

Global Economy

Lecture 2

Dr Wioletta Nowak, room 205 C

wioletta.nowak@uwr.edu.pl

<http://prawo.uni.wroc.pl/user/12141/students-resources>

Bases for the Emergence of the Phenomenon of Economic
Globalisation

Advantages and Disadvantages of Globalisation

Globalisation Indices

Globalisation – (KOF Swiss Economic Institute)

- The process of creating networks of connections among actors at intra- or multi-continental distances, mediated through a variety of flows including people, information and ideas, capital, and goods.
- Globalisation erodes national boundaries, integrates national economies, cultures, technologies and governance, and produces complex relations of mutual interdependence.

- The International Monetary Fund defined "**economic globalisation**" as: "a historical process, the result of human and technological progress.
- It refers to increasing integration of economies around the world, particularly through trade and financial flows.
- The term also refers to the movement of people (labour) and knowledge (technology) across international borders."

- **Internationalisation** refers to an increase in transactions and interdependencies between countries.
- **Liberalisation** denotes the process of removing officially imposed restrictions on movements of resources between countries.
- **Universalisation** describes the process of dispersing various objects and experiences to people at all inhabited parts of the earth.
- **Westernisation** is interpreted as a particular type of universalisation, in which social structures of Western societies are spread across the earth.

Bases for the emergence of the phenomenon of economic globalisation

Bretton Woods Institutions and GATT

Trade Liberalisation

Liberalisation of Capital Movements

Technological Change Over the Past 100 Years

Bretton Woods Institutions: International Monetary Fund (IMF)

- Three main objectives:
 - to promote international monetary cooperation;
 - to facilitate the expansion of international trade;
 - to promote exchange rate stability.

IMF

- The primary role of the IMF is providing short- and medium-term financial assistance to the members that have temporary problems with a balance-of-payments equilibrium.
- The resources for the IMF credits come from quota subscriptions paid by the members.

IMF

- Each member country pays the amount of money proportionate to its economic size that is measured by national income and trade volume.
- The size of quota is adjusted to the economic power of a country at intervals of 5 years.
- A 25% of quota is paid in SDRs (Special Drawing Rights) or in international currencies. The remaining 75% a country pays in its own currency.

IMF

- The quota determines the voting power of a country. In result the members of the Fund do not have an equal voice. The largest shareholders have big influences on the IMF's decisions.
- In 2016 the major shareholders were United States (17.46 per cent of the total IMF quotas), Japan (6.48%), China (6.41%), Germany (5.60%), France (4.24%), United Kingdom (4.24%), Italy (3.17%), India (2.76%), Russia (2.71%), and Saudi Arabia (2.10%).
- Poland (0.86%)

World Bank (WB)

- Main objective initially was to assist in the reconstruction and development of damaged economies by facilitating the investment of capital for productive purposes.
- Responsible for providing finance and advice to countries for the purposes of economic development and poverty reduction, and for encouraging and safeguarding international investments.

World Bank (WB) - group of five international organizations

- 1. International Bank for Reconstruction and Development (IBRD)** lends to governments of middle-income and creditworthy low-income countries.
- 2. International Development Association (IDA)** provides interest-free loans and grants to governments of the poorest countries.
- 3. International Finance Corporation (IFC)** helps developing countries to achieve growth by financing investment, mobilizing capital in international financial markets and providing advisory services to business and governments.

World Bank (WB) - group of five international organizations

- 4. Multilateral Investment Guarantee Agency (MIGA)** offers political risk insurance (guarantees) to investors and lenders.
- 5. International Centre for the Settlement of Investment Disputes (ICSID)** provides international facilities for conciliation and arbitration of investment disputes.

