

GLOBALIZATION AND ITS ASPECTS

LESSON IV



**SILESIAN
UNIVERSITY**

SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

Ingrid Majerova
World Economy
EVS/XXX

Outline of the lecture



1. Principle of Globalization
 2. Waves of Globalization
 3. Importance of Globalization
 4. Microeconomic Aspects of Globalizaion
-



- **Globalization**: one of the dominant features of the world economy in the last millennium
 - Essential importance for the development of globalization:
 - Diversity of economic and social forms, which are implemented by processes of globalization
 - Changes in the production and development of information and communication technologies to make material assumptions and tools of globalization
 - **Globalization**: the development of international economic relations, which leads to a deepening of the interconnectedness and interdependence of national economies
-

A Selection of Key Aspects of Globalisation



Trade to GDP ratios are increasing for most countries



Expansion of Financial Capital Flows between countries



Foreign Direct Investment and Cross Border M&A



Rising number of global brands – including from emerging countries



Deeper specialization of labour – components come from many nations



Global supply chains & new trade and investment routes e.g. South-South trade



Increasing levels of international labour migration and migration within countries



Increasing connectivity of people and businesses through mobile and Wi-Fi networks

- **High degree of economic interdependence**
- No nation exists in economic isolation
- All aspects of a nation's economy are linked to the economies of its trading partners
- Reflects the historical evolution of the world's economic and political order
- Complex and its effects uneven



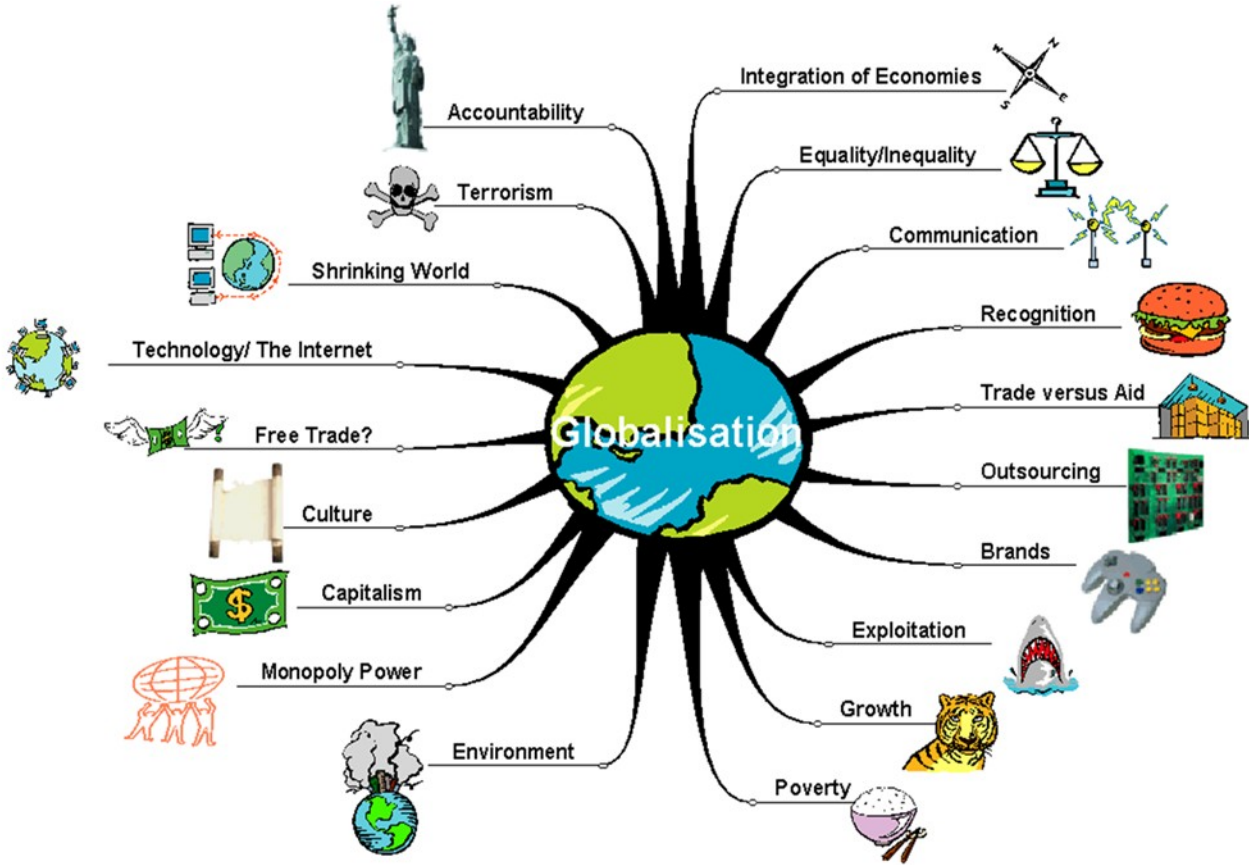


- **High degree of economic interdependence**
 - Steps toward international cooperation
 - Mutually advantageous for trading nations
 - Specialization, efficiencies of large scale production
 - Wider variety of products at lower cost
 - Protectionist pressures
 - Developing nations
 - Liberalized trading system - serves to keep the developing nations in poverty
-



