

# ECONOMIC INTEGRATION IN A GLOBALISING WORLD ECONOMY: HISTORY, DRIVERS AND EFFECTS

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# Outline today

- **Introduction of the course and context**
- **Globalisation**
  - Meaning
  - Growing importance
    - Trade, inputs, multinational enterprises, global value chains
- **Economic integration**
  - Meaning
  - Growing importance
    - ↑ Effects of globalisation, global governance
- **Topics of the course**
  - Trade theory and empirics
  - World Trade Organisation
  - Economic effects of membership trade agreements
  - European Economic Integration and economic effects
  - Political economy of trade policy
  - Brexit

# Set up of course

- **See course manual for all the information**
- **I will be here for two weeks for all the lecture sessions**
- **Examination of the course**
  - Written exam (open questions covering the lecture slides and required readings)
  - I will make 6 questions, any 4 need to be answered
    - I don't know when this will take place
  - Essay
    - Hand in sometime close to end of term, will investigate
- **Grading**
  - Maximum score is 90; 60 for exam, 30 for essay

# Essay

- **Topics**

- The Heckscher-Ohlin model still provides a good explanation for trade between developed economies;
- WTO membership does not enhance trade;
- International trade is an important driver of economic growth;
- Membership of the EU generates large economic effects in Eastern Europe;
- The concept of endogenous policy making is very useful in understanding government trade policy choices.

- **Feel free to be creative!**

- Email me if in doubt

- **The length of the essay should be maximum 7 pages (excluding references and appendices)**

# Essay structure

- **Introduction:** relevance/importance/interesting aspect of your essay topic? How do you interpret the topic? What is your specific research question?
- **Theory:** what is (are) the main theory(ies) that is (are) relevant for your essay topic?
- **Empirical evidence on the topic:** use the findings from 2-3 academic papers that provide empirical evidence that relate to your essay topic. What are the research approaches and what are the findings?
- **Critical analysis:** critical assessment of the 2-3 academic papers that you discussed in the previous section; you could for instance challenge the estimation strategy that researchers use. Alternatively, you could analyze to what extent the findings are linked to the underlying theories that you identified in section 2.
- **Summary and conclusions**
- The academic papers that you use for your essay need to be different from the articles that are on the required readings list.

# Goals of the course

- Obtain overview of main developments related to globalisation and economic integration
- Develop better understanding of the meaning and development of key components
- Develop better understanding of key relationships
- Develop capacity to participate in and critically evaluate current debates
- Link main theories to empirical evidence

# Context (1)

- **World economy is still recovering from latest crisis**
- **Strong debate on how to restart economic growth**
  - Variability in ability to recover
  - Crisis reveals structural bottlenecks
  - Important changes in field of economics regarding drivers of economic growth
    - From proximate to fundamental causes of growth
    - Roles of institutions, social values, culture
    - Policy implications of these not fully worked out yet
- **Economic growth linked to growing inequality**
  - Developing countries
  - ↑ recognition in developed countries

## Context (2)

- **Globalisation under increased scrutiny (again!)**
  - Globalisation did not prevent latest crisis
  - Globalisation facilitated worldwide spread of crisis
  - Globalisation caused crisis?
    - Trade, migration, multinationals
- **Opponents of globalisation provide variety of criticisms**
  - Developed versus developing economies
    - Dependency, exploitation
  - Environment, race to the bottom
  - Governance, multinational enterprises, democracy



## Context (3)

- **Economic Integration**
- **Always mixture of economics and politics**
  - EU good example
- **For a considerable time positively viewed**
  - Focus on economic gains
  - Free movement of goods, capital, people
  - Gains clearly visible
  - Joint processes of globalisation, liberalisation and integration
  - Integration facilitated by GO's and NGO's
- **Last 10 to 15 years decreasing popularity**
  - (unsurprising) stagnation of gains
  - Stagnation of international trade agreements
    - WTO, TTIP, TPP, Brexit
  - Decreasing economics, increasing politics

## Context (4)

- **Globalisation and economic integration intricately linked**
- **Important and heated debates on positives and negatives**
  - Currently negatives emphasised
- **Debates not always clear**
  - Interpretation of concepts
  - Facts and fiction
  - Relations with an array of topics
- **Clear need for more focused analysis**
- **History, causes and effects**
- **Start with this today**
- **Followed by key topics**

# Globalisation

- **Popular understanding clear**
- **Various dimensions**
  - Economic
  - Political
  - Cultural
- **In this course we focus on economic elements**
- **International trade and investment earliest proponents of globalisation**
- **Some debate on when it started**
  - 17<sup>th</sup> century: Transatlantic trade
  - 19<sup>th</sup> century: Industrial revolution
  - Post WW II: recovery and growth of world economy

# Meaning and main components

- **Globalisation**

- Increases in cross-border movements of goods, services, capital, people and knowledge
- Growing interdependence between countries
- Growing dependence of individual economies on developments world economy

- **Important components**

- Trade
- Inputs: Capital and people
- Multinational enterprises
- Global value chains

# Divergence between countries

VOL. 95 NO. 3

ACEMOGLU ET AL.: THE RISE OF EUROPE

547

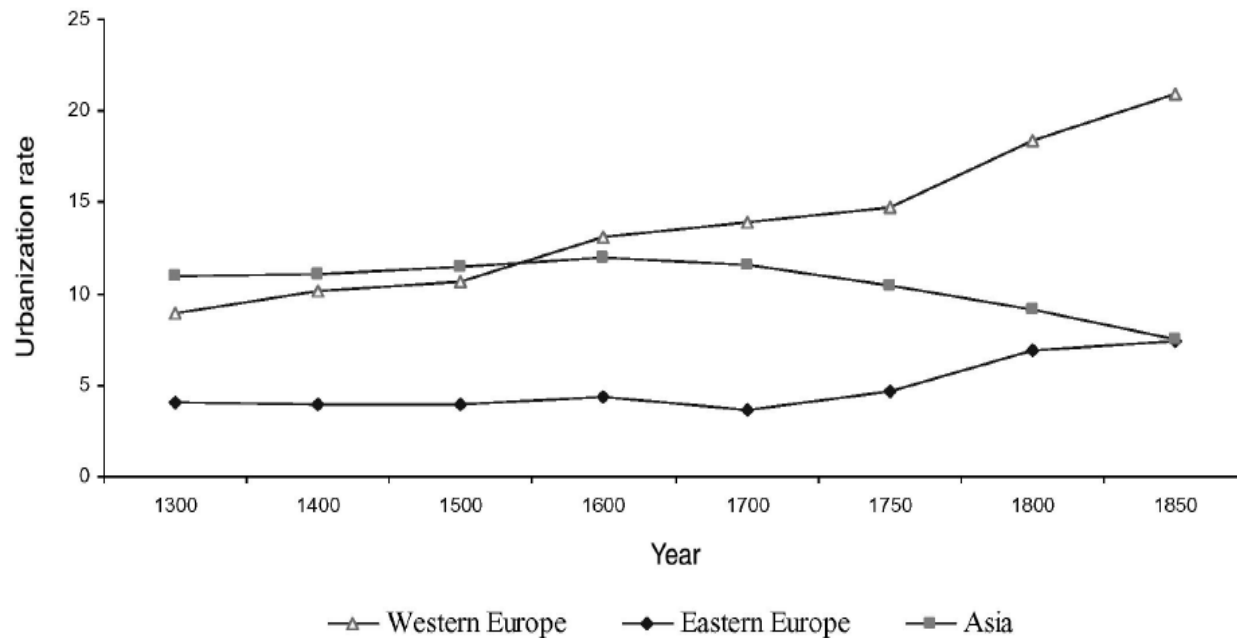


FIGURE 1A. WESTERN EUROPE, EASTERN EUROPE, AND ASIA: URBANIZATION RATES, WEIGHTED BY POPULATION, 1300–1850

Acemoglu, D., Johnson, S. and Robinson, J. (2005) The rise of Europe: Atlantic trade, institutional change and economic growth. *American Economic Review*, vol. 95(3), p. 546-579

# Trade and economic divergence

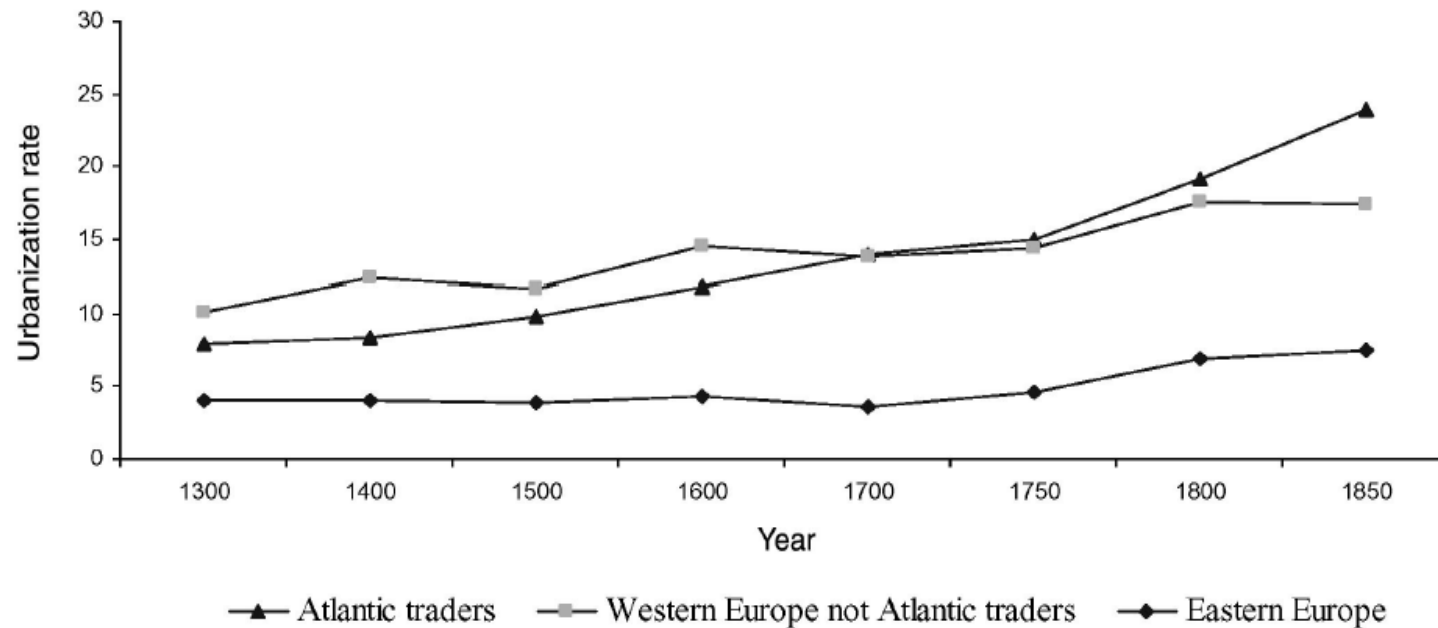
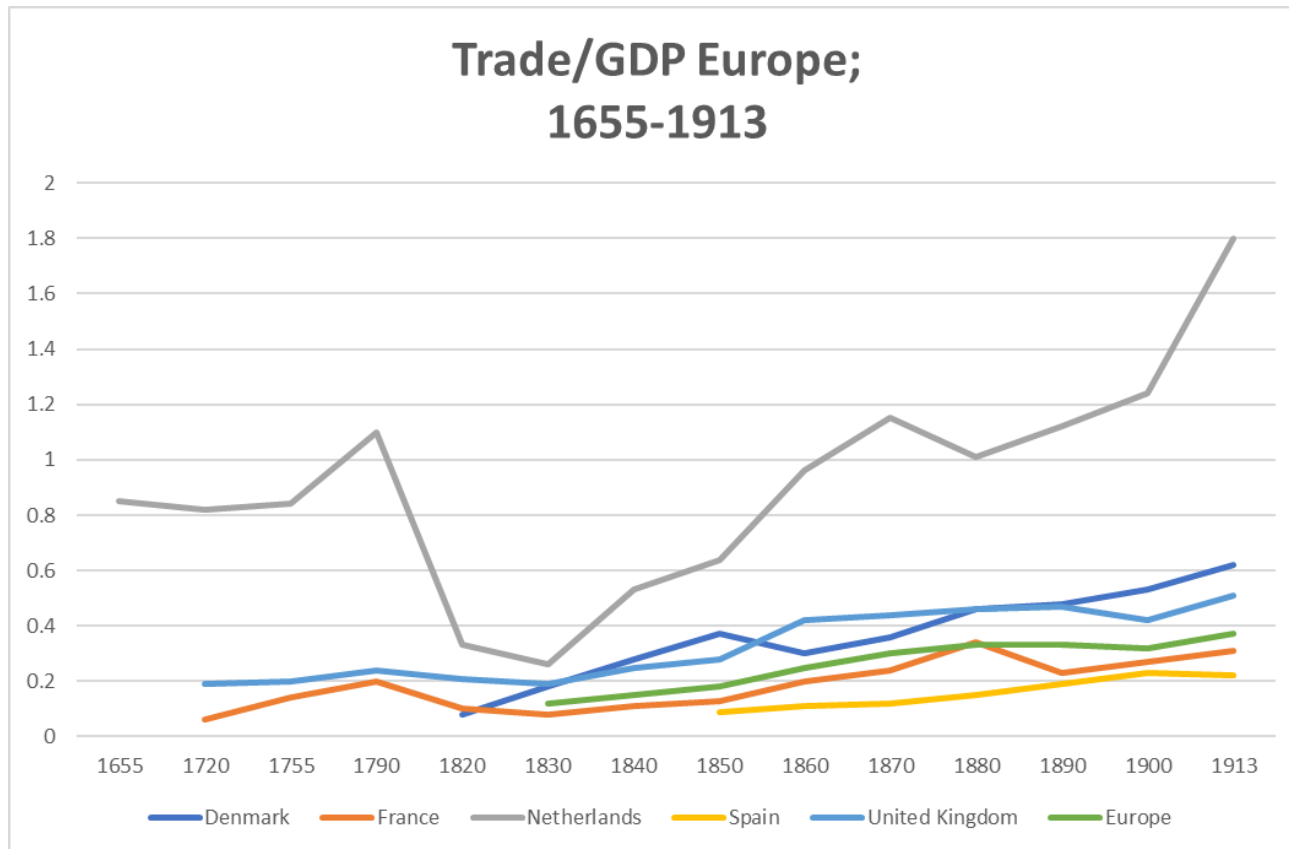


FIGURE 1B. ATLANTIC TRADERS, WEST EUROPEAN COUNTRIES NOT ATLANTIC TRADERS, AND EASTERN EUROPE: URBANIZATION RATES, WEIGHTED BY POPULATION, 1300–1850

Acemoglu, D., Johnson, S. and Robinson, J. (2005) The rise of Europe: Atlantic trade, institutional change and economic growth. *American Economic Review*, vol. 95(3), p. 546-579

