

Globaliz(s)ation and its impacts

- What is globalization? Is it new phenomenon?
- What are characteristics of the contemporary wave of globalization?
- What is the impact on the world economy?

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What is globalization? And is it new?

- No one knows!
- every discipline comments the phenomenon
 - sociology, politics, economics, ...
 - ⇒ chaos
 - ⇒ very difficult to handle ⇒ I will keep on the field of economics
 - even so nearly every author uses the word its way
 - ⇒ plenty of definitions

integration X st. completely new

- integration
- the range
 - from integration of a single market
 - for example capital markets
 - up to overall integration
- and the time period?
 - from prehistoric times
 - up to only last twenty years
 - strong stream that reminds the last wave of integration at the end of the 19th century

- something completely new
 - prominent Dicken (Global Shift)
 - *Internationalization processes* involve the simple extension of economic activities across national boundaries. It is, essentially, a *quantitative* process which leads to a more extensive geographical pattern of economic activity.
 - X *Globalization processes* are *qualitatively* different from internationalization processes. They involve not merely the geographical extension of economic activity but also – and more importantly – the *functional integration* of such international dispersed activities.

SO?

- ⇒ it is matter of understanding or believe
 - I don't find anything so “*qualitatively different*” that we would need a new word for it
 - ⇒ I don't think that it is anything completely new and I deem the processes as part of long run integration
 - integration – in the form of trade – has prehistoric roots
- is the world more integrated now?
 - it depends – generally ...

- we already had period of deep integration – before the First World War
 - integration of all markets - goods, capital and labour
- EX and IM/GDP (in %) between 1913-1987

	1913	1950	1973	1987
France	30,9	21,4	29,2	34,8
Germany	36,1	20,1	35,3	46,8
Japan	30,1	16,4	18,2	16,1
Holland	100	70,9	74,8	86,5
Britain	47,2	37,1	37,6	42
USA	11,2	6,9	10,8	15,2
arithmetic average	42,6	28,8	34,3	40,2

Maddison, Dynamic Forces in Capitalist Development: A Long-Run Comparative view

- BUT every historic period has its specific

- ⇒⇒ so globalization (in my point of view) is integration with a few new features
 - otherwise it is very old phenomenon and in fact everything penetrating
 - (popular) example with pencil
- and it is spontaneous – releasing creative powers in the world economy
 - nobody invented it and nobody steers it
- the question is: „what are the specifics of the contemporary wave of globalization?“

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Specifics of contemporary G.

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3. growing population of the World
4. democratisation
5. strong role of governments
6. technological development
7. supranational organizations
8. pressure groups
9. structure of national economies
10. international monetary system
11. changes in economic theory

1. degree of integration of the markets

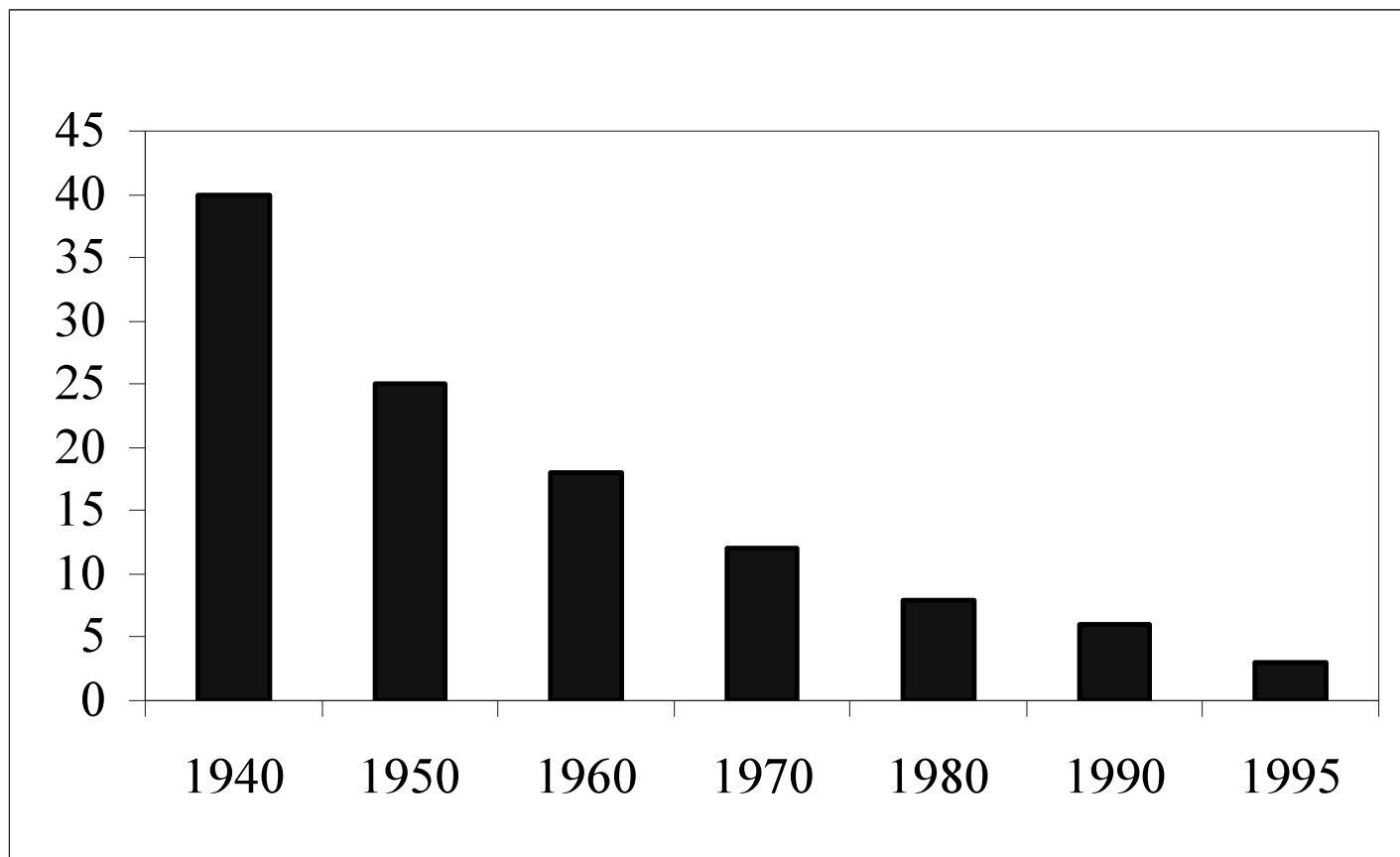
- goods and capital markets are probably the most integrated in the history
 - but the labour market is not
- capital
 - dismantling barriers after the WW2
 - dramatic, relatively easy \Rightarrow the most integrated market
 - SR capital X FDI

- goods

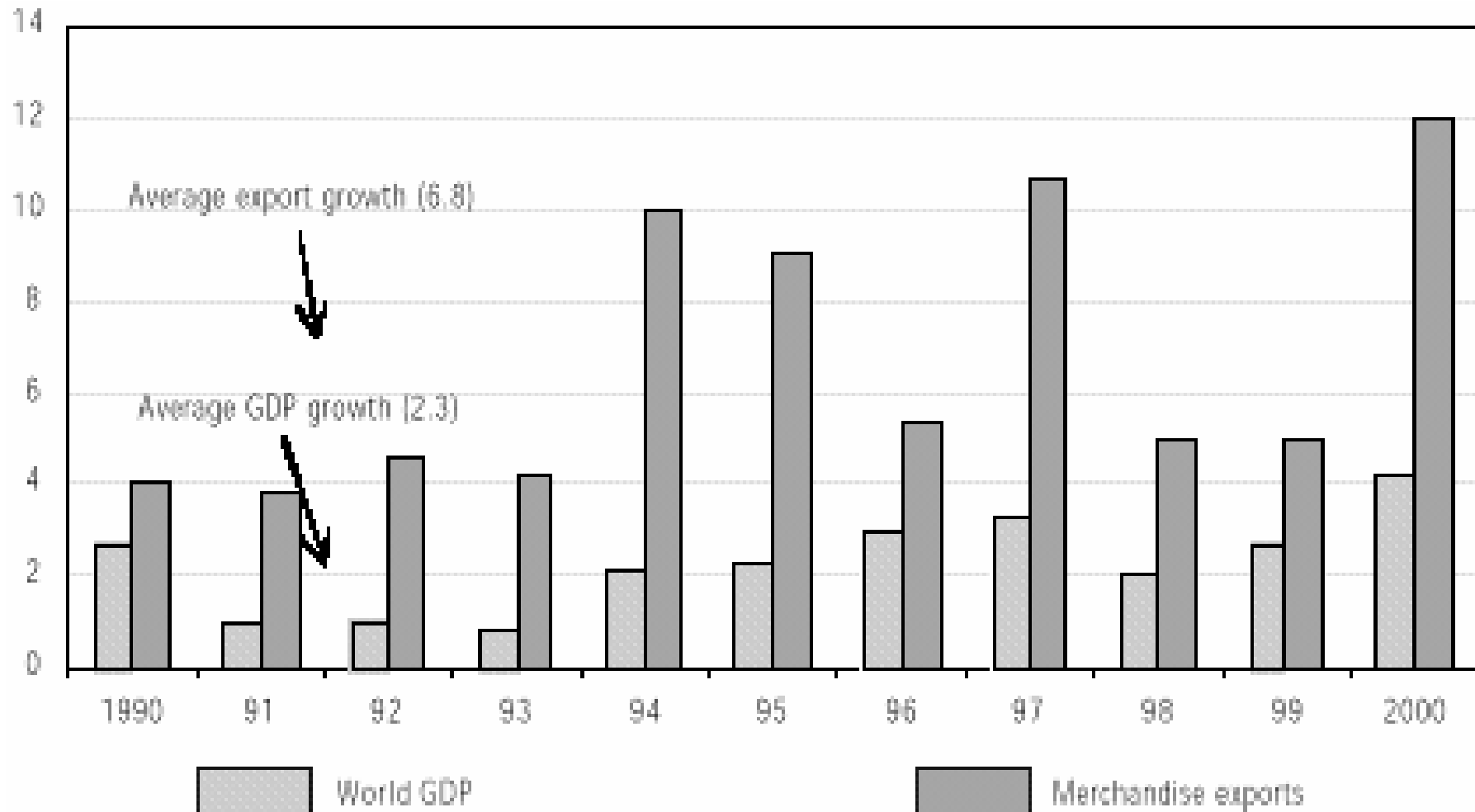
- export of goods and services as a percentage of world output 8.7% in 1913 \Rightarrow 12.1% in 1973 \Rightarrow 23.6% in 1996
- total trade (EX +IM)/output 28% in 1970 \Rightarrow 45% in 1998 - Sullivan (2000)
- \Downarrow barriers after the WW2 BUT different forms of protection ^(H)
 - antidumping
- almost $\frac{2}{3}$ of trade within 500 kilometres and more than $\frac{3}{4}$ within 1000 kilometres
- \Uparrow of trade b/c \Uparrow growth of transaction within the supranational companies