International Monetary Fund	World Bank
<ul style="list-style-type: none"> oversees the international monetary system 	<ul style="list-style-type: none"> seeks to promote the economic development of the world's poorer countries
<ul style="list-style-type: none"> promotes exchange stability and orderly exchange relations among its member countries 	<ul style="list-style-type: none"> assists developing countries through long-term financing of development projects and programs
<ul style="list-style-type: none"> assists all members – both industrial and developing countries – that find themselves in temporary balance of payments difficulties, by providing short- to medium-term credits 	<ul style="list-style-type: none"> provides to the poorest developing countries whose per capita GNP is less than \$1,165 (2018) a year special financial assistance through the International Development Association (IDA)

International Monetary Fund	World Bank
<ul style="list-style-type: none"> • supplements the currency reserves of its members through the allocation of SDRs (special drawing rights) 	<ul style="list-style-type: none"> • encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC)
<ul style="list-style-type: none"> • draws its financial resources principally from the quota subscriptions of its member countries 	<ul style="list-style-type: none"> • acquires most of its financial resources by borrowing on the international bond market
<ul style="list-style-type: none"> • employs about 2,400 staff, 189 member countries 	<ul style="list-style-type: none"> • has a staff of 9,000 from more than 170 member countries, 189 member countries

The General Agreement on Tariffs and Trade (GATT)

- The objectives of the GATT (1947) were to establish an orderly and transparent framework within which barriers to trade could be gradually reduced and international trade expanded.
- The principal mechanism for progress on trade liberalisation within the GATT has been periodic multilateral negotiating rounds.
- The primary focus of the GATT rounds has been the promotion of multilateral tariff reductions, and the extension of the agreed reductions to all members.

GATT/WTO

- The GATT was a set of rules, a multilateral agreement, with no institutional foundation, only a small associated secretariat.
- The World Trade Organization (WTO) came into being in 1995. It is the successor to the GATT.
- The WTO is the international organization dealing with the global rules of trade between nations.
- The WTO has **164** (July 2016) members accounting for over 95% of world trade. Over 20 others are negotiating membership.

GATT/WTO – Observers (22)

- Algeria, Andorra, Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia and Herzegovina, Comoros, Equatorial Guinea, Ethiopia, Vatican, Iran, Iraq, Lebanese Rep., Libya, Sao Tome and Principe, Serbia, Somalia, Sudan, Syria, Timor-Leste, Uzbekistan.

Principles of the WTO's trading system

1. Trade without discrimination
2. Freer trade: gradually, through negotiation
3. Predictability: through binding and transparency
4. Promoting fair competition
5. Encouraging development and economic reform

Principles of the WTO's trading system

Trade without discrimination

- **Most-favoured-nation (MFN):** treating other countries equally. Countries cannot normally discriminate between their trade partners. If a country grants someone a special favour (such as a lower customs duty rate for one of their product) it has to do the same for all other GATT/WTO members.
- **National treatment policy:** treating foreigners and locals equally. Imported and locally produced goods should be treated equally - at least after the foreign goods have entered the market.

Principles of the WTO's trading system

Freer trade: gradually, through negotiation

- Trade barriers coming down through negotiation.

Predictability: through binding and transparency

- Foreign companies, investors and governments should be confident that trade barriers (including tariffs and non-tariff barriers) should not be raised arbitrarily; tariff rates and market-opening commitments are “bound” in the WTO.

Promoting fair competition

- Discouraging “unfair” practices such as export subsidies and dumping products at below cost to gain market share.

Principles of the WTO's trading system

Encouraging development and economic reform

- The trading system should be more beneficial for less developed countries - giving them more time to adjust, greater flexibility, and special privileges.
- Decisions in WTO are typically taken by consensus among all member countries and they are ratified by members' parliaments.
- Trade friction is channelled into the WTO's dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries' trade policies conform with them.

Principal forum for trade liberalisation

- Eight rounds of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) have significantly decreased trade barriers.
- Successive GATT rounds cut tariffs and liberalised trade.

GATT/WTO Trade Rounds, 1947-2010

Name of round	Period and number of parties	Subjects and modalities
Geneva	1947 (23 countries)	Tariffs: item-by-item offer-request negotiations
Annecy	1949 (33 countries)	Tariffs: item-by-item offer-request negotiations
Torquay	1950-1951 (34 countries)	Tariffs: item-by-item offer-request negotiations
Geneva	1956 (22 countries)	Tariffs: item-by-item offer-request negotiations
Dillon Round	1961-62 (45 countries)	Tariffs: item-by-item offer-request negotiations motivated in part by need to rebalance concessions following creation of the EEC (European Economic Community)
Kennedy Round	1964-67 (48 countries)	Tariffs: formula approach (linear cut) and item-by-item talks. Non-tariff measures: antidumping, customs valuation

GATT/WTO Trade Rounds, 1947-2010

Name of round	Period and number of parties	Subjects and modalities
Tokyo Round	1973-79 (99 countries)	Tariffs: formula approach with exceptions Non-tariff measures: antidumping, customs valuation, subsidies and countervail, government procurement, import licence, product standards, safeguards, special and differential treatment of developing countries.
Uruguay Round	1986-94 (103 countries in 1986, 117 as of end -1993)	Tariffs: formula approach and item-by-item negotiations. Non-tariff measures: all issues, plus services, intellectual property, pre-shipment inspection, rules of origin, trade-related investment measures, dispute settlement, transparency and surveillance of trade policies.
Doha Round	2001- (150 countries as of beginning 2007)	Tariffs: formula approach and item-by-item negotiations. Non-tariff measures: trade facilitation, rules, services, environment.

- Whereas the volume of international commerce grew by only 0.5% annually between 1913 and 1948, it grew at an annual rate of 7% from 1948 to 1973.
- The value of world trade has increased from US\$ 57 billion in 1947 to US\$ 6 trillion in the 1990s.
- Average tariff levels of the United States and other industrialised countries on imported products have dropped from about 40% to only 6%, and barriers to trade in services have also been lowered.

International Capital Liberalisation

- The 1960s and 1970s, when most countries still maintained restrictive regimes.
- Since its establishment in 1961, the Organization for Economic Cooperation and Development (OECD) has promoted the progressive liberalisation of capital movements. The role of the United States in promoting capital liberalisation. Member countries voluntarily enter into obligations to liberalise capital movements.
- Regular examinations of capital controls were carried out by the **Committee on Capital Movements and Invisible Transactions (CMIT)**, which requires countries to justify remaining restrictions.
- **The OECD Investment Committee (2004)**

International Capital Liberalisation

- In the 1980s, many advanced countries made significant progress in liberalising capital movements. Virtually all capital controls have now been abolished among industrial countries, and there are no formal barriers to cross-border flows of capital.
- The liberalisation of capital movements during the 1980s has been a global phenomenon in advanced countries.
- Throughout much of the 1990s, FDI outflows from the major industrialised countries to industrialising countries rose at approximately 15 per cent annually. FDI flows among the industrialised countries themselves rose at about the same rate.

Technological progress

- Automobile revolution (1940-1979)
- Information technology revolution (1980-)
- The rapid development of information technologies.
- Technological advances in transportation and communications have reduced costs and thus significantly encouraged trade expansion.

Forces driving globalisation

- Developments in transportation
 - Improvements in transport technology has “shrunk” the world.
 - 19th century steam engine → 20th century jet engine.
 - Countries have built efficient and integrated transportation infrastructure (e.g. airports, seaports, railways, highways to facilitate movement).
 - Increasing mobility of goods and people.

Forces driving globalisation

- Developments in communications
 - Internet has enabled consumers to access information instantly, conveniently and efficiently.
 - Internet has transferred the way people communicate, do business, obtain information and purchase goods and services.

Transport and Communications Cost (constant US\$)

Dollar D., *Globalization, Poverty, and Inequality since 1980*, The World Bank Research Observer, Fall 2005, 20(2), p. 148.

Year	Sea freight (average ocean freight and port charges per ton)	Air transport (average cost per passenger mile)	Telephone call (average price for a 3-minute call between New York and London)
1930	60	0.68	245
1940	63	0.46	189
1950	34	0.30	53
1960	27	0.24	46
1970	27	0.16	32
1980	24	0.10	5
1990	29	0.11	3

History of Globalisation

- The word "globalisation" has been used by economists since 1980s.
- The concepts did not permeate popular consciousness until the later half of the 1990s.
- Various social scientists have tried to demonstrate continuity between contemporary trends of globalisation and earlier periods.
- The first era of globalisation (in the fullest sense) during the 19th century was the rapid growth of international trade between the European imperial powers, the European colonies, and the United States.
- After World War II, globalisation was restarted and was driven by major advances in technology, which led to lower trading costs.

