Economic Dimension of Globalization

Definition

Economic globalization refers to *the intensification* and *stretching* of *economic interrelations* across the globe.

Drivers of the economic globalization

- Trade in goods and services stimulated by the flows of capital and technology
- Global market creating linkages among national economies
- Emergence of the 21st century's global economic order characterizes by:
  - Transnational corporations
  - International economic institutions
  - Regional trading system (EU, ASEAN, etc.)

Emergence of the global economic order

- Bretton Woods conference
- Neoliberalism

Bretton Woods Conference

- Held in Bretton Woods, New Hampshire from July 1 to July 22, 1944
- Objective: create a system of rules, institutions, and procedures to regulate the international monetary system, and to prevent the global depression of 1920s – 1930s

Outcomes of the conference

- Commitment to expand international trade.
- Establishment of rules regulating the international economic activities.
- Created more stable monetary exchange system in which the value of each country' s currency was pegged to the U.S. dollar.

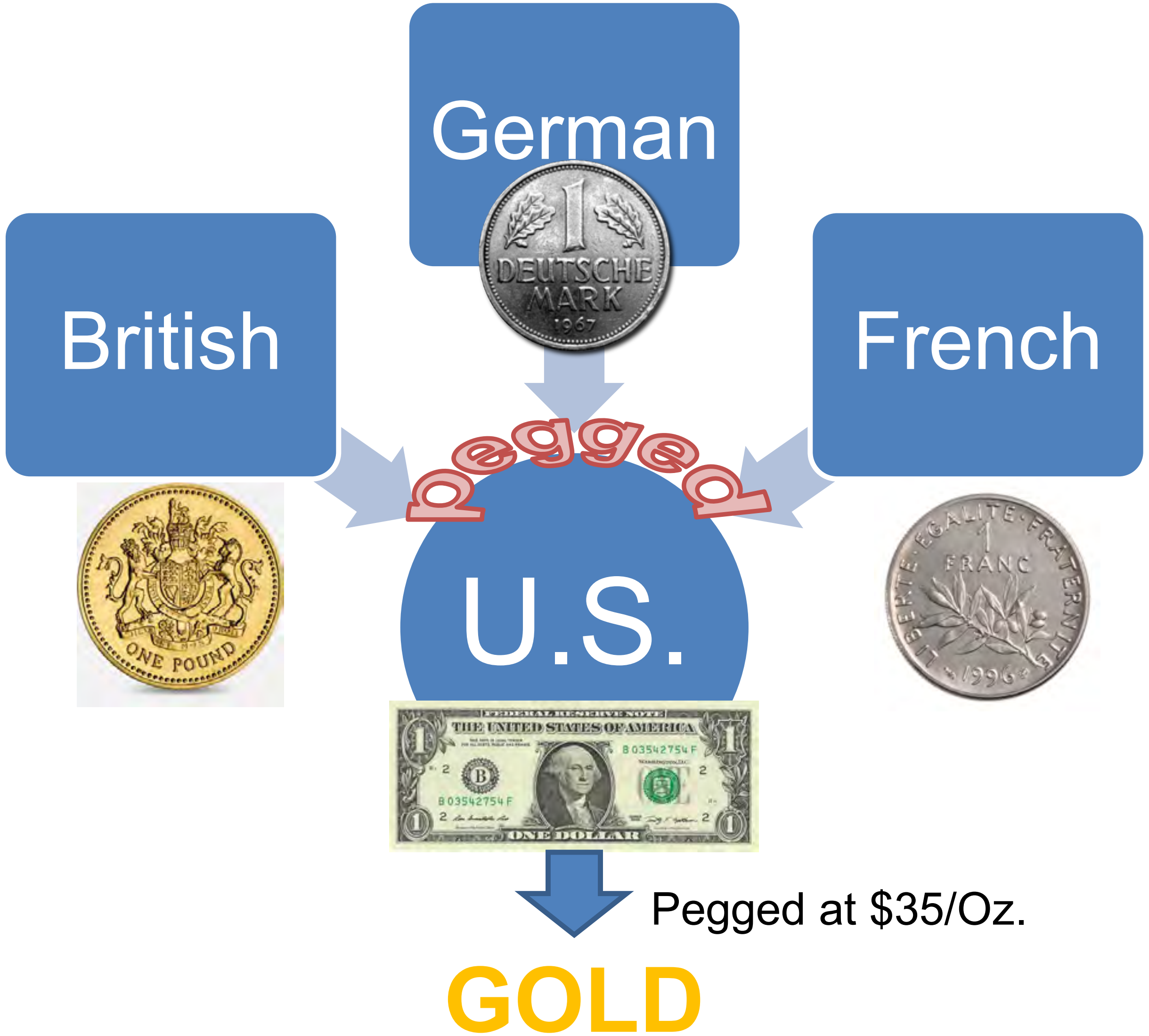
Outcomes of the conference

- Creation of two new international economic institutions:
  - International Monetary Fund (IMF)
  - International Bank of Reconstruction and Development (IBRD), which evolved to be the World Bank.
- Recognized the need of international institution for trade: General Agreement on Tariffs and Trade (GATT) was established in 1947, evolved into the World Trade Organization (WTO).

Bretton Woods System

- The international monetary system known as the Bretton Woods system was based on **stable** and **adjustable** exchange rate.
- Currencies were pegged to the U.S. Dollar, which in turn was tied to the value of the gold ($35 per ounce of gold).

Bretton Woods System: 1946-1971



Collapse of the Bretton Woods System

- August 15, 1971 President Nixon launched a New Economic Policy: Suspended the convertibility of the dollar to the gold.
- By March 1973; major currencies began to float against each other.
- https://www.imf.org/external/about/histend.htm

What next?

- The decade following the collapse of the Bretton Woods System was marked by global economic instability in the form of:
  - High inflation
  - Low economic growth
  - High unemployment
  - Public sector deficits
  - Energy crises in 1973 (embargo by OPEC which control a large part of the world’s oil supply)

What Else?

- 1980s British Prime Minister Margaret Thatcher and the U.S. President Ronald Reagan led the an economic revolution against Keynesianism, neoliberalism

Neoliberalism measures

1. Privatization of public enterprises
2. Deregulation of the economy
3. Liberalization of trade and industry
4. Massive tax cuts
5. ‘Monetarist’ measures to keep inflation in check

Neoliberalism measures (cont'd)

6. Strict control on organized labor
7. Reduction of public expenditures, particularly social spending
8. Down-sizing of government
9. Expansion of international markets
10. Removal of controls on global financial flows

Features of economic globalization

- Internationalization of trade and finance
- Increasing power of transnational corporations and large investment banks
- Enhanced role of international economic institutions (IMF, World Bank, and WTO)

Free Trade

- Economic globalization is associated with the controversial issues of free trade
- Free trade: the promotion of trade in goods and services by reducing tariffs and other trade barriers
- Tariffs: taxes for imported goods
- Increased of international trade in value: $57 billion in 1947 to $19 trillion in 2014
- Video*: After NAFTA*
  https://www.youtube.com/watch?v=mSXmB_my0ls

Required conditions for trade to work

1. Markets require non-market institution to function: Strong governance
   - Commerce requires rules
   - Business needs functioning institutions for law and order, contract enforcement, transport, etc.
   - Good governance supports commerce. Markets work best where governance is strong.
2. Stable medium of exchange: Money

Sources of economic integration

1. Reduction of restrictions on international trade in goods and services and barriers to foreign investments:
   a. Reducing tariffs
   b. Liberalization of quantitative barriers to trade (import quotas or export restraints)
   c. Facilitation to foreign investment

Sources of economic integration

2. Reduction in transportation costs:
   - Transportation costs: costs involved in getting products from a factory in one country to customers in another country.
     - Surface transportation costs: railroads and trucks
     - Ocean port facilities
     - Airport facilities

Sources of economic integration

3. Technological improvements:
   a. Improvements in telecommunications
   b. Improvements in product quality: companies invest in R&D to improve the quality of their products
   c. Means of transportation: trucks, trains, vessels, airplanes

Forms of Economic Integration

- **Free Trade Area** (FTA): members agree to eliminate trade barriers among themselves, but maintain individual barriers against non-members
- **Custom Union** (CU): members remove trade barriers among themselves and form common barriers for non-members (example European Union)
- **Common Market**: Free movement of goods and services, labor, and capital among member nations
- **Economic Union**: Taxation, fiscal, and monetary policies are harmonized or unified among member nations

Regional and international free trade agreement

- Free trade agreement refers to an agreement between two or more countries to eliminate tariffs, quotas, and preferences on all goods traded between them.
- Elimination or reduction of existing trade barriers among nations enhances consumer choice, increases global wealth, secures peaceful international relations, and spreads new technologies.

U.S. Free Trade Agreements

- The United States has free trade agreements with 20 countries (Ex: Australian FTA, NAFTA, KORUS FTA, etc.).
- U.S. signed the Trans-Pacific Partnership (TPP) with Asia-Pacific, then withdrew from it.
- The United States is in negotiation of regional FTA:
  – Transatlantic Trade and Investment Partnership (T-TIP) with European Unic

Benefits of Free Trade

- *Free trade promotes innovation and competition*:
  - It offers consumers the most choices.
  - It fosters competition, keeping prices low and quality high.
  - Market competition leads to increasing innovation
- *Free trade enables countries to specialize in those goods where they have a comparative advantage*:
  - Increased production
  - Increased efficiency: better resource allocation

Benefits of Free Trade

- *Free trade generates economic growth:*
  - It creates jobs.
  - It increases foreign direct investment, mainly in developing countries.
- *Free trade disseminates democratic value*
  - It fosters support for the rule of law.
  - It reduces the opportunities of corruption: in countries where contracts are not enforced, business relationship fail and foreign investors flee.

Disadvantages of Free Trade

- The gap between rich and poor countries is widening rather than shrinking:
  - Free trade allows developed nations to exploit developing nations and destroying local industry.
- International markets are not a level playing field as countries with surplus products may dump them on world markets at below costs.
- Free trade can lead to pollution and other environment problems (companies operating under weaker environmental legislation).

Disadvantages of Free Trade

- In developed countries, free trade encourages corporations to cut costs and increasing profits by moving jobs to countries:
  - Low wages
  - Less environmental legislation