

Rough Guide to Economics:

Globalisation

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Topic of considerable debate across areas of the social sciences

Not a particularly new concern in economics:

- Adam Smith in the Wealth of Nations (1776), identified the division of labour, splitting tasks into specialisms as the source of productivity; and the division of labour was determined by the extent of the market.
- The expansion of trade, extended the market and increased efficiency and wealth.
- When he wrote process was embryonic, but then it really took off.
- *‘Modern industry has established the world market... This market has given an immense development to commerce, to navigation, to communication’*
- This was Marx and Engels in the Communist Manifesto in 1948.
- It is worth quoting a little more because they were very clear on the power of the market:
‘The bourgeoisie, by the rapid development of all the instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization. The cheap prices of its commodities are the heavy artillery with which it batters down all the Chinese walls, with which it forces the barbarians’ intensely obstinate hatred of foreigners to capitulate.’
- They were also clear about the way it tore away traditional ties and transformed society

Various definitions from the vague to the specific: Global integration of

- Economic

- Social
- Political
- Environmental
- Cultural
- Religious

Globalisation vs internationalisation: Considerable debate over whether there really is such an important new development:

Globalists versus the Sceptics:

Held vs Hirst and Thompson.

- As see it is not new:
 - Arrival of telegraph more profound effects than internet
 - World was more globalised before WW1
 - Not inexorable or inevitable: last one ended in WW1 and depression and trade fell to one third of its earlier level.
- Genuinely TNCs remain rare
- Capital mobility hasn't led to shifts to developing countries –remained concentrated in advanced
- World economy far from being global. Trade, investment and financial flows are all concentrated in Europe, Japan and North America. Expect to continue
- Major economic powers together have the capacity to exert powerful governance pressures over financial markets and other economic tendencies. Markets are not beyond regulation
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Will now consider economic globalisation:

- Core meaning: increasing openness of countries to international trade, financial flows and FDI
 - Growing interdependence and interdependence of national economies that facilitates increase volume of cross-border transactions in goods, services, finance, investment, technology and to a lesser extent labour (Greenaway and Nelson, 2001; IMF, 1997)
 - For developing countries these additional resources should result in increased efficient economic activities leading to higher economic growth
- Growing trade can lead to problems:
 - Exports of primary commodities important part of their economies; imports important to meet aspirations and demands of consumers

- Experience has been: chronic deficits and debt; capital flight and structural adjustment packages. Often more dependent on trade than developed (high cost untraded goods)
- Primary products have relatively low income elasticity of demand – demand rises less than GDP –tend to see relative price fall
- Price elasticity quite low so shifts in demand curve will have large effects on price–so unstable export earning
- Terms of trade often problematic:
- Terms of trade issue:
 - If price exports falls relative to imports then will have to export more to pay for imports: for exporter this is a worsening in the terms of trade
 - Prebisch-Singer hypothesis that primary commodity exporters would see secular decline in terms of trade due to low income and price elasticities. Long term transfer of income from poor to rich can only be by protecting domestic manufacturing –import substitution.
 - Change in export composition of developing countries but not benefits expected as divergence between basic manufactures (esp textiles) and high tech
- Troubling concerns: considerable risks; failure of growth; exacerbation inequalities; environmental degradation; dominance of wealthy.
- For those living in poverty the stakes are higher.

Theoretical underpinnings in economics:

- Why trade
- Classical theory: differential productivities of labour lead to trade. Absolute versus comparative advantage.
- Hecksher-Ohlin Trade theorem: Differential factor endowments. Increased trade will lead to greater specialisation in the good of comparative advantage. Cheaper labour export labour intensive, cheaper capital export capital intensive. Will lead to economic growth.
- Stolper Samuelson factor earnings equalisation theorem: Trade between two countries will lead to a rise in factor earnings for the relatively abundant (cheaper) factor in the developing country while in the developed country they fall. So over time trade will lead to equalisation of relative factor earnings

- Had dominant role in early trade and development theory
- Underpin Washington consensus
- but theoretical predictions often not supported by empirical evidence.
- Problems with simplistic assumptions including:
 - Perfect markets smooth movement resources across sector –in LDCs?
 - What is long run?
 - Complexity of real world with many countries
 - Role or impact of technology
 - Developing often locked into primary exports
 - Monopolistic and oligopolistic market control not unusual
 - Power of MNC
 - Differentiation of products
 - Absence of governments
- Led to dynamic models of trade and growth that emphasise process of factor accumulation and uneven development. Plus North-South Trade models introducing product differentiation and monopolistic competition. Tend to be very complicated

There are alternative theoretical understandings of what is going on. For example:

- Institutionalism:
 - As discussed with a dash of the real world:
 - Michael Porter –nature of factors (basic OK)
- Marxist:
 - Expansionist logic of capital requires new markets to maintain profits: new imperialism
 - ideological construct; convenient myth to help justify and legitimise neoliberal global project ie create global free market dominated by US capital; discipline citizens to meet requirements of global marketplace
- International Political Economy:
 - US hegemonic power that maintains liberal order and allows globalisation. If it withdraws system will collapse.
 - Globalisation literature: Giddens and Held

Trade Policy debate

- Outward vs inward looking development policies
- Export promotion vs import substitution and collective self reliance: distinction between these less pronounced in practice
- Declining commodity prices:
 - Little progress on international agreements
 - Synthetic substitution and
 - Structural rigidities create problems
 - Expanding exports: some success but barrier
- Import substitution
 - Infant industry argument IS to EP
 - Generally unsuccessful in practice
- Tarrifs
 - Protect local industry
 - Nominal versus effective rates of protection: nominal considers price effect on finished good; effective considers that on value added; low nominal can be high effective.
- Exchange rates
 - Can be set by Central Bank
 - But if excess demand: run down reserves or borrow; reduce domestic demand; intervene in markets;
 - Can create black market; rent seeking
 - Devaluation versus free float
 - Managed flexible exchange rate system: imposed and common

Pessimists:

1. Limited growth of world demand for primary products
 - a. Shift to high tech in developed
 - b. Increasing efficient use of raw materials
 - c. Synthetic replacements
 - d. Low income elasticity
 - e. Rising productivity
 - f. Rising protectionism
2. Secular decline in terms of trade for primary products
 - a. Oligopolistic control
 - b. Lower income elasticity of demand
3. Rise of new protectionism: failure and inadequacies of WTO

Optimists: Underplay demand problems and argue liberalism will lead to exports and economic growth

1. Promotes competition
2. Generates pressure for efficiency
3. Increase growth leads to further growth
4. Attracts foreign capital and expertise
5. Generates foreign exchange
6. Eliminates costly distortions –rent seeking
7. Promotes more equal access to scarce resources
8. Enables developing countries to take advantage of reform under WTO
9. Argue may be short run costs but long run benefits

Evidence:

Not clear that changes in trade policy have any significant effect. Current consensus eclectic –need consider specific economic, institutional and political realities of divers nations at different stages of development.

Issues of Concern:

- Growing inequality: both within and between states
 - New economy rewards skilled
 - Was trend to increasing equality till the seventies when it turned round
 - Creation of underclass excluded from social relations
 - Not clear whether due to:
 - Globalisation and trade
 - Bad policies in poor countries
 - Discrimination by the developed
- Changing role and abilities of the state:
 - Economic policies that were once preserve of national governments are no longer
 - Government still important but functions differ
 - Important to maintain security and law and order: Smith saw govt as important – ‘why truck barter and exchange when you can rob pillage and loot
 - Unfortunately in some countries it’s the government that rob pillage and loot.
- Growth and increasing importance of MNCs.
 - Impact of FDI
 - Debate over TNCs vs MNCs
 - Military Industrial Restructuring: Internationalisation
- Increasing importance of interational capital flows
 - FDI versus ‘hot’ money
 - Foreign exchange dealing

- Tobin tax

- International governance: needed in place of reduced national control
 - Bretton Woods Institutions: WB IMF UN: plus fixed exchange rates.
 - WTO not established because US opposition: GATT instead
 - Leadership has been important UK ran Gold Standard then US Bretton Woods: collapsed 1971
 - Control of flows of international financial capital
 - Control on MNCs
 - Role of NGOs: SA8000

- International Trade Policy
 - GATT successful because US pressure: replacing quotas with tariffs and Most Favoured Nation agreements; tariff reductions in rounds
 - WTO extended GATT and more powers but constrained
 - Agricultural and textile subsidies by developed big problem
 - Trade related intellectual property rights: complex and important
 - Environmental
 - Admitting China to WTO
 - GATS
 - Trade policy reform?

- Trade and Conflict:
 - Role of EU more than simply economic
 - But WW1 followed growing trade
 - Imbalances in economic and political power potentially destabilising.

- South-South trade still limited but could grow and be important
 - Regional Blocs might work :Africa

- So complex problem –both economics and politics important

- Last thought is old saying:
 - Every complicated question has a simple answer.
 - And that simple answer is wrong