Average tariffs 1940 – 1995

(Dicken, Global Shift)



World export and GDP

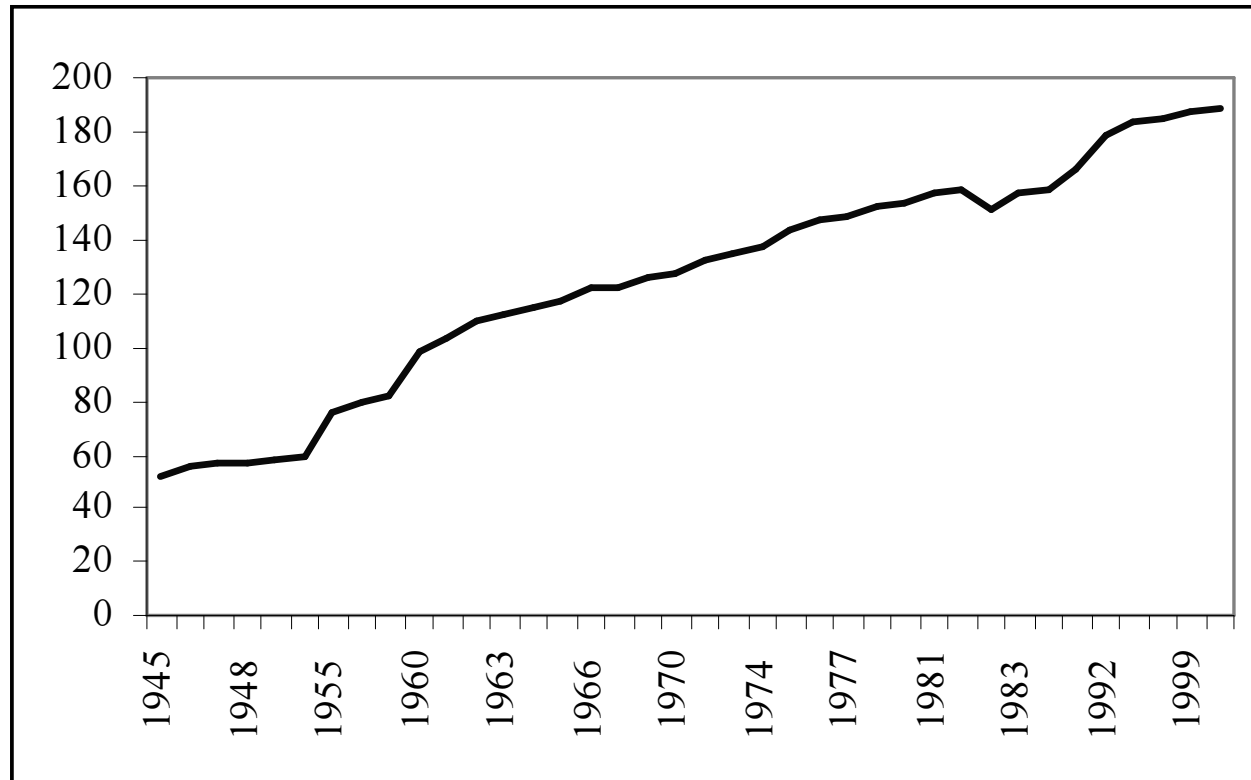


- services
 - outsourcing
- labour force
 - the least integrated market – creating barriers in the developed countries
 - at the end of the 19th century the markets more integrated
 - no trouble to move and start new life abroad

2. ↑ of number of states

- in the process more countries b/c growth of independent states
 - but previously members of colonial empires
 - ⇒ ↑ length of frontiers and possibility to bloc integration

Membership in the UN



3. growing population of the World

- \uparrow people \Rightarrow \uparrow S and D on all of the markets \Rightarrow growth of markets and ability to specialize \Rightarrow positive for integration
 - but if the markets don't absorb
 - changing structure of population \Rightarrow ... can be negative

4. democratisation

- democracy becomes the dominant form of the political system
 - 1900 kind of democracy (women excluded) only 6 of 43 of the national states
 - ↑ democracies after 1945 (GER, JAP, Italy and some developing countries India).
 - but 1980 only 37 countries from 121 democratic government (35% world population)
 - ↑ after 1989 ⇒ 1998 already 117 from 193 (54% world population)

- impact on integration questionable
 - ↓ in international conflicts – democracies don't fight each other and start international conflict only in rare (extreme) cases ⇒ the most important point for international integration
 - X – politicians orientate on specific (pressure) groups in society – these are (mostly) against integration

5. strong role of governments

- growing role of state
 - eg. in the 19. century – government expenditures below 10% of GDP
 - (in the US only 2.50%) (Cameron)
 - changes with
 - WW1
 - great depression
 - Keynes
 - building of social state

Development of public expenditures (in % GDP) 1870 – 1994

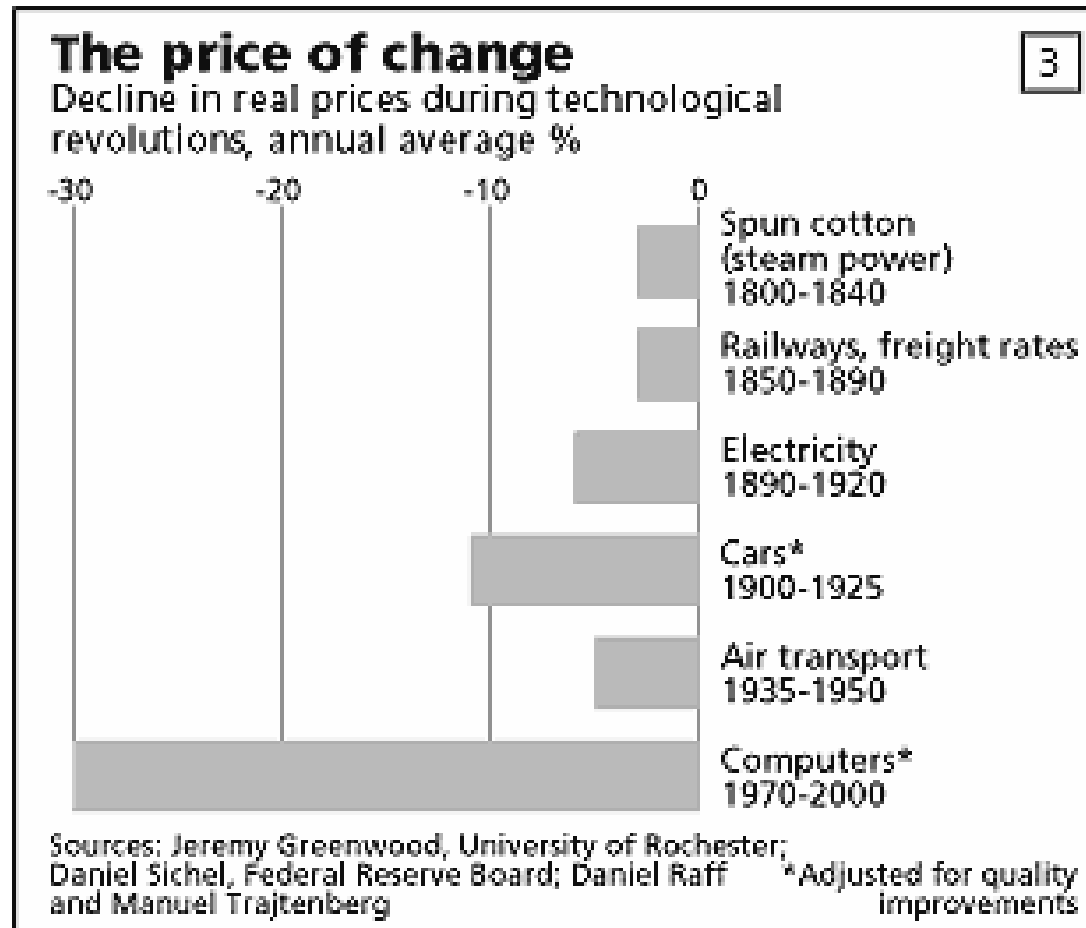
Country	1870	1913	1920	1937	1960	1980	1994
USA	3,9	1,8	7	8,6	27	31,8	33,5
France	12,6	17	27,6	29	34,6	46,1	54,9
Germany	10	14,8	25	42,4	32,4	47,9	49
Italy	11,9	11,1	22,5	24,5	30,1	41,9	53,9
Holland	9,1	9	13,5	19	33,7	55,2	54,4
Japan	8,8	8,3	14,8	25,4	17,5	32	35,8
Britain	9,4	12,7	26,2	30	32,2	43	42,9
Average (17 industrial countries)	8,3	9,1	15,4	20,7	27,9	42,6	47,2

