Globalisation and trade

Class 1 Lecture notes

Globalization
Evidence, drivers, implications

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Shift happens – Globalization

➢ [http://www.youtube.com/watch?v=CrpLxfgcO2M](http://www.youtube.com/watch?v=CrpLxfgcO2M)
The Shrinking Globe

1500 - 1840
Best average speed of horse-drawn coaches and sailing ships, 10 mph.

1850 - 1930
Steam locomotives average 65 mph.
Steamships average 36 mph.

1950s
Propeller aircraft 300 - 400 mph.

1960s
Jet passenger aircraft, 500 - 700 mph.
Globalization

- What does “globalization” mean?
  - What are its causes?
  - Why is it proceeding rapidly?
  - Is it new?

- Evidence
  - Foreign direct investment (FDI) flows
  - Economic growth rates
  - Multinational corporations and their impact

- Opinions on impacts on
  - Jobs?
  - Incomes?
  - Labor and environmental policies?
  - National sovereignty?
Globalization
The “Electronic Herd”

- Power in the hands of stock, bond and currency traders moving funds around the world
- Multinational corporations looking for most efficient, low-cost producers
- Beginning to replace governments as primary source of capital for both companies and countries
Globalization Definitions

- World wide integration and deepening of economic activities
- Integrated production and consumption systems
- Facilitated by IT revolution, liberalization and deregulation
- Unprecedented mobility of goods, services, capital and people
- Events all over the world strongly interdependent
Globalization

Two types

- **Globalization of consumption**: the nation in which a product was made becomes independent of the nationality of the consumer. i.e. a Canadian consumes foreign products in proportion to the economic size of the originating country. NOT similarity in culture, language, or institutions. NOT proximity or trade relations.

- **Globalization of production/ownership**: the nationality of the owner and controller of productive assets is independent of the nation housing them. For example, Canada's assets are owned by foreigners at the same proportion as foreigners own all world assets. Consequently, only about 3% of Canadian assets would be owned by Canadians. Similarly, Canadian based firms would have roughly 97% of their total assets overseas.
Globalization

Example of Airbus consortium

- **jointly owned by companies from 4 countries**: France, German, Britain, and Spain.
- Wings from Britain, fuselage and tail from Germany, doors from Spain, cockpit and final assembly in France.
- 1,500 suppliers in 27 countries
- More than 35 percent of components for the consortium's aircraft are supplied from over 500 American companies.
- Numerous suppliers also are located in the Asia-Pacific. Singapore Technologies Aerospace produces wing ribs and passenger doors for the A320, and engine mounts and thrust reverser doors for the A340. India's Hindustan Aeronautics Limited also builds A320 passenger doors.
Drivers of Globalization

- **cheap air transport** - the beat-up old Boeings that have become the tramp steamers of modern commerce.
- **modern telecommunications** - the vegetables are delivered to order, which means that messages must be sent to the farmers in a way that used to be possible only in advanced countries with good phone systems.
- **open markets** - it could not happen if import quotas or high tariffs prevented the sales."
Drivers of Globalization: Technological Change

- **Globalization of markets and production**
  - result of lowering of trade barriers
  - enabled by technological change

- **Telecommunications and microprocessors**
  technology that allows ideas to be moved long distances quickly and inexpensively

- **Transportation technology** - lower amounts of money and time foregone to move goods over long distances

- **The internet and the world-wide web**
Global Telecommunications
“Drivers” of Globalization:
Declining Trade and Investment Barriers

Average Tariff Rates on Manufactured Products

(% value)

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Global Institutions’ Emergence

Supra-national organizations define the “rules” of international economic activity:

- World Trade Organization (succeeded GATT)
- International Monetary Fund (IMF)
- World Bank
- United Nations
Globalization
Is it new?

- NO

- Globalization 1.0
- Globalization 2.0
- Globalization 3.0
Globalization 1.0

- Start: 1492 (Columbus Discovered America)
- End: 1800
- Player: Country
Globalization 2.0

- Start: 1800
- Interrupted by
  - World War I (1914-1918)
  - Great Depression (1929)
  - World War II (1940-1945)
- End: 2000
Globalization 2.0

- First Half
  - Falling of Transportation Cost
  - Steam Engine
  - Rail Road
Globalization 2.0

- **Second Half**
- • Falling of Telecommunication Cost
- • Telegraph
- • Telephone
- • PC
- • Fiber Optics
- • WWW
Globalization 2.0

- Player: Multinational Company
Globalization 3.0

- Start: 2000
- • Player: Individual
Globalization
Players

- 1.0 - Country
- 2.0 - Company
- 3.0 - Individual
Why globalization?
alternative systems failed

- private sector primary engine of economic growth
- maintain low inflation and price stability
- shrink government bureaucracy
- balance budget
Globalization and the MNC

- A multinational company (MNC) is any business that has productive activities in two or more countries.
MNCs
Evidence of Globalization

- World trade increased more than:
  - 20x between ’50 and ’98
  - 25x from ’70 to ’02

- FDI annual flows increased more than:
  - 10x from ’84 to ’98, or
  - 50x between ’75 and ’00
  - Declined about 50% between ’00 and ’03
Illustrative world trade flows
($billions)

North America intratrade: 465

Western Europe intratrade: 1430

Asia / Pacific Rim intratrade: 632

Rest of world intratrade: 175
More evidence of Globalization

- FDI bilateral treaties up more than 10x from ’80 to ’02
- By 1998 60,000 parent companies:
  - operated away from home markets through 500,000 subsidiaries / affiliates
  - Produced US$11 trillion in global sales, 25% of global output
- US, Japanese, Western European companies the major investors in Europe, Asia, and North America
## Globalization and the MNE

- **The national heritage of the largest MNEs**
  
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- **“Mini-multinationals” a world economy factor**
Globalization of Markets

- Distinct/separate markets merging into a huge global marketplace
  - Mostly NOT consumer product markets
  - Mostly industrial products
  - Tastes and preferences of consumers converging (?)

- MNCs creating global marketplace?
- MNCs more vulnerable to competition in their home markets
Globalization and the Global Economy

% share of world output and exports

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Globalization of Production

- Each MNC
  - Sources particular goods and services from a set of locations it selects around the world
  - Develops a global web of suppliers as a source of competitive advantage
  - Decides “where to produce” depending on a country’s factors of production
    - Labor, land, capital, energy, expertise

- Host governments have a stake in the successful establishment of an MNC’s operations
Globalization
“Golden straitjacket”

- eliminate or lower tariffs, quotas, domestic monopolies
- increase exports
- encourage FDI
- privatize state owned industries and utilities
Globalization

“Golden straitjacket”

- deregulate capital markets
- open up stock and bond markets to direct foreign investment and ownership
- open banking, telecommunications systems to private ownership
Globalization

“Golden straitjacket”

- citizens able to choose from a variety of competing pension options including foreign-run pension and mutual funds
- deregulate economy to promote domestic competition
- eliminate government corruption, kickbacks and subsidies
Globalization
Frequent opinions

1. GLO is new, is irreversible
2. GLO is fair, is equitable
3. GLO is a zero sum game
4. GLO = market, free trade
5. GLO is a twilight for small countries
6. GLO destroy jobs ®wages down
7. GLO erode sovereignty
8. Solution to GLO is de-linking
Based on: