

GLOBALIZATION

1

ECON 4175.03 GLOBAL ECONOMIC ISSUES

**SHOHANI BADULLAHEWAGE
DEPARTMENT OF ECONOMICS
UNIVERSITY OF SRI JAYEWARDENAPRA**

What Is Globalization?

2

What is globalization?

- **Globalization** refers to the trend towards a more integrated global economic system

Two key facets of globalization are:

- the globalization of markets
- the globalization of production

The Globalization of Markets

3

- Globalization of markets - the merging of historically distinct and separate national markets into one huge global marketplace
- In many markets today, the tastes and preferences of consumers in different nations are converging upon some global norm
 - Coca Cola, Starbucks, Sony PlayStation, and McDonald's hamburgers, IKEA furniture

The Globalization of Production

4

- **Globalization of production** - the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of **factors of production** (labor energy, land, and capital)
- Goal: lower overall cost structure or improve the quality or functionality of their product and gain competitive advantage
 - Boeing and Vizio

The Emergence of Global Institutions

5

Global institutions

- manage, regulate, and police the global market place
- promote the establishment of multinational treaties to govern the global business system
- the **World Trade Organization (WTO)** - polices world trading system and ensures nations adhere to the rules established in WTO treaties
 - In 2010, its 154 members accounted for 97% of world trade
- the **International Monetary Fund (IMF)** - maintains order in the international monetary system

The Emergence of Global Institutions

6

- The **World Bank** - promotes economic development
- The **United Nations (UN)** - maintains international peace and security, develops friendly relations among nations, cooperates in solving international problems and promotes respect for human rights, and is a center for harmonizing the actions of nations
- **G20** – Comprises the finance ministers and Central Bank governors of 19 largest economies in the world, plus representatives from the European Union and European Central Bank.

Drivers of Globalization

7

What is driving the move toward greater globalization?

1. declining trade and investment barriers
2. technological change

Declining Trade and Investment Barriers

8

- **International trade** occurs when a firm exports goods or services to consumers in another country
- **Foreign direct investment (FDI)** occurs when a firm invests resources in business activities outside its home country
- During the 1920s and 1930s, many nations erected barriers to international trade and FDI to protect domestic industries from foreign competition

Declining Trade and Investment Barriers

9

- After WWII, advanced Western countries began removing trade and investment barriers
- Under GATT (the forerunner of the WTO), over 100 nations negotiated further decreases in tariffs and made significant progress on a number of non-tariff issues
- Under the WTO, a mechanism now exists for dispute resolution and the enforcement of trade laws, and there is a push to cut tariffs on industrial goods, services, and agricultural products

Declining Trade and Investment Barriers

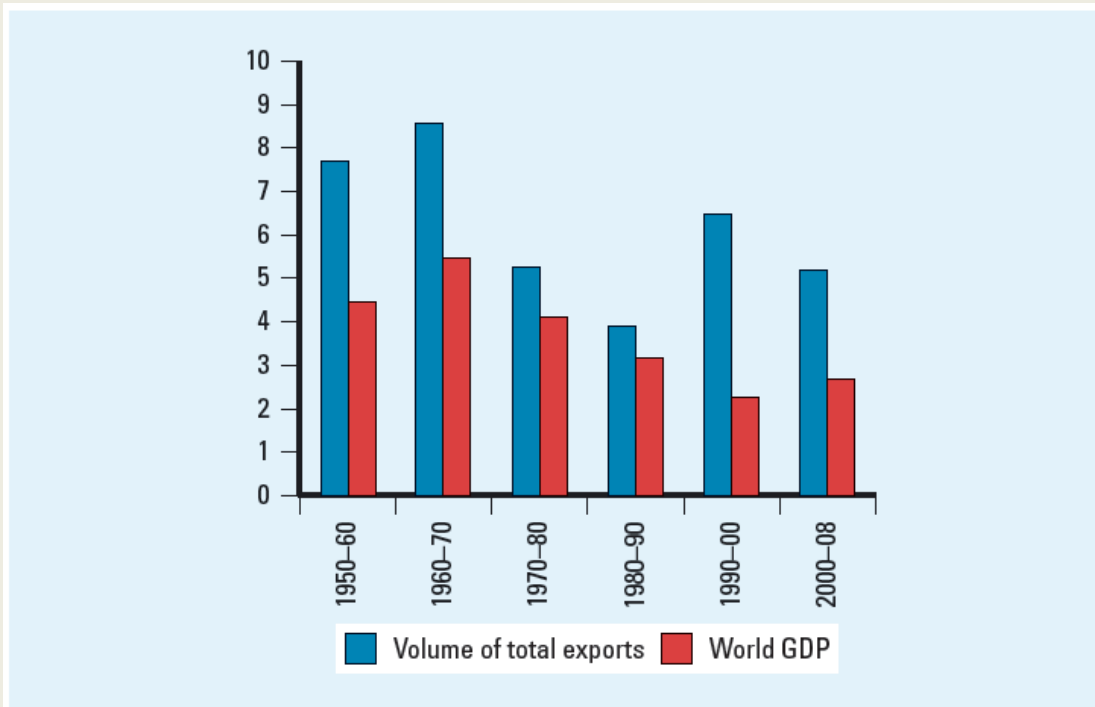
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- Lower trade barriers help companies view the world as a single market and establish production activities in optimal locations around the globe
- This has led to an acceleration in the volume of world trade and investment since the early 1980s

Declining Trade and Investment Barriers

11

Figure 1.1: Growth in World Merchandise Trade and Production, 1950 - 2008



The Role of Technological Change

12

- Since World War II, there have been major advances in communication, information processing, and transportation
 - The microprocessor - lowered the cost of global communication and the cost of coordinating and controlling a global organization
 - U.S. web-based transactions - \$133 billion in 2008
 - 1.6 billion Internet users in 2009
 - Commercial jet aircraft and super freighters and the introduction of containerization - simplify trans-shipment from one mode of transport to another

The Role of Technological Change

13

- The implications of technological change for the globalization of production
 - Lower transportation costs make a geographically dispersed production system more economical and allow firms to better respond to international customer demands

The Role of Technological Change

14

- The implications of technological change for the globalization of markets
 - Low cost communications networks help create electronic global marketplaces
 - Low cost transportation enable firms to create global markets, and facilitate the movement of people from country to country promoting a convergence of consumer tastes and preferences

Changing Demographics of the Global Economy

In the 1960s:

- the U.S. dominated the world economy and world trade and world FDI
- U.S. multinationals dominated the international business scene
- about half the world-- the centrally planned economies of the communist world-- was off limits to Western international business

Today, much of this has changed.

Changing World Output and World Trade Picture

- In the early 1960s:
 - U.S. - dominant industrial power accounting for about 40.3% of world manufacturing output
- By 2008:
 - U.S. accounted for only 20.7%
 - Other developed nations experienced a similar decline
 - Rapid economic growth now in countries like China, India, and Brazil
 - Further relative decline by the U.S. is likely
- So companies may find both new markets and new competitors in the developing regions of the world

Changing World Output and World Trade Picture

Table 1.2: The Changing Demographics of World GDP and Trade

Country	Share of World Output, 1963	Share of World GDP, 2008	Share of World Exports, 2009
United States	40.3%	20.7%	8.5%
Germany	9.7	4.2	9.0
France	6.3	3.1	3.8
Italy	3.4	2.6	3.2
United Kingdom	6.5	3.2	2.8
Canada	3.0	1.9	2.5
Japan	5.5	6.4	4.7
China	NA	11.4	9.6

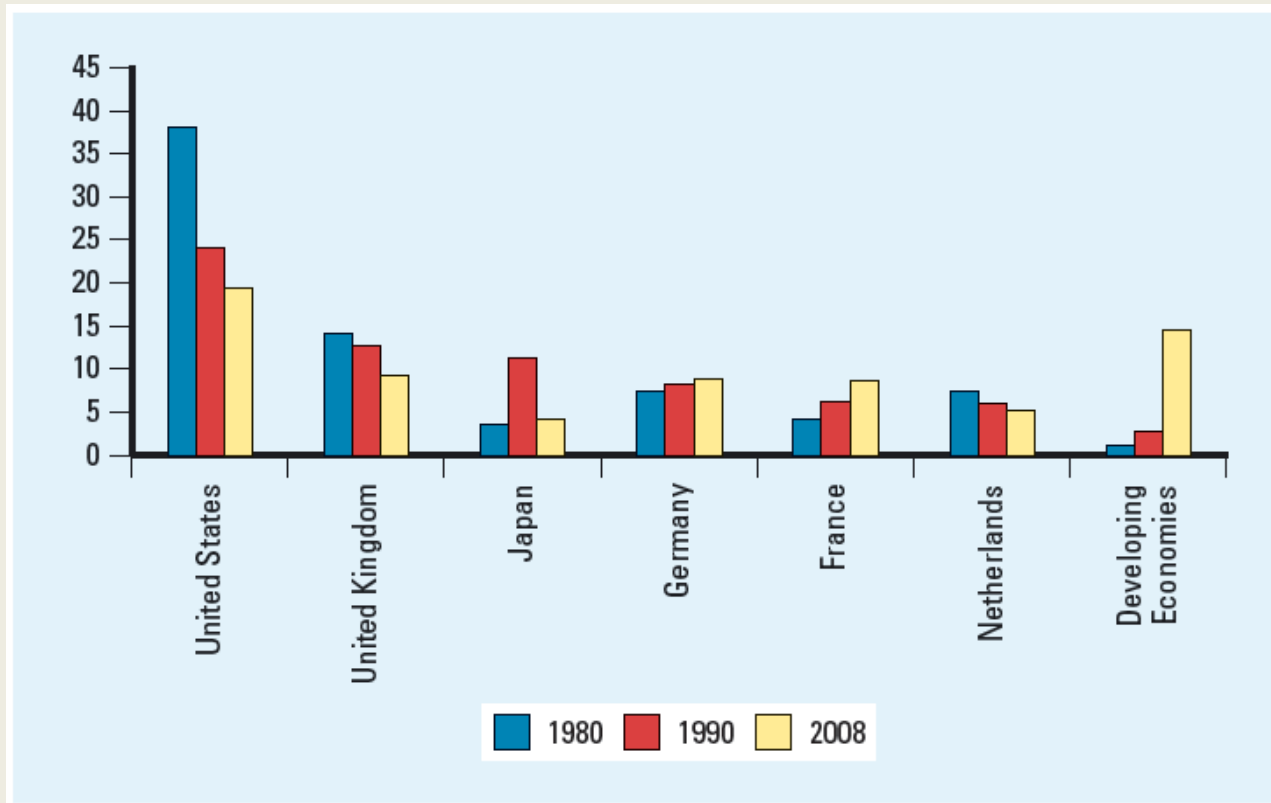
Changing Foreign Direct Investment Picture



- The share of world output generated by developing countries has been steadily increasing since the 1960s
- The **stock of foreign direct investment** (total cumulative value of foreign investments) generated by rich industrial countries is declining
- Cross-border flows of foreign direct investment are rising
- The largest recipient of FDI is China