# International trade – first wave of globalisation

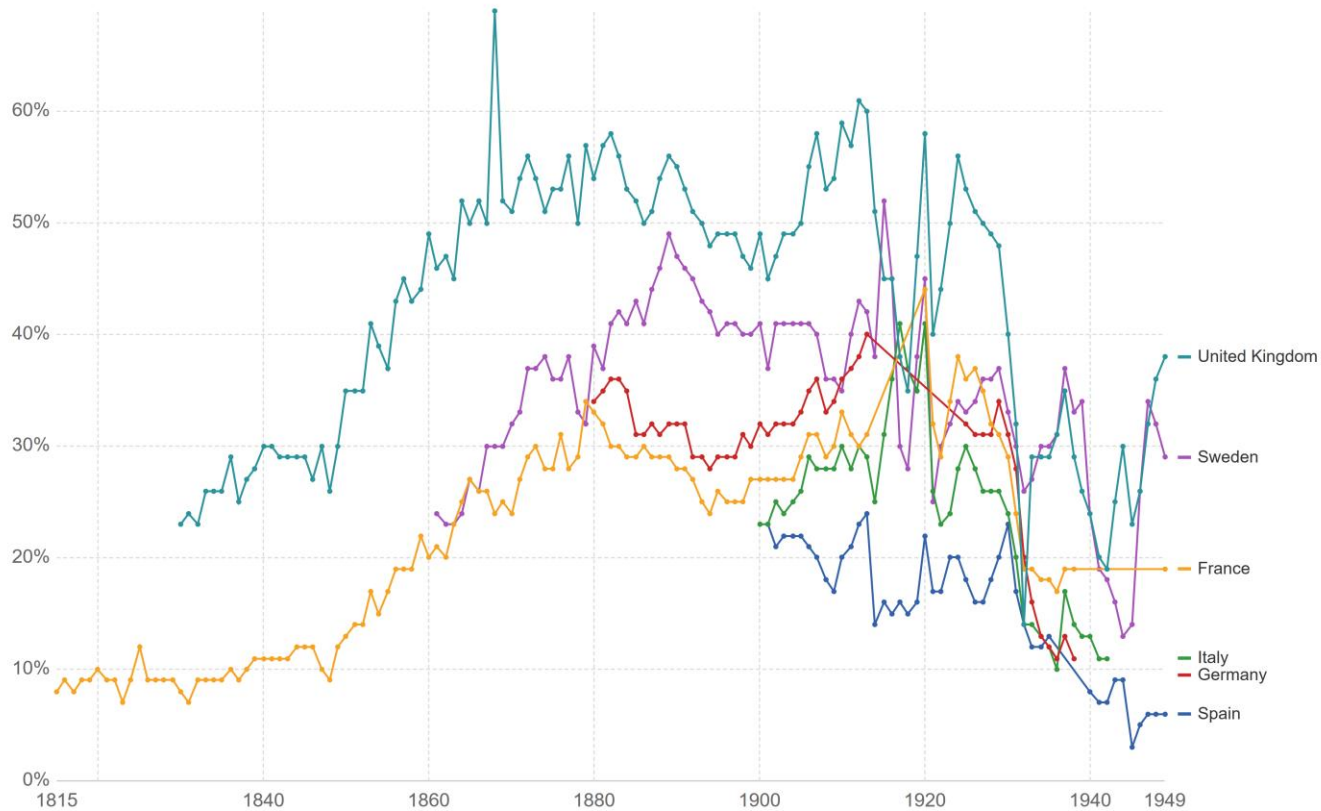


Source: based on Cambridge Economic History

# International trade – stagnation and decline

## Trade openness in Europe

Shown is the sum of exports and imports as a share of GDP



Source: International Historical Statistics - Brian Mitchell (2015)

OurWorldInData.org/international-trade • CC BY-SA

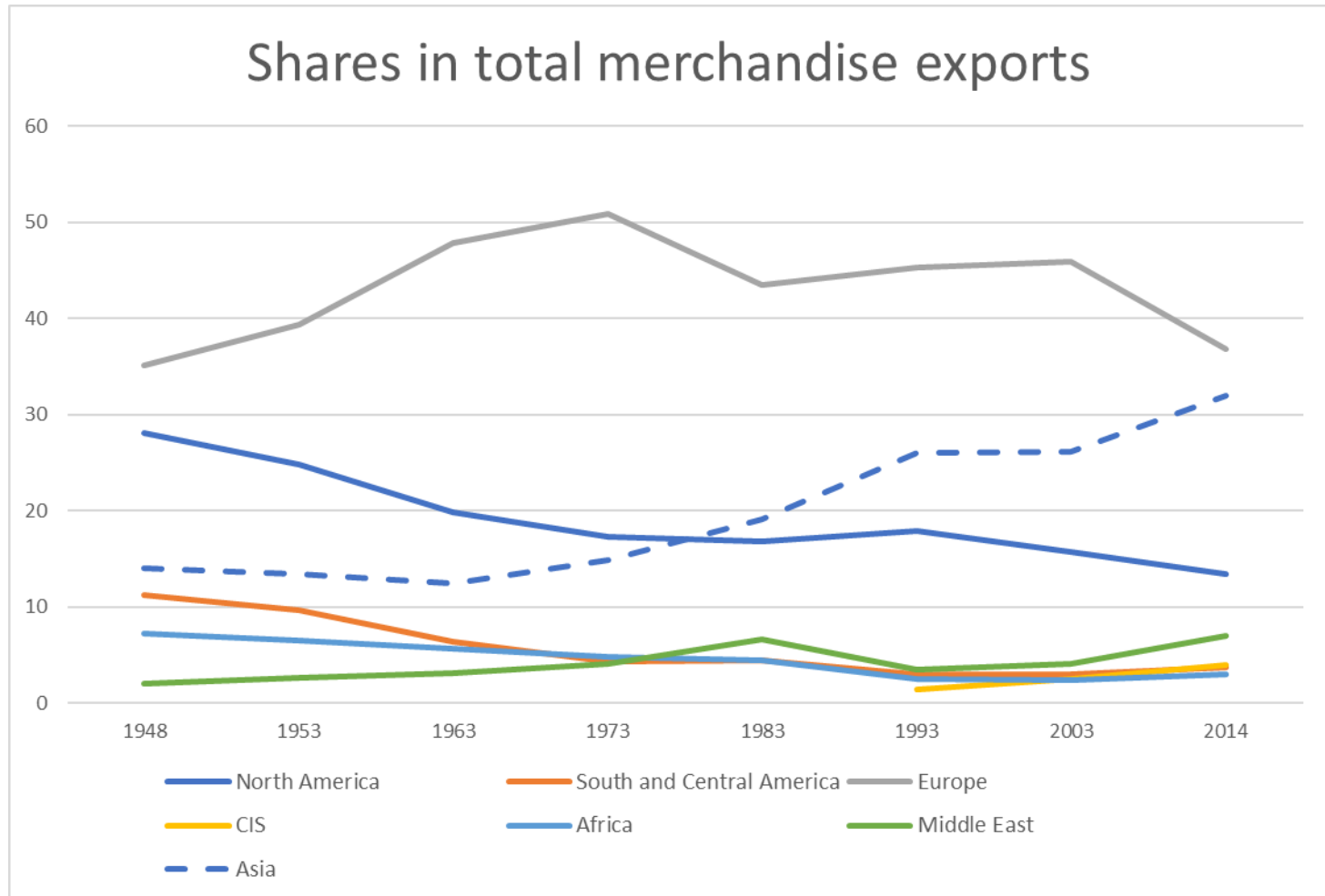


# International trade – second wave of globalisation

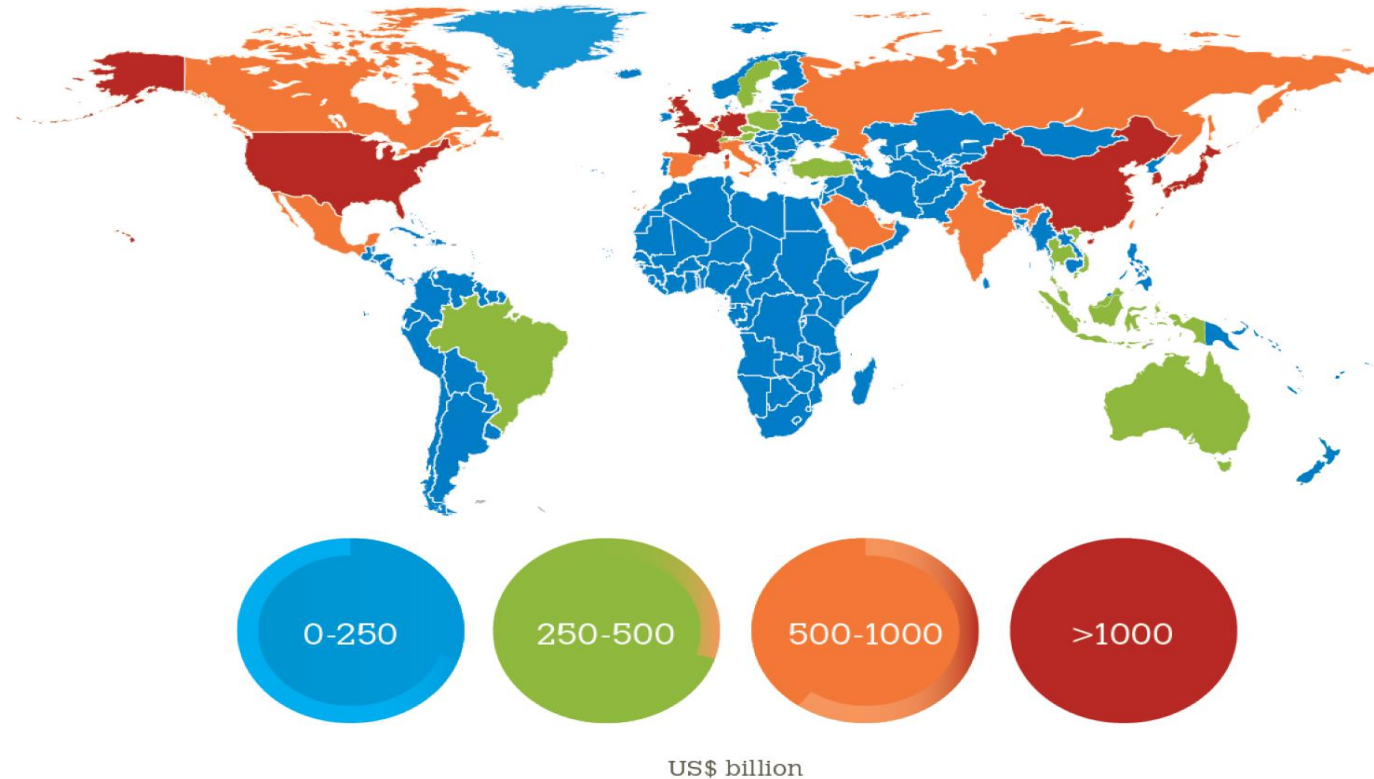


Source: Based on Annual Report 2016-2017  
Bank for International Settlements

# Second wave of globalisation



## Economies by size of merchandise trade, 2014



# 51%

The top 10 traders in merchandise trade accounted for a little over half of the world's total trade in 2014