Waves of Globalisation

- 1st wave: 1870-1914
 - Falling tariff barriers.
 - Improved transportation.
- 2nd wave: 1945-1980
 - Agreements to lower barriers again.
 - Rich country trade specialisation.
 - Poor nations left behind.
- 3rd wave: 1980-present
 - Growth of emerging markets (**BASIC**, **BRICS**, **CIVETS** (Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa), **MINT** (Mexico, Indonesia, Nigeria, Turkey)).
 - International capital movements regain importance.
 - Foreign outsourcing.

Early stages of globalisation

- An early form of globalised economics and culture existed during **the Hellenistic Age** (323 BCE-146 BCE). Trade was widespread during that period, and it is the first time the idea of a cosmopolitan culture (from Greek "Cosmopolis", meaning "world city") emerged.
- **The Silk Road** - The trade links between the Roman Empire, the Parthian Empire and the Han Dynasty.
- **The Age of Discovery** - brought a broad change in globalisation, being the first period in which Eurasia and Africa engaged in substantial cultural, material and biologic exchange with the New World.

Attitudes toward globalisation

Proponents of globalisation

The World Economic Forum

The anti-globalisation movement

100,000 protest in Seattle against the World Trade Organization Third Ministerial conference

The alter-globalisation movement

The World Social Forum

The World Economic Forum (WEF)



- Non-profit organization best known for its annual meeting in Davos.
- WEF was founded in 1971 by Klaus Martin Schwab, a German-born business professor at the University of Geneva.
- WEF brings together top business leaders, international political leaders, selected intellectuals and journalists to discuss the most pressing issues facing the world, including health and the environment.

The World Economic Forum (WEF)



- WEF is funded by its 1000 member companies, the typical company being a global enterprise with more than five billion dollars in turnover.
- A basic annual membership fee CHF 60 000.
- Strategic Partners pay CHF 600 000 and they play an important role in the Forum's initiatives.

The anti-globalisation movement

- The anti-globalisation movement is critical of the globalisation of corporate capitalism.
- Anti-globalists stand in opposition to large multinational corporations, having unregulated political power and to the powers exercised through trade agreements and deregulated financial markets.
- The movement itself is heterogeneous and includes diverse, sometimes opposing, understandings of the globalisation process, alternative visions, strategies and tactics.

The anti-globalisation movement

- Main demonstrations: Seattle/N30 (November 30, 1999), Genoa (July 18-22, 2001) – Group of Eight Summit protest,
- Washington, D.C., World Bank/IMF Meetings (Oct. 9-11, 2010; April 24-26, 2009; Oct. 18, 2007)

The alter-globalisation movement

- The alter-globalisation movement is a cooperative movement designed to protest the direction and perceived negative economic, political, social, cultural and ecological consequences of neoliberal globalisation.
- The movement supports global cooperation and interaction, but opposes the negative effects of economic globalisation feeling that it often works to the detriment of, or does not adequately promote, human values such as environmental and climate protection, economic justice, labour protection, protection of indigenous cultures and human rights.
- **Another world is possible.**

The World Social Forum (WSF)

- WSF is annual meeting held by members of the alter-globalisation movement.
- The first WSF was held in Porto Alegre, Brazil (25-30 January 2001).
- The World Social Forum is not an organisation, not a united front platform, but “an open meeting place for reflective thinking, democratic debate of ideas, formulation of proposals, free exchange of experiences and inter-linking for effective action, by groups and movements of civil society that are opposed to neo-liberalism and to domination of the world by capital and any form of imperialism, and are committed to building a society centred on the human person.”