- if globalizace spontaneous process
 - \Rightarrow G against it and block it
 - if more money in the treasury for redistribution \Rightarrow more power to intervene at the markets
- states can easily block all three markets
 - eg labour markets
 - but situation used to be worse
 - \Rightarrow G relaxed its policy and enable integration
 - eg the capital markets

6. technological development

- driving force of integration
 - X previous periods (obviously) new forms (electronics, telecommunications, IT and transport)
 - within the last 30 years ↓ in prices of computer processing by 99.999%

Decline in real prices during technological revolutions, annual average



- ↓ transport and transaction costs ⇒ ↑ specialization + division of labour ⇒ ↑ integration on the markets of goods, services and capital
- + impact on labour market – it is cheaper to move – even groups that could not afford it previously

7. supranational organizations

- international organizations
 - some of them influence (at minimum under certain conditions) on national governments
 - impose rules
 - till the end of the WW2 no such organizations ..
League of Nations ...
 - foremost the WTO – conditions for entrance – liberalization of trade, solving disputes and punish in case of braking the rules
 - the reciprocal relationship with G.

- international blocks
- extreme the EU but Mercosur, NAFTA – today at minimum 80 international regional agreements
- G is blocked by “regionalization” (creation of blocks)
 - create large internal markets but build obstacles on the outer frontiers
 - eg the EU \Rightarrow real politics - integration inside the group but against the integration of the global economy – the internal markets free but prevent moving from abroad – quotas for import of cars from Japan, agriculture production or migration
- X some authors that regionalization supports integration

8. strong pressure groups

- plenty of different groups (including supranational companies)
 - development after the WW2
 - most of them against integration (exceptions Cato Institute or Adam Smith Institute)
 - the obvious cases demonstrations against globalization Seattle (1999), Prague (2000) or Stockholm (2001) + agricultural lobby against liberalization in the EU
 - their goals are often crossing – support for developing countries X protection of agriculture markets in developed countries

9. changing structure of national economies

- \downarrow in proportion of agriculture and \uparrow in services ^(H)
- in the world GDP $S= 62\%$, $I=33\%$ and $A= 5\%$
- impact unambiguous
 - \downarrow the proportion of $A \Rightarrow$ peasant very strong pressure group
 - X some of the services like traveling

Share of agriculture on employment

Country	1870	1960	1990
Denmark	48	18,2	5,6
Finland	71	35,2	8,4
Italy	61	32,6	9
Germany	47	14	3,4
Portugal	65	43,9	17,8
Austria	65	22,6	7,9
Switzerland	61	14,5	5,6
Turkey	-	75,9	47,8
UK	15	4,7	2,1
USA	-	8,5	7,5
OECD	-	21,6	7,5