# 41%

Developing economies had a 41% share of world merchandise trade in 2014

# US\$ 18.0 tn

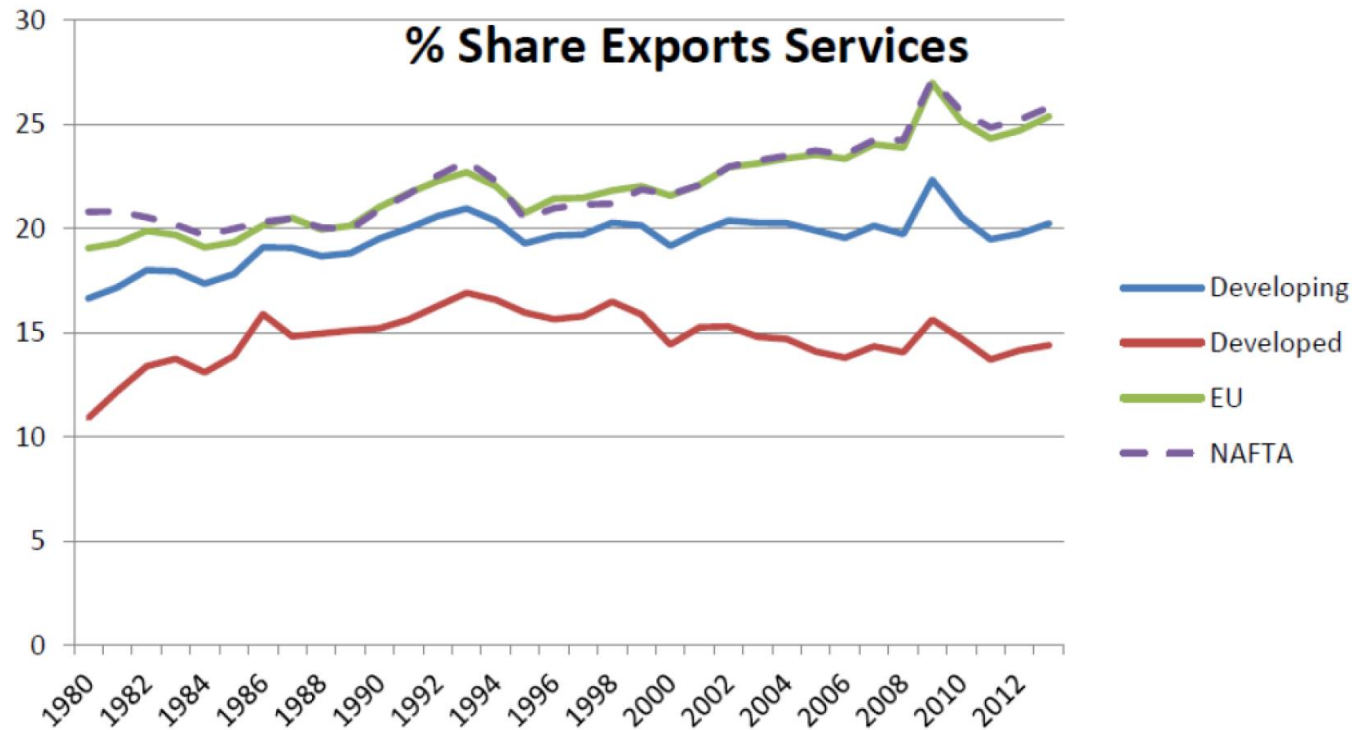
Merchandise exports from WTO members totalled US\$ 18.0 trillion in 2014

# Main trading blocs

	North America	South and Central America	Europe	CIS	Africa	Middle East	Asia	
World	17.3	4	36.7	2.8	3.5	4.2	29.7	100
North America	50.2	8.6	15.2	0.7	1.7	3.2	20.4	100
South and Central America	24.8	25.8	16.4	1.4	2.5	2.4	24.5	100
Europe	7.9	1.7	68.5	3.2	3.3	3.4	10.8	100
CIS	3.9	0.9	52.4	17.8	2.1	3.1	18.2	100
Africa	7	5.1	36.2	0.4	17.7	3.3	27.3	100
Middle East	7.7	0.8	11.5	0.5	2.8	8.8	53.9	100
Asia	18	3.1	15.2	2.1	3.5	5.1	52.3	100

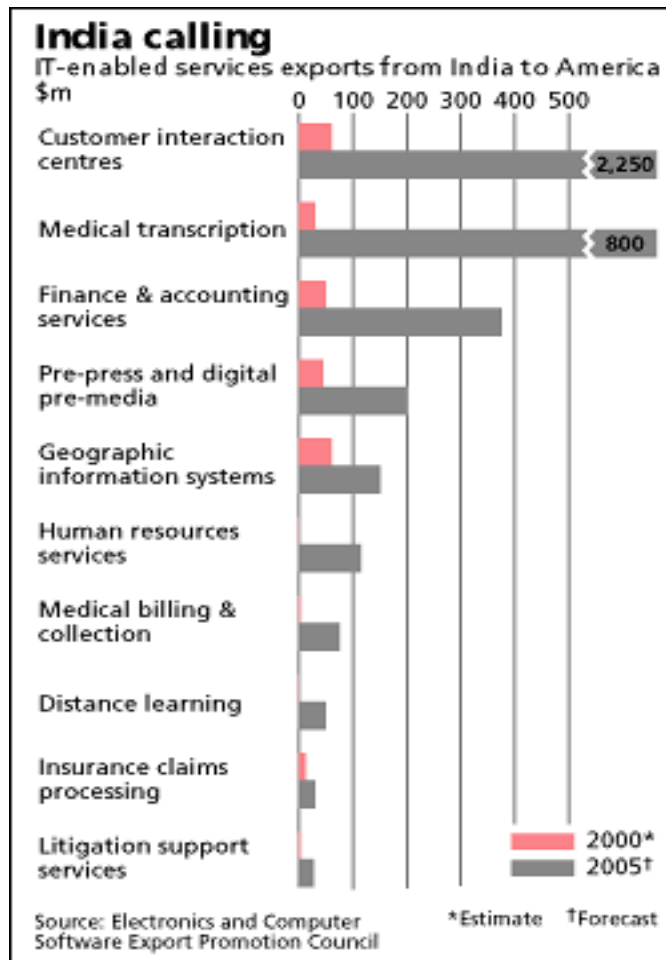
Source: Based on International Trade Statistics 2015

# Growing importance services



Source: Based on UNCTAD

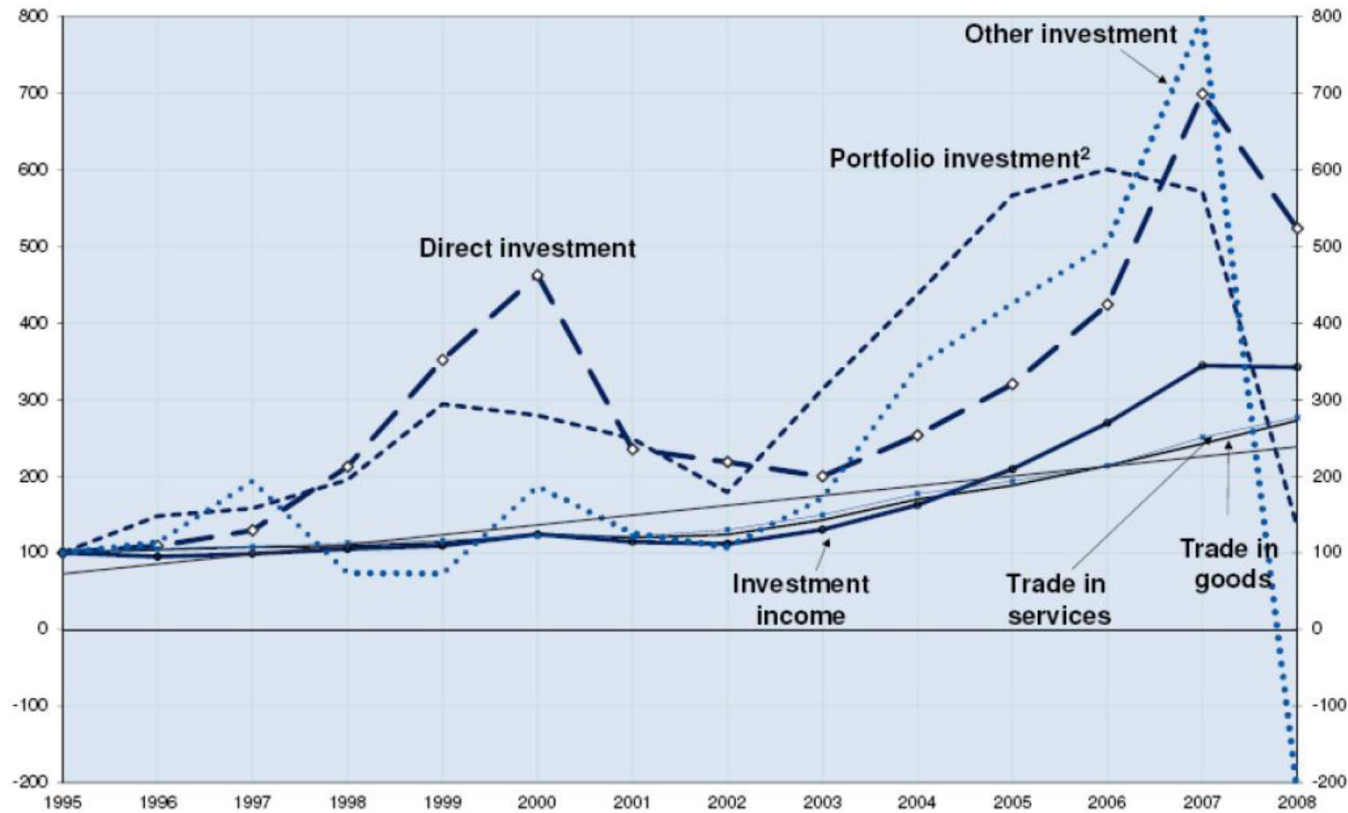
# Trade in commercial services



The Economist,  
March 3, 2001



# Globalisation: Trade and capital



Source: OECD

# International portfolio investment

- **Cross-border transactions and positions involving equity or debt securities, other than those included in direct investment or reserve assets**
- **Key importance: negotiability**
  - Ownership readily transferable
- **Traded on organised markets**
- **Often very liquid**
- **Variety of institutions active**
  - Central banks
  - Governments
  - Financial corporations
  - Non-financial corporations and households



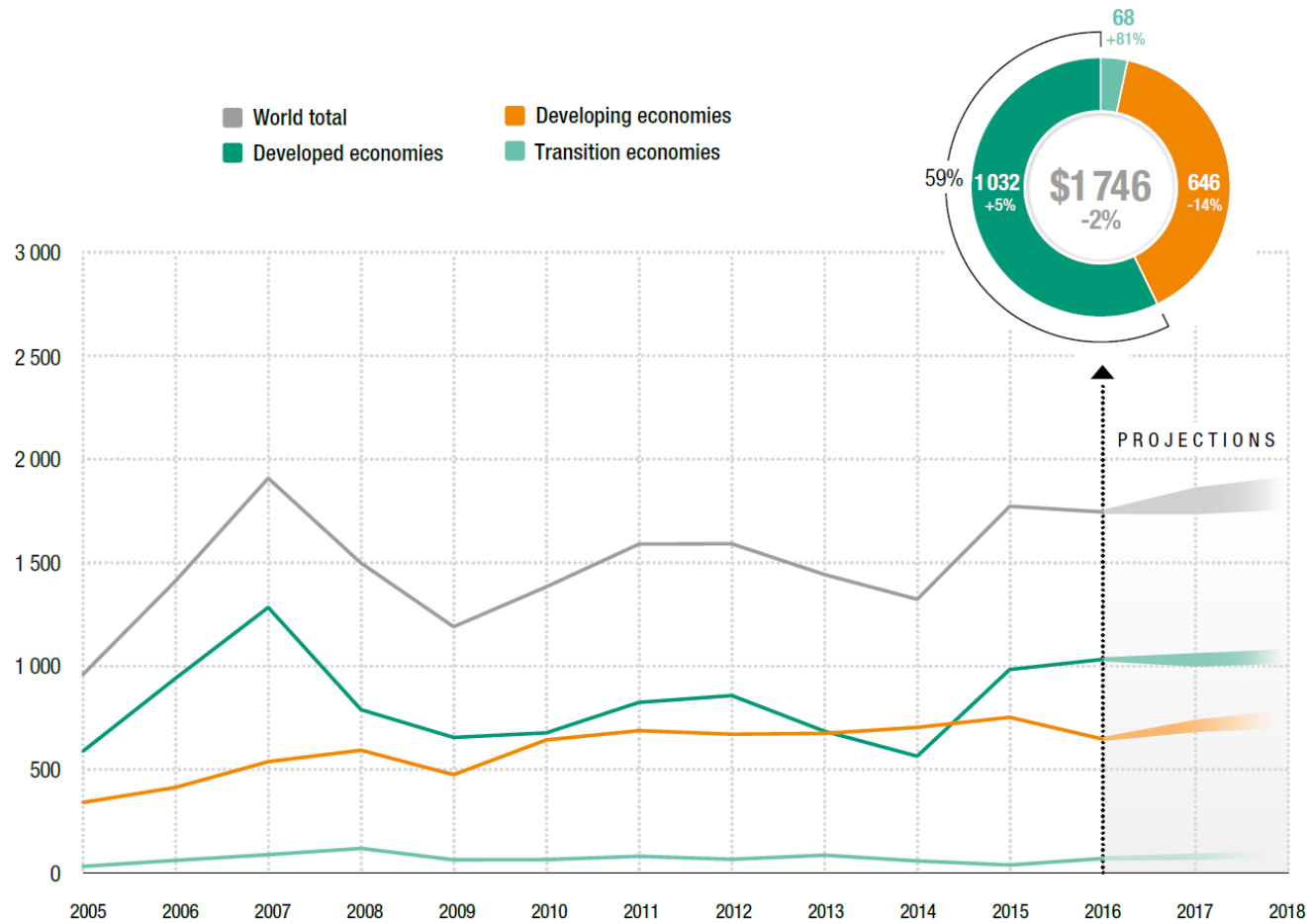
# Foreign Direct Investment

## **When is international capital investment FDI?**

1. Investment made to acquire lasting interest in enterprises operating outside of the economy of the investor
2. Purpose is to gain an effective voice in the management of the enterprise

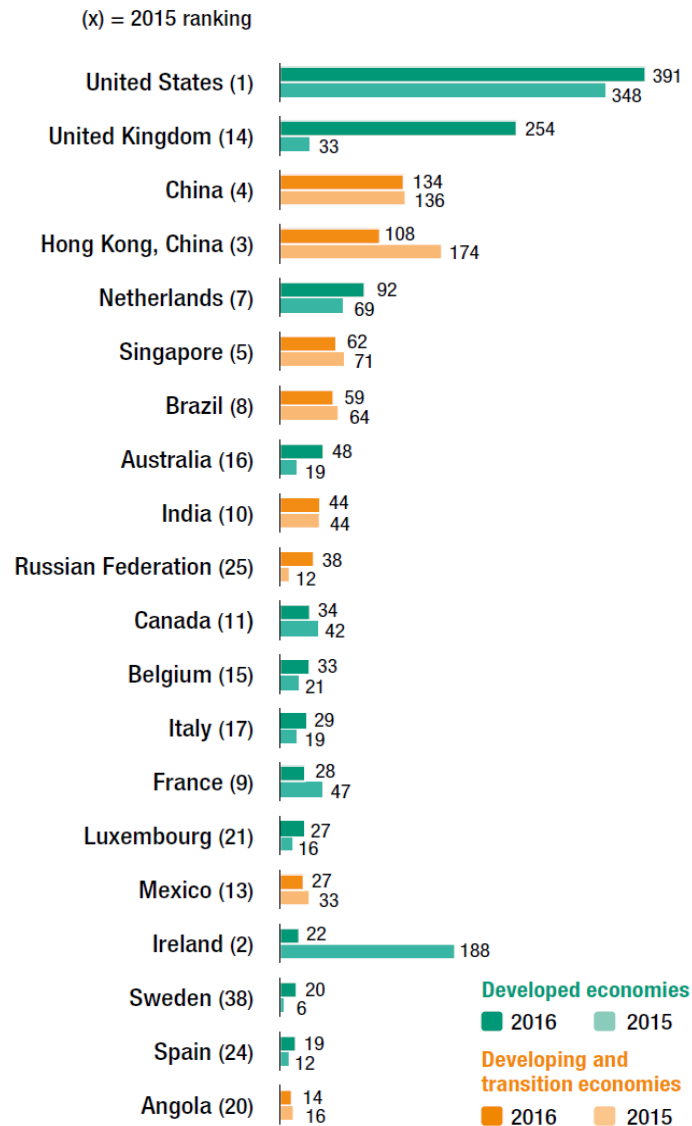
Multinational enterprise / Transnational corporation  
= parent enterprise and affiliates in other countries