The World Social Forum (WSF)

- **WSF 2001**, January 20-30, Porto Alegre, Brazil 20,000 participants, 4,700 delegates from 117 countries.
- **WSF 2002**, January 31 – February 05, Porto Alegre, Brazil, 50,000 participants, 12.274 delegates representing 123 countries,
- **WSF 2003**, January 23-28, Porto Alegre, Brazil, about 20 thousand delegates from 123 countries,
- **WSF 2004**, January 16-21, Mumbai, India, 74.126 participants, representing 1,653 organizations from 117 countries.
- **WSF 2005**, January 26-31, Porto Alegre, Brazil, 155 thousand registered participants.
- **WSF 2006, polycentric** - it took place in a decentralized way in different places around the world. Bamako (Mali – Africa), between January 19 and 23, Caracas (Venezuela – America) and Karachi (Pakistan – Asia), between March 24 and 29.

The World Social Forum (WSF)

- **WSF 2007**, January 20-27, Nairobi, Kenya,
- **WSF 2008**, was not organized at a particular place, but globally, which means by thousands of autonomous local organizations, on or around January 26.
- **WSF 2009**, January 27- February 1, Belém, Brazil
- **WSF 2010**, all year round, events and activities throughout the world
- **WSF 2011**, February 06-11, Dakar, Senegal
- **WSF 2012**, January 24-29, Porto Alegre, Brazil,
- **WSF 2013**, March 26-30, Tunis, Tunisia,
- **WSF 2015**, March 23-28, Tunis, Tunisia,
- **WSF 2016**, August 9-14, Montreal, Canada

Advantages of globalisation

- Productivity increases faster when countries produce according to comparative advantage.
- Global competition and cheap imports keep prices low and inflation at bay.
- An open economy encourages technological development and innovation with ideas from abroad.

Advantages of globalisation

- Jobs in export industries pay more than those in import-competing industries.
- Free movement of capital gives the developing countries access to foreign investment and keeps interest rates low.
- Increased competition among nations – countries that are better able to offer incentives to investors will be more successful in attracting investment and markets.

Advantages of globalisation

- Improvements in standards of living. As countries trade and open their doors to foreign investment, they earn more revenue. Free trade allows for a larger variety of foreign goods for the consumer to choose from.
- Increased awareness of foreign culture. Travel, the Internet, mass media (products of globalisation) allow people to learn more about foreign culture.
- Environmental management. Sustainable development as the key to further growth. Sources of alternative energy.

Disadvantages of globalisation

- Rules of the game are set by IMF, WTO and World Bank.
- Globalisation creates financial instability and foreign liabilities.
- Erosion of traditional powers and policies of nation-states by global bureaucracies.
- Widening income gap between the rich and poor.
- Brain drain

Disadvantages of globalisation

- Globalisation is leading to a global monoculture (cultural, social, political and economic homogenization).
- Loss of local culture. Global (Western) brands dominate consumer markets in developing countries. Creation of homogenous culture across the world. Spread of pop culture.
- Environmental degradation: deforestation and related problems (soil erosion, extinction of flora and fauna, flooding), global warming.

Globalisation Indices

- **A.T. Kearney/ Foreign Policy Globalisation Index (ATK/ FP)**, 2002-2007 – First composite indicator measuring globalisation. Covers political engagement, technology, personal contact and economic integration on a global scale.
- **GlobalIndex**, 1970-2002 – Sociological index of globalisation covering the economic, sociotechnical, cultural and political dimensions of globalisation.
- **New Globalisation Index (NGI)**, 1995-2005 – Comprehensive indicator measuring the economic, political and social aspects of globalisation controlling partly for geographical distances between countries.

KOF Index of Globalisation, 2007

- The KOF Index of Globalisation was introduced in 2002.
- KOF Swiss Economic Institute
- The overall index covers the economic, social and political dimensions of globalisation.
- Economic globalisation (37%), social globalisation (39%), political globalisation (25%).