Changing Foreign Direct Investment Picture

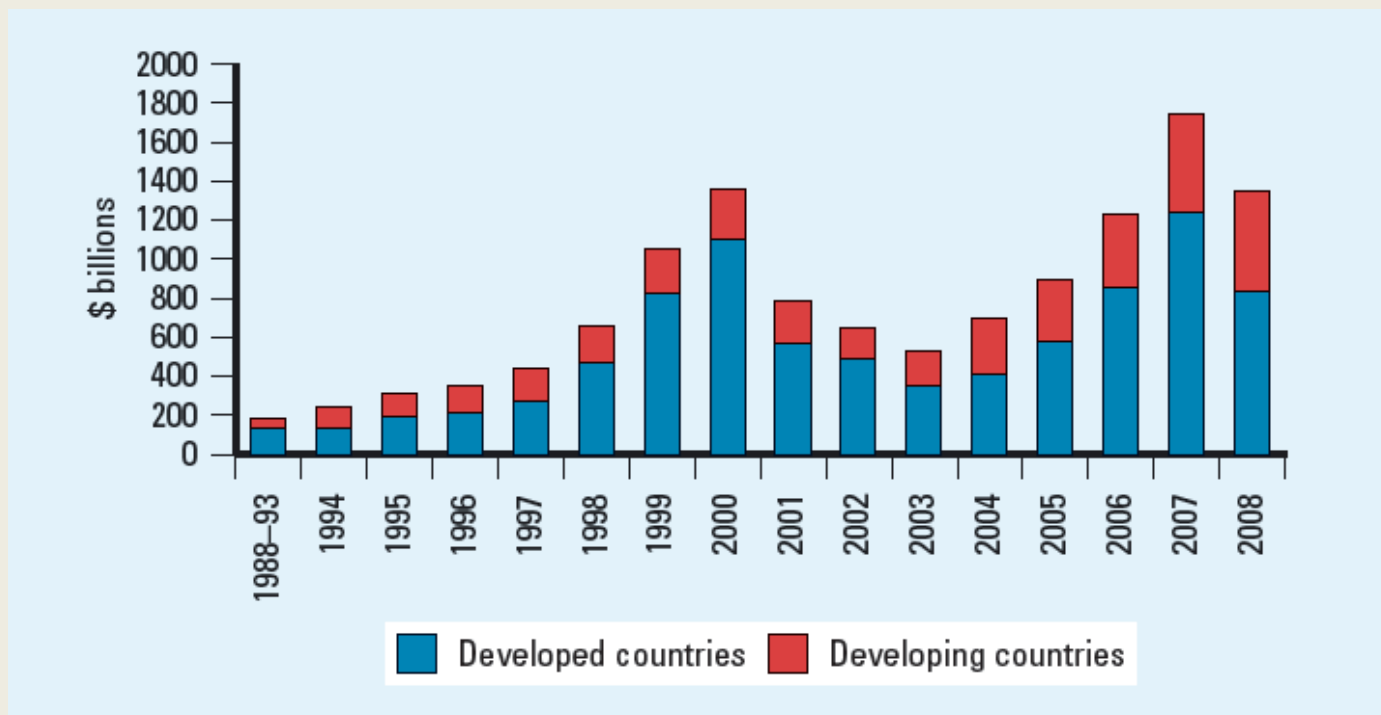
Figure 1.2: Percentage Share of Total FDI Stock, 1980 - 2008



Changing Foreign Direct Investment Picture



Figure 1.3: FDI Inflows, 1988 - 2008



The Changing Multinational Enterprise

21

- A **multinational enterprise** is any business that has productive activities in two or more countries
- Since the 1960s:
 - there has been a rise in non-U.S. multinationals
 - there has been a rise in mini-multinationals

The Changing Multinational Enterprise

22

- Globalization has resulted in a decline in the dominance of U.S. firms in the global marketplace
 - In 1973, 48.5 % of the world's 260 largest MNEs were U.S. firms
 - By 2008, just 19 of the world's 100 largest non-financial MNEs were from the U.S., 13 were from France, 13 from Germany, 14 were from Britain, and 10 were from Japan
- Small and medium-size firms are now expanding internationally
 - easier to build international sales via the Internet

The Changing World Order

23

- The collapse of communism in Eastern Europe
 - export and investment opportunities
- Economic development in China
 - huge opportunities despite continued Communist control
- Free market reforms and democracy in Latin America
 - new markets and new sources of materials and production

The Global Economy in the 21st Century

24

- A more integrated global economy
 - new opportunities for firms
 - but, political and economic disruptions can throw plans into disarray

The Globalization Debate

Globalization, Jobs, and Income

26

- Critics claim jobs in advanced economies are being lost to low-wage nations
- Supporters claim while some jobs may be lost, the economy as a whole is better off
 - free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently, and that in doing so, *all* countries will gain

Globalization, Labor Policies, and the Environment

27

- Critics argue free trade encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries with lax environmental and labor regulations
- Supporters claim tougher environmental regulation and stricter labor standards reflect economic progress
 - as countries get richer as a result of globalization, they raise their environmental and labor standards
 - free trade does not lead to more pollution and labor exploitation, it leads to less

Globalization and National Sovereignty

28

- Critics worry economic power is shifting away from national governments and toward supranational organizations such as the WTO, the European Union (EU), and the UN
- Supporters argue that the power of these organizations is limited to what nation-states collectively agree to grant
 - the organizations must be able to persuade members states to follow certain actions
 - without the support of members, the organizations have no power

Globalization and the World's Poor

29

- Critics argue the gap between rich and poor has gotten wider and the benefits of globalization have not been shared equally
- Supporters suggest that the actions of governments have made limited economic improvement in many countries
 - many of the world's poorest nations are under totalitarian regimes, suffer from endemic corruption, have few property rights, are involved in war, and are burdened by high debt

THANK YOU!