**Figure I.1.** FDI inflows, global and by group of economies, 2005–2016, and projections, 2017–2018  
(Billions of dollars and per cent)

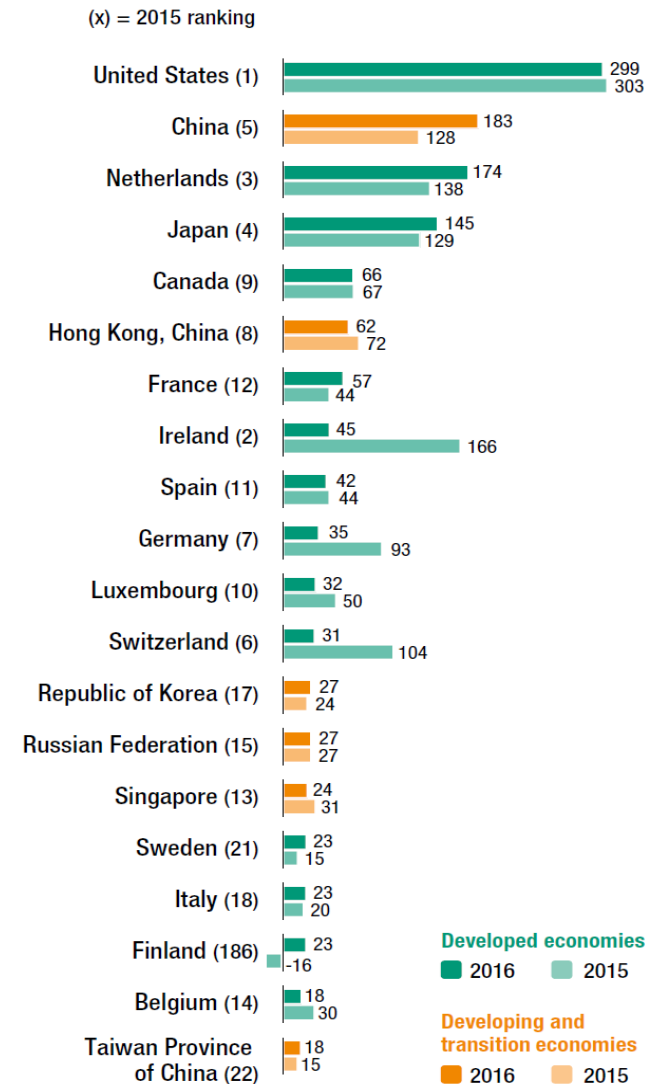


Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

**Figure I.11.** FDI inflows, top 20 host economies, 2015 and 2016 (Billions of dollars)



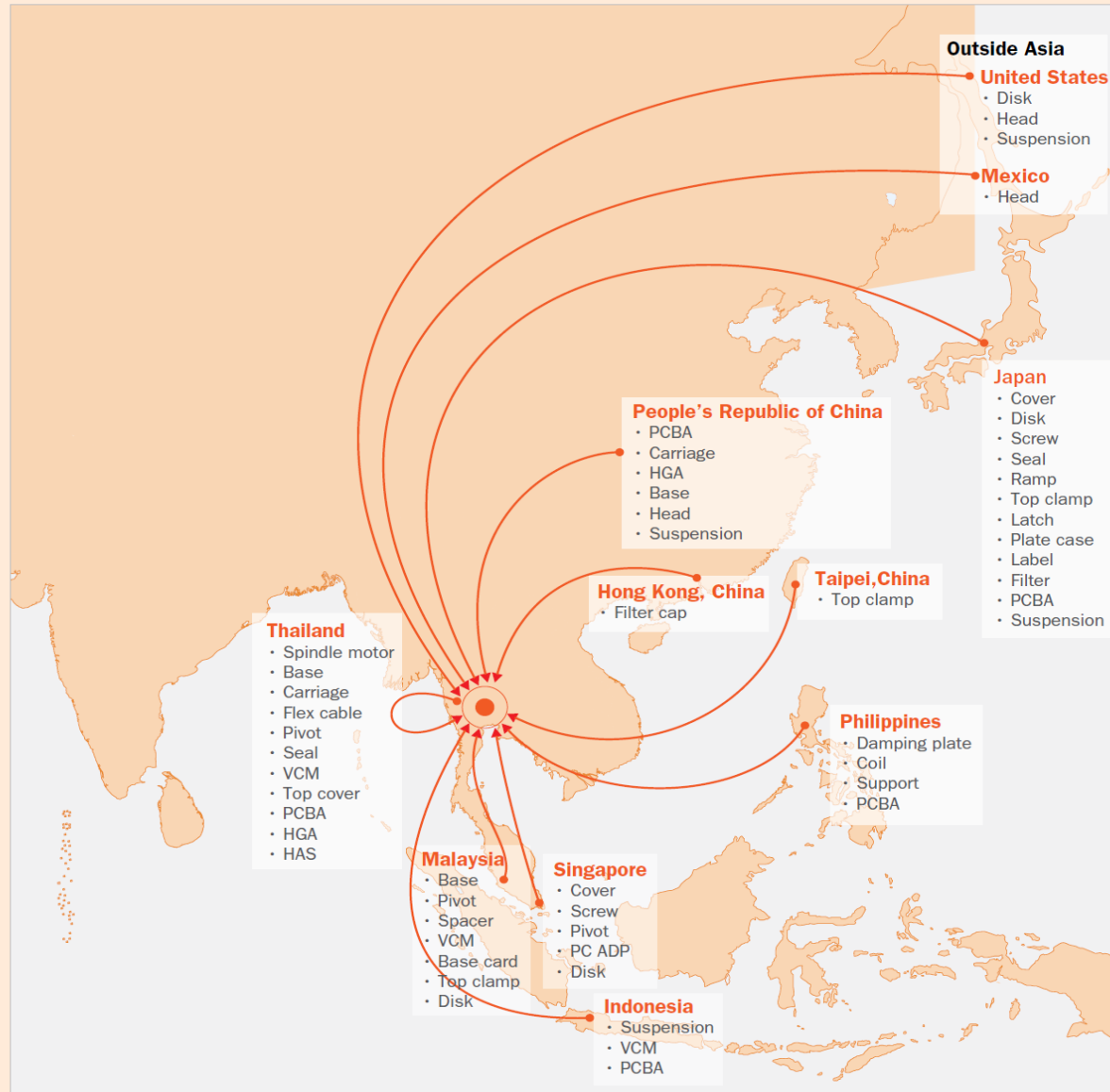
**Figure I.14.** FDI outflows, top 20 home economies, 2015 and 2016 (Billions of dollars)



# Global value chains

- **International production, trade and investment are increasingly organised within global value chains**
- **Different stages of production are located in different countries to take advantage of comparative advantage of these countries**
- **Design, production, marketing, distribution, etc.**
- **Within production, this process has been going on for some time now**
  - Outsourcing and off-shoring
- **Opens up new opportunities and challenges**

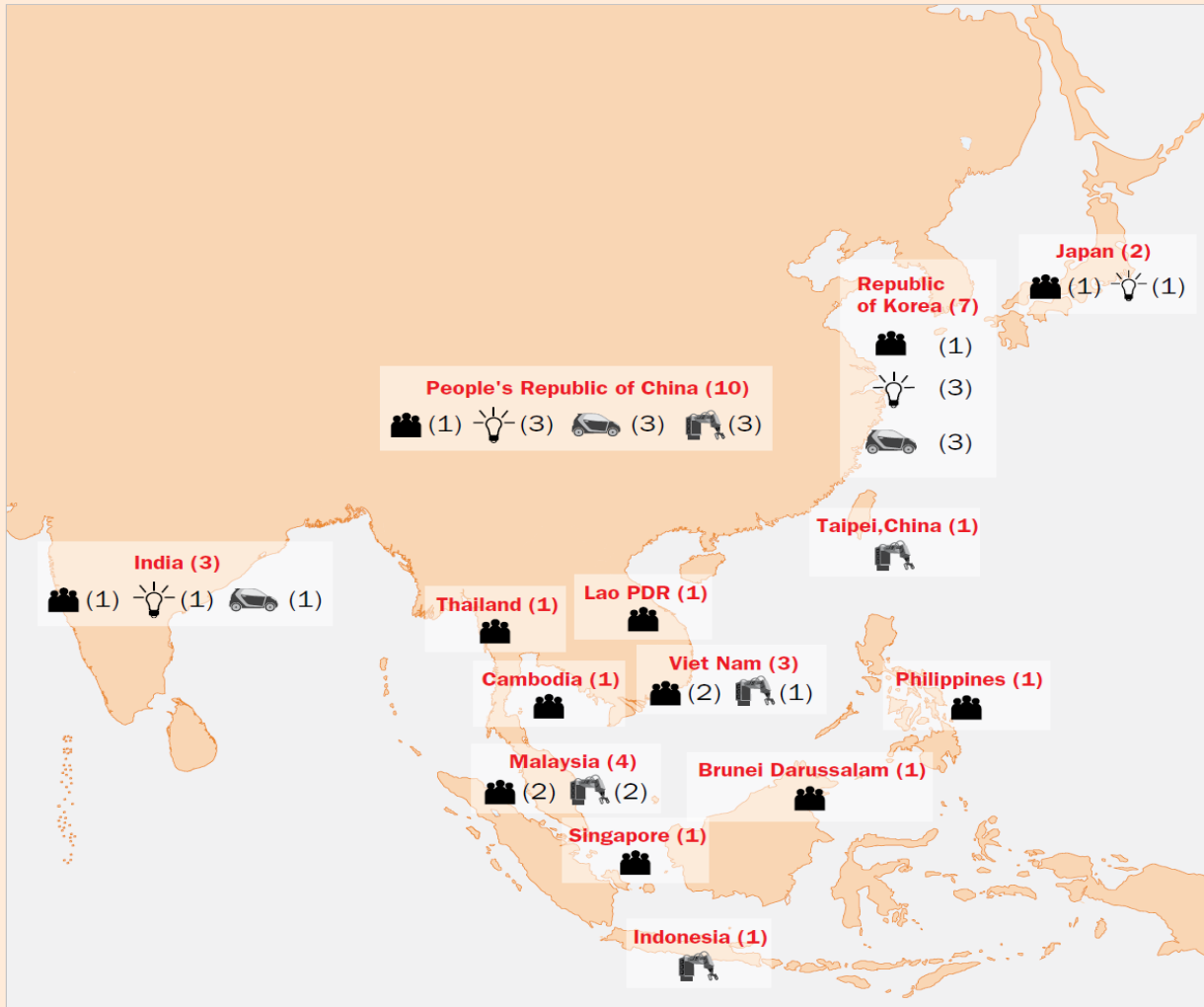
Figure 3.1. Networking: sourcing of parts and components for a hard disk drive



Emerging Asian regionalism:  
A partnership for shared prosperity





Asian Development Bank 2008

Figure 3.9. Locations of a large Asian multinational company: automotive industry, 2008



Lao PDR = Lao People's Democratic Republic.  
 Source: Hyundai Global CSR Company. 2008. Global Operations.  
 Available: <http://www.hyundai-motor.com> (accessed 5 March 2008).  
 Also updated by Global PR Team, Hyundai Motor Company.

#### Legend

-  Sales and administration
-  Research and development
-  Production plant
-  Assembly plant

# Hyundai in the Czech Republic



Headquarters

Mobis Automotive Czech s.r.o.

Hyundai 171/2

739 51 Nošovice

Czech republic

# Products

Hyundai MOBIS company, the biggest supplier of Hyundai, assembles four car moduls: front end module, rear chassis and front chassis modules and cockpit module in Nošovice plant.

Nowadays, the production modularization in the automotive industry is a way, issuing almost all car factories to ensure their competitiveness. Hyundai MOBIS company goal is to manufacture and supply the best quality modules, enabling to become one of the best company in the world.





## 787 Dreamliner structure suppliers

Selected component and system suppliers.



Sources: Boeing, Reuters

Note: Diagrams are not to scale.

RNGS Staff, 09/10/2013

REUTERS

Diagram of the Boeing 787 with details of parts and where they are manufactured.

# Key aspects globalisation

- **Trade and capital flows core components globalisation**
- **Post WWII: second wave of globalisation**
- **North America, EU and Asia**
- **↑ importance trade in services**
- **↑ importance of multinational enterprises**
  - Strongly related to trade flows
- **Global value chains latest example of what globalisation processes are creating**

# Economic integration

## = Effect of globalisation

- Growing interdependence of countries on international markets (goods, services, capital)
- Operations multinational enterprises link countries' economies
  - Global value chains further reinforce this

## = Cause of globalisation

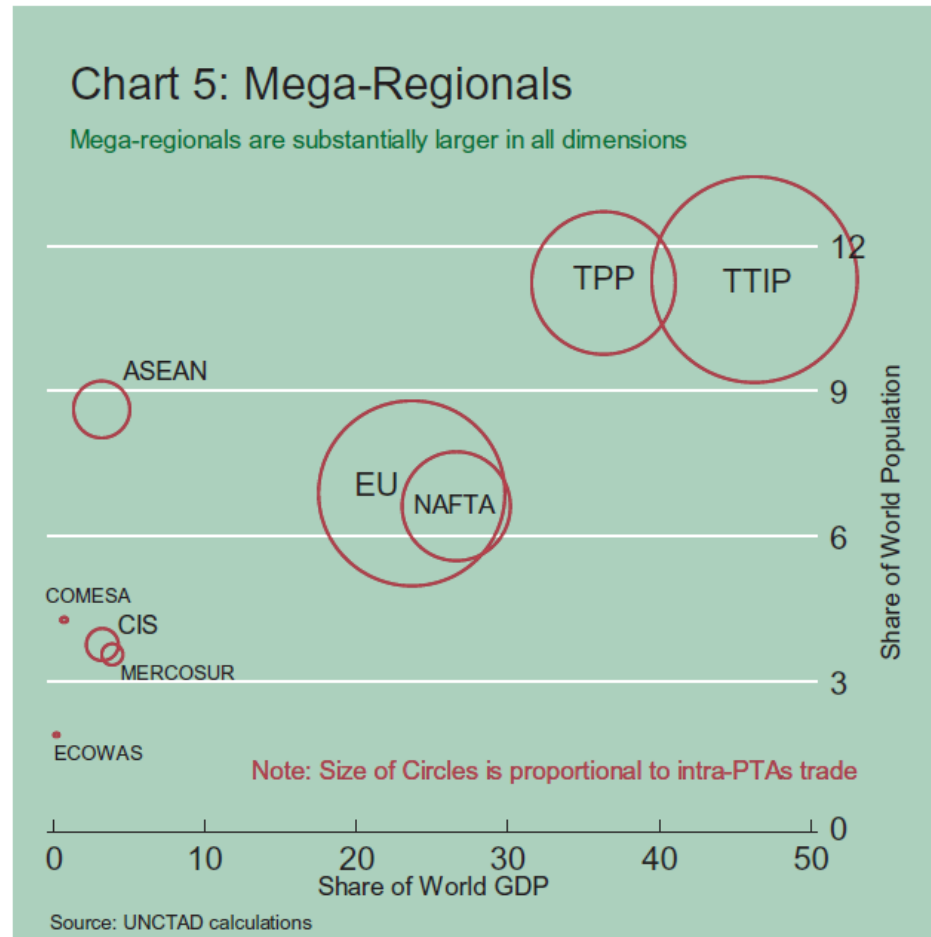
- Efforts by (groups of) countries to advance positive effects of world economy

## = Ways to govern, regulate and manage economic cooperation and interdependence

# Globalisation, cooperation and integration

- **Following WW II**
- **Openness and international trade key elements for international development**
  - Reaction against isolation politics from the 1930s
  - Needed to restore world economy
- **United Nations, World Bank, IMF, OECD**
- **General Agreement on Tariffs and Trade, later WTO**
- **Different levels of commitment, enforcement, etc.**