KOF Index of Globalisation – Economic Globalisation

	Economic Globalisation	Weights
Actual Flows (50%)	Trade (percent of GDP)	19%
	Foreign Direct Investment, flows (percent of GDP)	20%
	Foreign Direct Investment, stocks (percent of GDP)	24%
	Portfolio Investment (percent of GDP)	17%
	Income Payments to Foreign Nationals (percent of GDP)	20%
Restrictions (50%)	Hidden Import Barriers	22%
	Mean Tariff Rate	28%
	Taxes on International Trade (percent of current revenue)	27%
	Capital Account Restrictions	23%

KOF Index of Globalisation – Social Globalisation

	Social Globalisation	Weights
Data on Personal Contact (33%)	Telephone Traffic	26%
	Transfers (percent of GDP)	3%
	International Tourism	26%
	Foreign Population (percent of total population)	20%
	International letters (per capita)	25%
Data on Informational Flows (36%)	Internet Users (per 1000 people)	36%
	Television (per 1000 people)	36%
	Trade in Newspapers (percent of GDP)	28%
Data on Cultural Proximity (31%)	Number of McDonald's Restaurants (per capita)	43%
	Number of Ingvar Kamprad Elmtaryd Agunnaryd (per capita)	44%
	Trade in books (percent of GDP)	12%

KOF Index of Globalisation – Political Globalisation

Political Globalisation	Weights
Embassies in Country	25%
Membership in International Organizations	28%
Participation in U.N. Security Council Missions	22%
International Treaties	25%

KOF Index of Globalisation, 2018

- Economic globalisation (33.3%), social globalisation (33.3%), political globalisation (33.3%).

KOF Index of Globalisation 2018 – Economic Globalisation

	Economic Globalisation	Weights
Trade Globalisation (50%)	Trade in goods	40.9
	Trade in services	45.0
	Trade partner diversification	14.1
Financial Globalisation (50%)	Foreign direct investment	27.5
	Portfolio investment	13.3
	International debt	27.2
	International reserves	2.4
	International income payments	29.6

KOF Index of Globalisation 2018– Social Globalisation

	Social Globalisation	Weights
Interpersonal Globalisation (33.3%)	International voice traffic	22.9
	Transfers	27.6
	International tourism	28.1
	Migration	21.4
Informational Globalisation (33.3%)	Patent applications	35.1
	International students	31.2
	High technology exports	33.7
Cultural Globalisation (33.3%)	Trade in cultural goods	22.6
	Trademark applications	13.3
	Trade in personal services	25.6
	McDonald's restaurant	23.2
	IKEA stores	15.3