**Number of overnight stays in Finland by foreigners at
accommodation establishments**

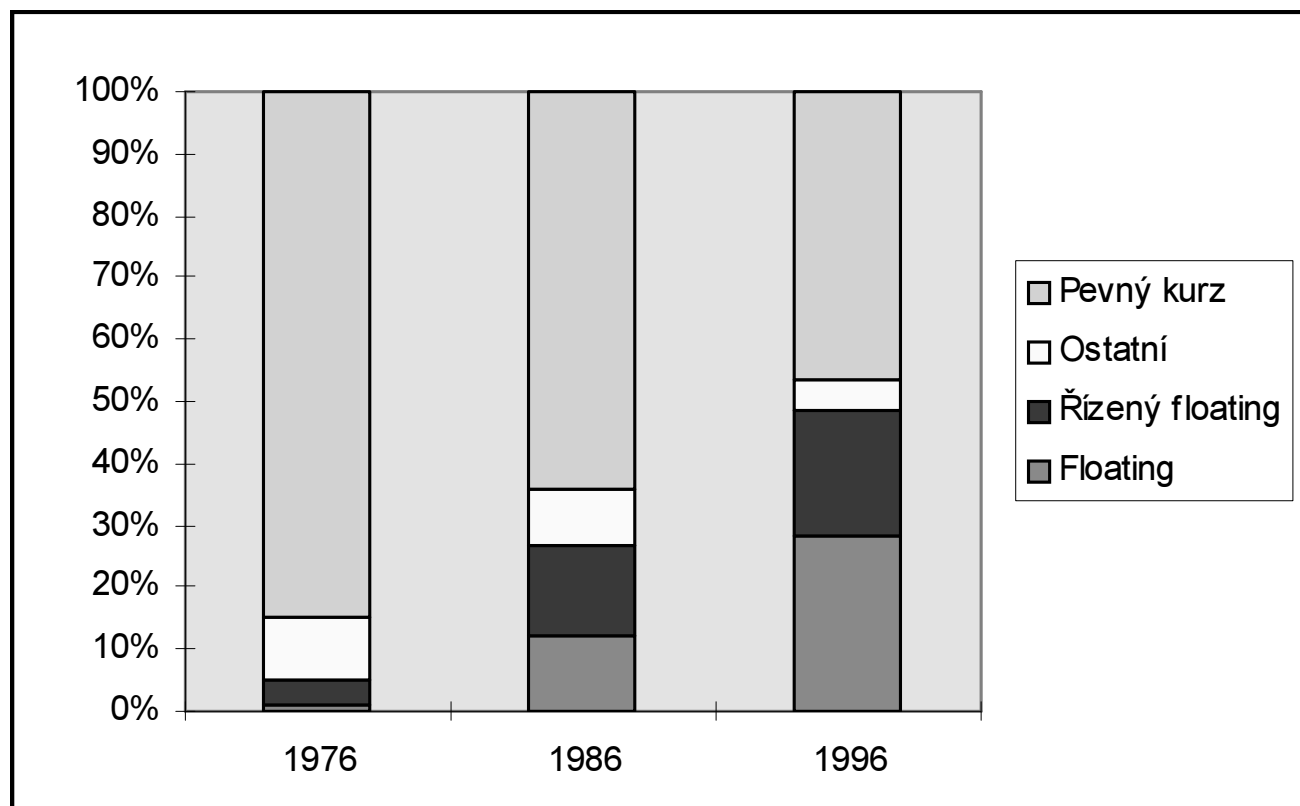
Country domicile	of 1997	1998	1999	2000	2001	2002	*2003	*2003
Sweden	626 451	570 640	581 477	643 000	628 473	613 494	595 039	-3,0
Germany	453 953	458 235	483 507	477 924	489 066	514 796	525 998	2,2
Russia	549 104	540 337	388 556	450 984	520 671	531 556	461 459	-13,2
United Kingdom	248 470	290 572	319 925	364 819	370 643	378 732	408 567	7,9
Norway	164 280	168 803	195 169	201 834	230 710	235 756	214 549	-9,0
Netherlands	122 308	142 637	149 449	150 821	158 808	196 896	209 747	6,5
USA	198 754	201 037	222 854	225 722	220 826	205 559	192 328	-6,4
France	118 523	122 914	140 498	140 906	152 253	164 687	188 243	14,3
Italy	103 971	119 736	140 764	141 115	135 337	139 158	150 793	8,4
Japan	132 385	120 541	129 002	142 226	143 643	136 247	131 002	-3,8
Other	927 655	964 944	1 022 758	1 126 620	1 132 776	1 173 407	1 172 383	-0,1
Total	3 645 854	3 700 396	3 773 959	4 065 971	4 183 206	4 290 288	4 250 108	-0,9
Travel account, € million								
Income	1 436,0	1 465,3	1 433,7	1 528,5	1 608,9	1 663,7	1 679,0	
Expenses	1 818,5	1 853,8	1 909,5	2 009,2	2 070,3	2 118,5	2 129,1	
Net	-382,5	-388,5	-475,8	-480,7	-461,4	-454,8	-450,1	
* preliminary data								

10. changes in the international monetary system

- in the 19. century – most of the countries on gold – fixed exchange rates $\Rightarrow \Rightarrow$ B-W
- since 1970 floating systems and volatile \Rightarrow negatively affect capital transfers, goods and services
- attempts to fix \Rightarrow recreate stability \Rightarrow troubles
 - fixed exchange rate in developing countries
 - euro

Exchange rate systems in developing countries between 1976 and 1996

The Economist, 20.9.1997



11. changes in economic theory

- changes after the 1970s
 - failure of keynesian economics \Rightarrow contra-revolution \Rightarrow
 - \uparrow importance of markets X states
- how affected is the economic policy?
 - deregulations and privatisations
 - but does not have to be
- generally – less state \Rightarrow dismantling barriers for integration of markets, ...

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General impacts on the world economy

- pros
 - G = ↑ of subjects with different connections abroad
 - ↓ of international tension among the countries – in popular form two countries with McDonalds dont fight each other
 - growth of interdependence (H)
 - G in the form of integration ⇒ ↑ movement of goods, services, capital and labour ⇒⇒ specialization, ↑ competition and ↑ division of labour ⇒⇒↑↑ productivity and better using of scarce sources

Country	(EX + IM)/GDP		EX/GDP					IM/GDP				
	2000	2001	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
Finland	65.5	62.0	39.1	38.8	37.5	42.9	35.2	30.9	30.0	29.3	33.6	26.5
Netherlands	112.5	114.9	61.2	60.9	60.6	67.2	56.3	55.1	55.3	55.8	62.4	50.9
Belgium	163.0	161.3	75.7	75.7	76.5	86.3	83.6	71.2	71.7	72.8	83.0	78.5
Czech Republic	120.5	123.9	56.9	60.7	63.6	71.4	58.3	62.9	62.2	65.2	75.2	63.9
Estonia	149.5	139.6	78.1	79.9	77.0	96.5	91.0	89.6	90.4	83.0	100.8	94.0
France	46.6	49.4	25.5	26.1	26.1	28.7	22.6	22.5	23.5	23.6	27.2	22.4
Germany	56.3	57.6	27.8	28.9	29.4	33.3	30.8	26.4	27.3	28.5	32.8	26.2
Hungary	131.9	123.6	45.5	50.6	52.8	61.6	59.0	45.5	52.7	55.3	65.6	65.2
Latvia	70.7	72.9	51.0	51.3	43.8	46.0	46.0	59.5	64.8	54.1	54.0	54.0
Norway	58.4	54.3	40.9	37.2	39.0	37.2	35.1	33.4	36.7	33.0	21.3	19.6
Poland	51.1	49.0	25.5	28.2	26.1	20.1	20.5	29.8	33.4	32.5	31.1	28.6
Russian Federation	60.0	50.6		30.7	43.9	45.8	37.0		23.5	26.9	24.9	24.0
Slovakia	128.5	133.5	58.0	61.2	61.5	61.6	61.8	67.8	72.2	66.9	66.3	72.2
Sweden	70.3	65.7	42.7	43.7	43.7	47.2	34.7	35.4	37.4	37.8	41.8	28.9
United Kingdom	43.9	42.5	28.5	26.5	25.8	20.1	19.2	28.4	27.4	27.5	23.8	23.1
United States	20.7	19.0	11.7	11.1	10.7	8.0	7.3	12.8	12.8	13.5	12.8	11.8
eurozone	56,3		32,1		34,8	30,3	37,0	29,0		32,9	29,5	35,0
World total		40.0		22.0	27.0	23.0	30.0			25.0	23.0	28.0

- consumers are better off
- limited role of govt. (?)
 - most of the authors
- diffuse of technology and knowledge
- + ↑ integration ⇒ economic convergence
 - integration allow catching up of the technological leader via imitation
 - eg World Economic Outlook (IMF, 2000) – convergence in periods of integration of the world economy and divergence in periods of disintegration – but ...
 - improving economic situation of developing countries (?)
 - legging behind -- extreme cases – autarchy – North Korea, Myanmar (Barma)
 - inequality among the states

- cons
 - ↑ interdependence (H)
 - shocks
 - loss of national identity (?)

Czech trade 1-12/2000

	turnover		exports		imports		balance
	mil. Kč	%	mil. Kč	%	mil. Kč	%	mil. Kč
Germany	855 486	36.1	452 923	40.4	402 563	32.3	50 360
Slovakia	160 822	6.8	86 081	7.7	74 741	6.0	11 340
Austria	128 352	5.4	66 933	6.0	61 419	4.9	5 514
Italy	106 620	4.5	42 389	3.8	64 231	5.1	-21 842
Poland	105 318	4.4	60 935	5.4	44 383	3.6	16 552
France	106 775	4.5	45 108	4.0	61 667	4.9	-16 559
UK	99 471	4.2	48 055	4.3	51 416	4.1	-3 361
Russia	95 160	4.0	14 920	1.3	80 240	6.4	-65 320
USA	86 510	3.7	31 560	2.8	54 950	4.4	-23 390
Holland	54 840	2.3	25 780	2.3	29 060	2.3	-3 280
Belgium	51 835	2.2	24 435	2.2	27 400	2.2	-2 965
Spain	40 870	1.7	18 098	1.6	22 772	1.8	-4 674
Slovinia	16 118	0.7	9 109	0.8	7 009	0.6	2 100
Norway	15 993	0.7	4 431	0.4	11 562	0.9	-7 131

- limited role of govt. (?)
 - some authors “*limits abilities of governments to improve functioning of markets and reduce the negative aspects of the process*” (Cerny, 1996)
 - ⇒ generally the view depends on the personal perception of the state ... trust or distrust; believe or disbelieve