# Growing overall importance...

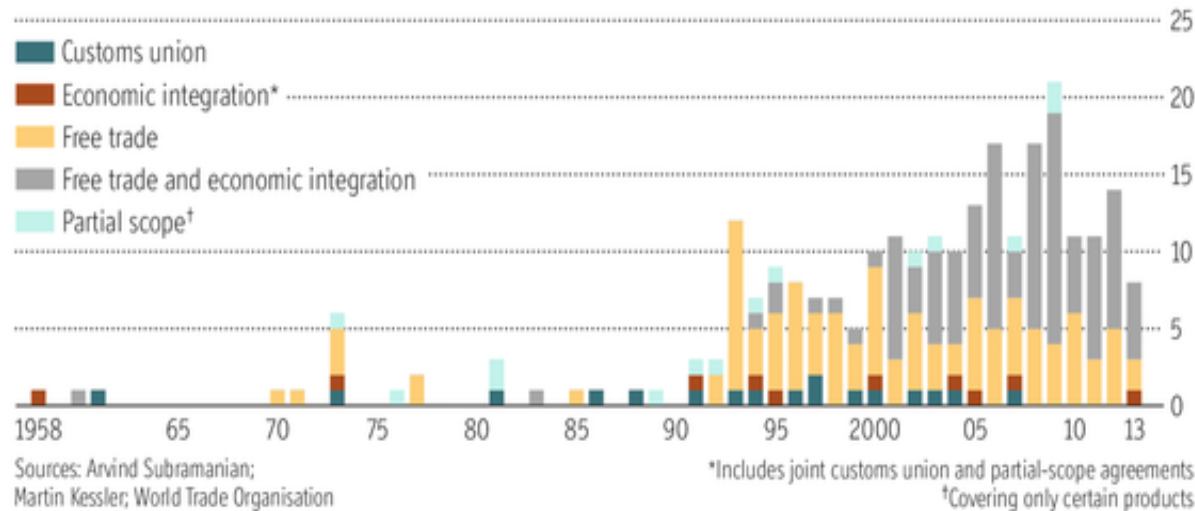


Source: UNCTAD 2015

# ...but different levels of integration

## Strength in numbers

Newly signed preferential trade agreements  
Number, by type of agreement



6

Free trade Area

Customs Union

Common Market

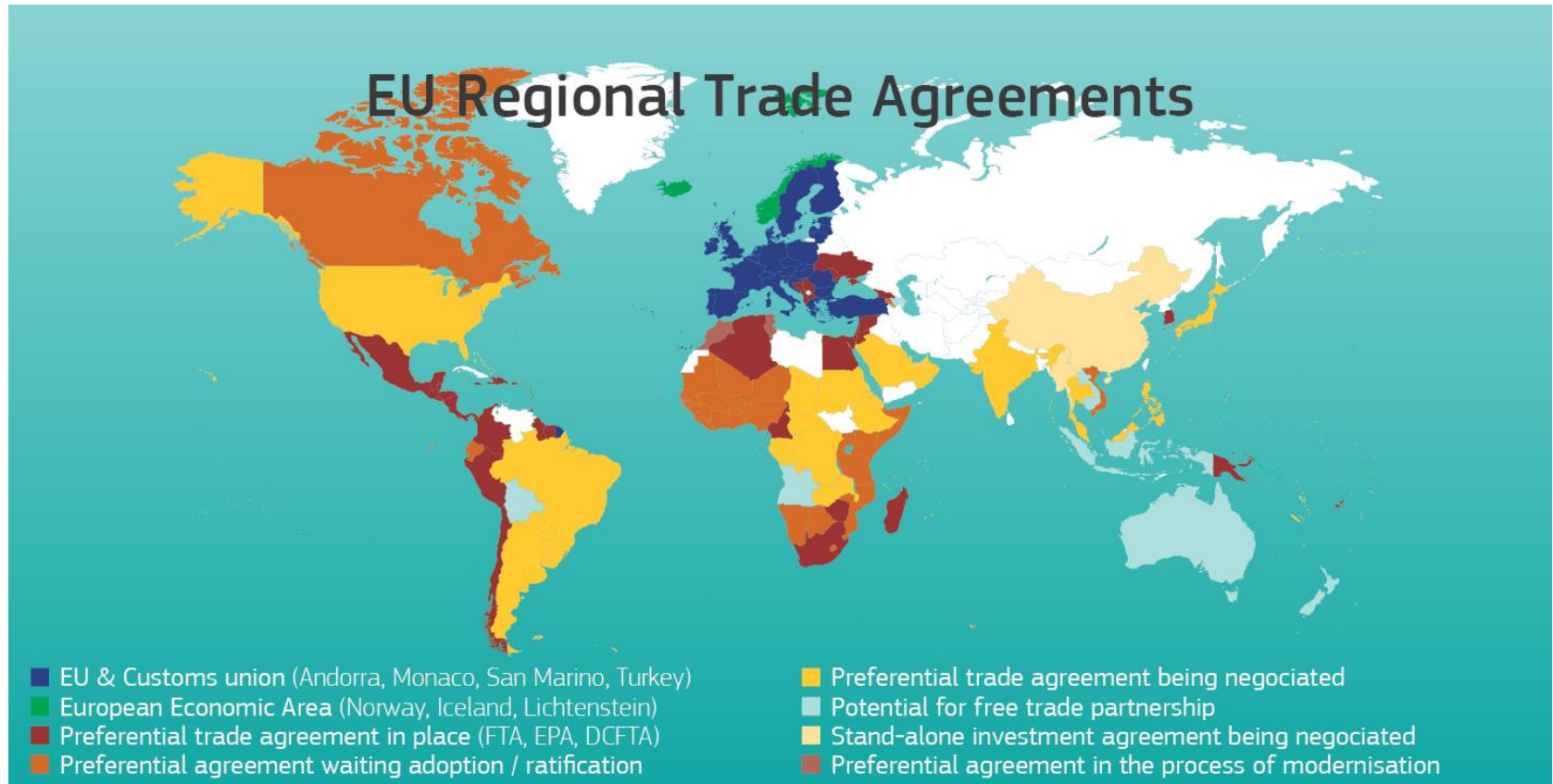
Monetary Union

Fiscal Union

Political Union

Economist, October 12, 2013

# EU and preferential trade



# Globalisation and integration

- **Globalisation fosters the desire and need to strengthen informal and formal integration**
- **How to solve problems with trade agreements?**
  - Strengthen integration
    - Preferential trade agreement → customs union
    - Customs union → common market
    - Common market → monetary union
    - Monetary union → fiscal union
    - Fiscal union → political union
- **More and more issues are tied to economic integration**
  - Inequality, environment, labour issues, etc.



# Stagnation economic integration

- **Last decade has seen stagnation of economic integration**
  - Stagnation trade negotiations World Trade Organisation
  - US withdrawal from TPP
  - Heated debates surrounding TTIP
  - Brexit
  - Growing protests other member states EU
  - Public opinion against free trade, multinationals, etc.
- **Decreasing gains from economic integration**
  - Not surprising, given huge gains in the past!
  - Economic downturns are linked to globalisation and integration
  - Decreasing importance of economics, increasing importance of politics

# US tariffs on steel and aluminium



March 8, Trump signed presidential proclamation on steel and aluminium tariffs (25% on steel, 10% on aluminium)

Trump on CNN: "Today I'm defending America's national security by placing tariffs on foreign imports of steel and aluminum"

# Topics of the course (1)

- **So how can we get a better understanding of these developments and debates?**
- **International trade: theory and empirical effects**
  - Standard trade theory & new trade theory
  - What are expected effects from trade?
  - International trade and economic growth
- **World Trade Organisation**
  - How does this organisation work?
  - What are the key issues obstructing further economic integration?

# Topics of the course (2)

- **Effects of economic integration: membership of trade agreements**
  - What types of agreements are currently in operation?
  - What are the actual economic effects of membership?
- **European Economic Integration**
  - EU unique case study
  - Overview of main developments
  - What are the key issues obstructing further progress?
- **Economic effects of EU membership**
  - What are the main expected effects of EU membership?
  - What is the empirical evidence?

# Topics of the course (3)

- **Political economy of trade policy**
  - Theory usually treats trade policy as exogenous factor
  - In reality: choice for trade policy endogenous!
  - What is the evidence on this?
- **Opinions on free trade and Brexit**
  - Politicians follow public opinion, so we need to know what the public thinks of globalisation and integration
  - Brexit as case study