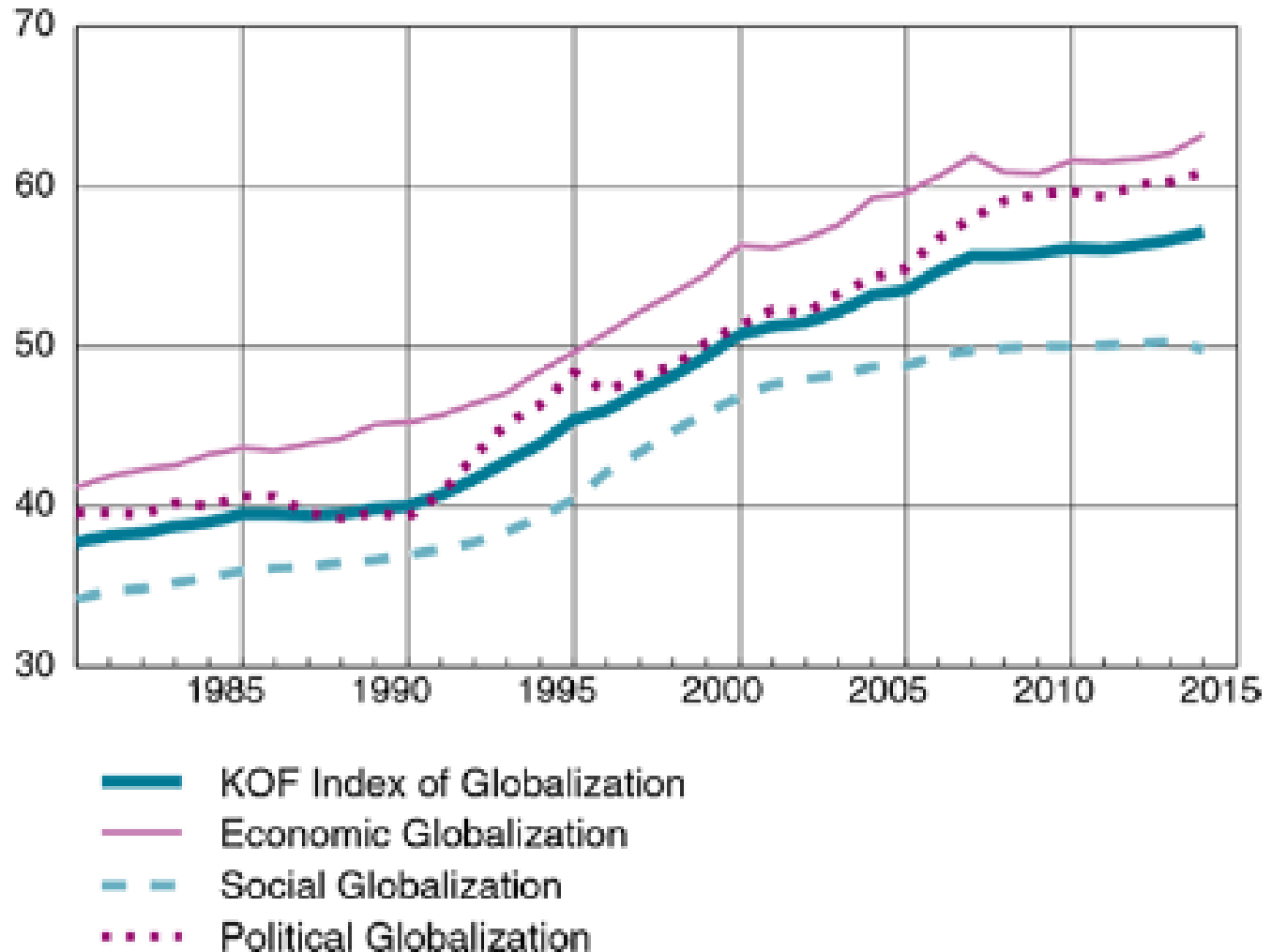
KOF Index of Globalisation – Political Globalisation

Political Globalisation	Weights
Embassies	35.7
UN peace keeping missions	27.3
International NGOs	37.0

KOF Index of Globalisation – World

Source: <http://globalization.kof.ethz.ch>

KOF Index of Globalization Worldwide



2018 KOF Globalisation Index (2015)

Source: <http://globalization.kof.ethz.ch>

Rank	Country	Globalisation Index
1	Netherlands	90.24
2	Switzerland	89.70
3	Sweden	88.05
4	Austria	87.91
5	Belgium	87.87
6	Denmark	87.85
7	France	87.34
8	Germany	86.89
9	Finland	85.98
10	Norway	85.81

2018 KOF Index of Globalisation

Source: <http://globalization.kof.ethz.ch>

Rank	Country	KOF Index	Rank	Country	KOF Index
84	Colombia	61.68	10	Norway	85.81
7	France	87.34	130	Pakistan	51.70
45	Georgia	72.50	31	Poland	78.72
8	Germany	86.89	21	Slovak Republic	80.74
143	Iran	48.66	12	Spain	84.85
19	Italy	82.85	111	Sri Lanka	55.25
37	Korea	76.67	47	Turkey	70.87
30	Lithuania	78.78	49	Ukraine	70.60

2018 KOF Index of Globalisation: Economic Globalisation, Social Globalisation, Political Globalisation

Source: <http://globalization.kof.ethz.ch>

Rank	Economic Globalisation	Social Globalisation	Political Globalisation
1	Singapore	Norway	Italy
2	Hong Kong, China	Luxembourg	France
3	Netherlands	Switzerland	Germany
4	Belgium	Denmark	Spain
5	Malta	Ireland	Netherlands
6	Ireland	United Kingdom	Sweden
7	Luxembourg	New Zealand	Belgium
8	Estonia	Austria	Switzerland
9	Switzerland	Canada	Austria
10	Hungary	Belgium	United States
	Poland (46)	Poland (47)	Poland (20)