of the propositions on globalization that are emerging from north American research.

One of the central problems of the book is that because Oxelheim often adopts a largely descriptive approach, his use of key terms sometimes tends to slide ambiguously in a way that papers over key conceptual problems. And it is precisely these conceptual problems that show just how far we have to go to meet the challenges presented by evolving processes.

For instance, terms like integration and interaction tend to be used ambiguously in the book. Oxelheim states that the global financial system, ‘consists of the interaction of national financial systems’, but in the Preface to the book Oxelheim notes the difficulty of studying global integration by reference to cross-border interaction. Similarly, on p 27 of FbIT it is stated explicitly, that financial innovations ‘have reduced the usefulness of current international statistics in the monitoring of international capital flows’. And on p. 63, the reader is reminded that the changing structure of global financial markets means that ‘capital flow data measures are generally unreliable’.

At this point, Oxelheim could have asked whether this problem is simply a technical one, or whether perhaps the increasingly apparent conceptual distance between interaction and integration is feeding through to these measurement issues. The difference between interaction and integration is important. Cross border interaction involves an analysis which takes a national economy as a single economic entity, with internationalization (or globalization) expressed as increasing linkages between the national unit and the rest of the world. For interaction then, the world is exogenous, as something to which the nation as a unit reacts. Integration, on the other hand, poses the international movement of money, commodities and investment as part of the domestic economy. Integration, then, challenges us to consider whether ‘international’ and ‘domestic’ resource movements can be neatly separated, and thus poses globalization as an increasingly explicit discipline exerted on all economic activity, whether it involves an actual cross border movement or not.

And it is the financial dimension of globalization, more than even in trade or investment, where this issue is most apparent. It is in financial activity, where it has become most difficult to separate the ‘domestic’ from the ‘international’ element, and where the incapacity of national accounts to capture the volume and diversity of financial transactions and transfers that might be thought to affect a country’s economy is most evident.

In fact it is the ‘hidden’ dimension of international finance-the way in which finance has developed a huge global existence beyond the terrain of ‘national capital markets’-which has arguably been important in serving to make explicit the global nature of economic processes. The Eurobond market is perhaps the most obvious development relevant to Oxelheim’s study of developments in national
bond markets. It would have made FMT a much stronger book had the relationship between developments in Euro markets and the domestic bond markets been explored in more detail.

But beyond the fact that cross-national capital flows are large and growing, there are no necessary implications to be drawn about the national ramifications of ‘globalization’. Indeed, as FMT notes, Nordic data indicates that globalization as movement has grown dramatically, but has been highly concentrated in the hands of a few companies. In the mid-1990’s, only seventy companies in the Nordic region (half of them Swedish), had achieved international recognition such that they had issued equity or bonds in global financial markets, with a further seventy with the potential to do so. Globalization of finance measured by flows directly involves a small fraction of activity within the Nordic region. The greater significance of globalization seems to be coming through as integration (as discipline on domestic activity).

Indeed, it is one of the merits of the book that it does not simply present cross border financial data as a measure of integration. Instead, FMT looks at developments within the domestic economy as a test of global integration. Using domestic versus benchmark US or German interest rate differentials as a test of integration is, however, perhaps not the most informative way of proceeding either. As has been contended elsewhere, this type of analysis focuses on integration in terms of market outcomes rather than as a process. ‘Its concern is the equilibrating role of arbitrage, not the active role of money in internationalizing accumulation’ (Bryan 1995, p. 29).

The second problem concerns FMT’s treatment of the process of integration. FMT acknowledges that what it terms ‘de-regulation’ was ‘to some extent an acknowledgement (de jure) by the authorities that existing regulations had eroded and had (de facto) become inefficient’ (p. 1). But then it tends to present the process as one of official de-regulation. Globalization has not, however, simply been about ‘de’-regulation. Rather, it seems more appropriate to look at the process whereby regulatory frameworks developed in the 1950’s and 1960’s were rendered obsolete by developments in financial markets and corporate practice. This goes to problems that confront certain concepts of market integration.

The benchmark for many approaches to integration (‘perfect mobility’) is uniformity in rates of return across national markets. Yet if one considers exchange rates it is clear that this has not happened. Not only is there for instance ongoing exchange rate instability, but secondary markets (especially derivatives markets) show that arbitrage in international markets is as much about sustaining as eradicating discontinuities across currencies and interest rates. A standard theory of national currency values would suggest that especially with the development of cross currency interest rate swaps, differences in interest rates would be arbitrated away. That they are not-indeed, that swapping repayment obligations across currencies is becoming more pervasive-is evidence that globally integrated financial markets are not devoid of a national dimension. The persistence of cross-national differences in bond prices may not then be an unambiguous test of (a lack of) global integration.

In part, this takes us back to the issue of globalization and the different spatial dimensions of monetary circulation and regulation. Once again, FMT grasps some of this, and Oxelheim sets the test of regulatory structures as one of compatibility rather than uniformity. In other words, integration here is more about changing forms of regulation than de-regulation per se. This may be seen as a minor quibble, which in some ways it is. But one consequence of the association of integration with de-regulation is a tendency to see ‘residual’ national regulation along with price differentials in financial markets as signs of less than perfect global integration. But perhaps globalization should not be seen as the eradication of the national dimension. It might be more appropriate, in the context of recent history to see that the national dimension is actually being reproduced in global financial markets, both through the activities of nation-states in their responsibility for national currency and regulatory activities occurring within their territorial borders, and with the activities of firms and financial flows. In
in this regard, perhaps the critical policy question is whether the nation-state can effectively regulate the form in which that national dimension is being reproduced, and to what purpose regulation might be put. Regulation must be compatible with increasingly internationalized economic activity, in which the space of investment trade and finance is adhering less and less to national boundaries. This makes stark the problem involved here—that nation-states are charged with supervising (and regulating) a process in which the space of economic activity is larger than the territorial space of the states that regulate it.

The basis of almost all analytical problems identified here are in fact to be found explicitly within the FMT itself. And it must be admitted, that they are problems that face all researchers in this area. It might have therefore been useful for the book to conclude with an elaboration of these problems along with some contemplation of ways of proceeding from here. Instead, the book concludes with an attempt to find policy lessons from the case studies, and develops a hypothesis about an ‘optimal’ sequence of de-regulation. There is much to appreciate here, and researchers and policy makers will enjoy the clear exposition and practical advice. But the common conceptual and policy problems raised by the process under investigation and Oxelheim’s own analysis also surely deserved comment.

FMT is a valuable addition to the literature on the globalization of financial markets, especially of the way the process is occurring in the Nordic area. It is also written in a way that scholars, policy makers and market participants will all find accessible and informative. That FMT is not the last word on either Nordic financial markets or global integration more generally is explicitly recognized in the book itself. But it is also clear that Oxelheim has tackled the topic in an original and stimulating way. Like Oxelheim’s original work on measurement of the effects of global developments on firm-level financial performance, this work helps to extend the boundaries of international finance in important ways. It is to be hoped from the analysis of the evidence undertaken in the book that it is not the last word on the subject from Oxelheim. In the mean-time, FMT provides readers with a nice example of how research can utilize finance theory to explain important global and regional financial developments to a wider international business readership.

Reference