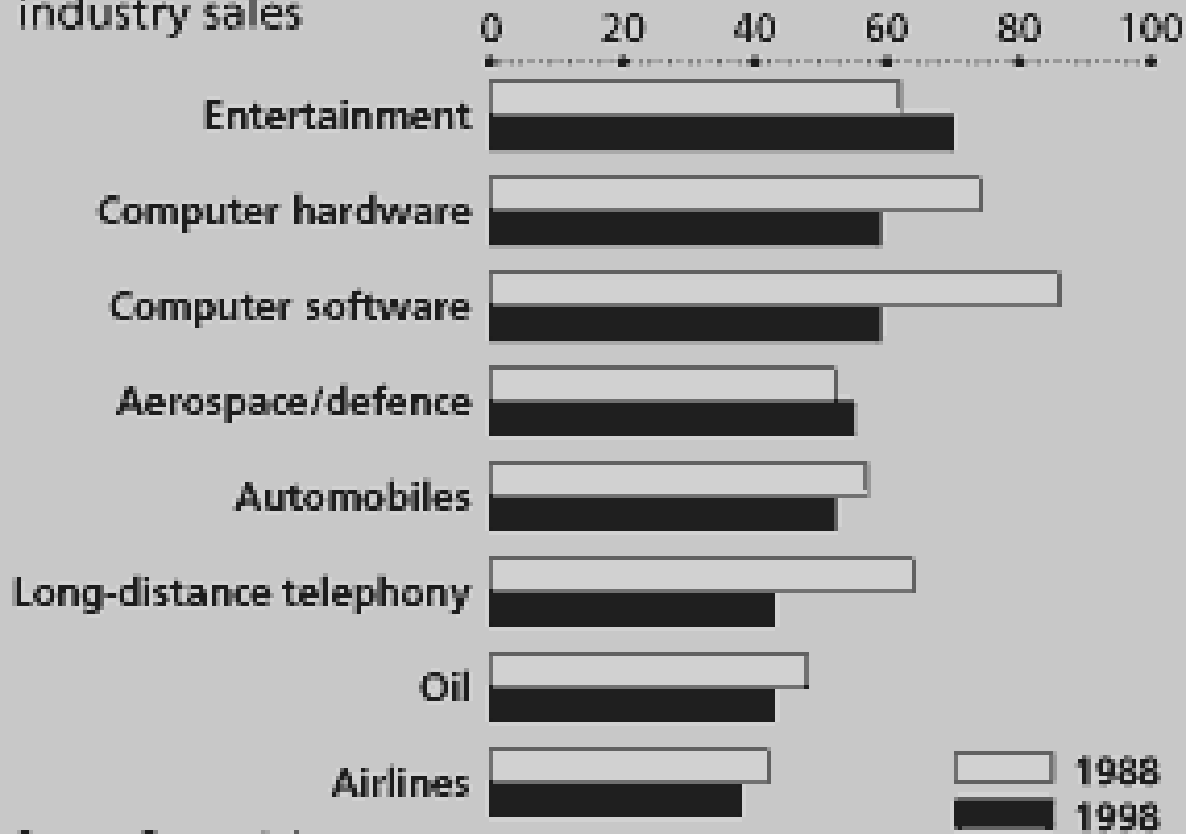
- Amin a Thrift (1994) globalizace ⇒ monopolization of the world economy
 - popular idea but without proof (H)
- ⇒ in my opinion monopolization is not threat X G = ↑ international competition

The Economist (11. 9. 1999)

Big, but not dominant

10

Top 5 companies' sales as % of worldwide industry sales



Source: Compustat

- tough impacts on some groups of people
 - \uparrow competition and specialization \Leftrightarrow shift of production activity from less effective to more effective and better allocation of sources
 - impact especially on unskilled LF in developed countries
 - Lingle:
 - *Most of the losers will be workers or owners of previously protected industries whose privileges cost consumers in the form of higher prices and robbed jobs from newcomers to the labor market. It is only just that the few who imposed so many costs on so many should be the ones to bear the greatest burden.*
- can be \uparrow of inequality inside the states

Procentní změny v zaměstnanosti v USA v důsledku zahraničního obchodu mezi lety 1970-80

Průmysl	Procentní změna
Obuvní průmysl	-15,9
Motorová vozidla	-11,1
Elektrické součástky a příslušenství	-7,8
Kožené produkty	-6,3
Oděvy	-6,3
Rádia a televize	-5,7
Různé další výrobky	-5
Nábytek	-4,5
Vybavení pro služby	5,7
Různé elektrické stroje	6,6
Elektrické a průmyslové vybavení	7,1
Různé stroje	8
Letadla a jejich části	12,8
Úřednické, počítačové a účetní stroje	16,1
Motory a turbíny	17,8
Stavební a důlní stroje	19,9

should we fear?

- NO
- natural process
- releasing creative powers – let markets work
- enable developing countries develop