- **Globalization**
 - Greater interdependence
 - Countries and their citizens
 - International flows
 - Goods and services
 - People
 - Investments in equipment, factories, stocks, bonds
 - Non-economic elements
 - Culture and the environment
-

PRINCIPLE OF GLOBALIZATION



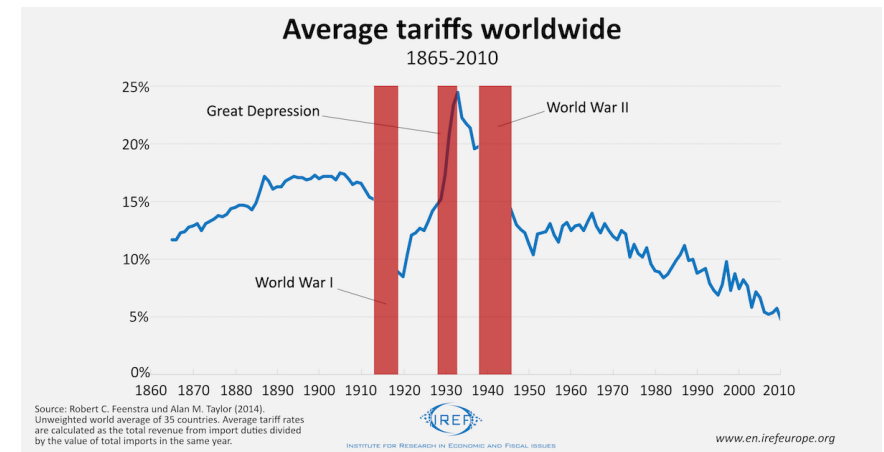
- **What forces are driving globalization?**
- Technological change
- Multilateral trade negotiations
- Continuing liberalization of trade and investment
- Widespread liberalization of investment transactions
- Development of international financial markets



WAVES OF GLOBALIZATION



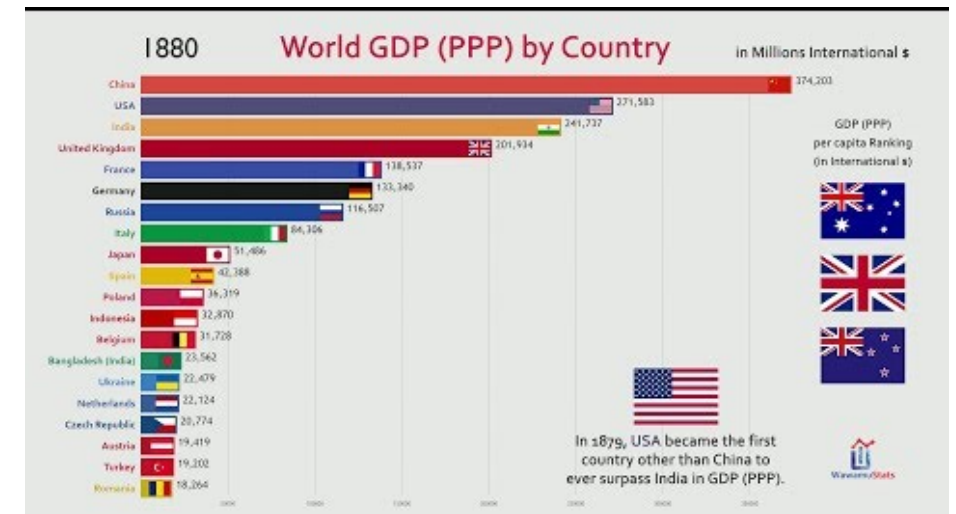
- **First Wave of Globalization: 1870–1914**
- Decreases in tariff barriers & new technologies
- Declining transportation costs
- Shift from sail to steamships; Railways
- Driven by European and American businesses and individuals



WAVES OF GLOBALIZATION



- **First Wave of Globalization: 1870–1914**
- Exports as a share of world income
 - Nearly doubled to 8%
- Per capita incomes increased 1.3% per year
 - Previous 50 years: 0.5% per year
- Countries that actively participated in globalization
 - Became the richest countries in the world
- Brought to an end by World War I



WAVES OF GLOBALIZATION



- Great Depression of the 1930s
- Governments – protectionism
- Tariffs on imports
 - Try to shift demand into domestic markets
 - Promote sales for domestic companies
 - Promote jobs for domestic workers
- Exports as a share of national income
 - Falls to 5%



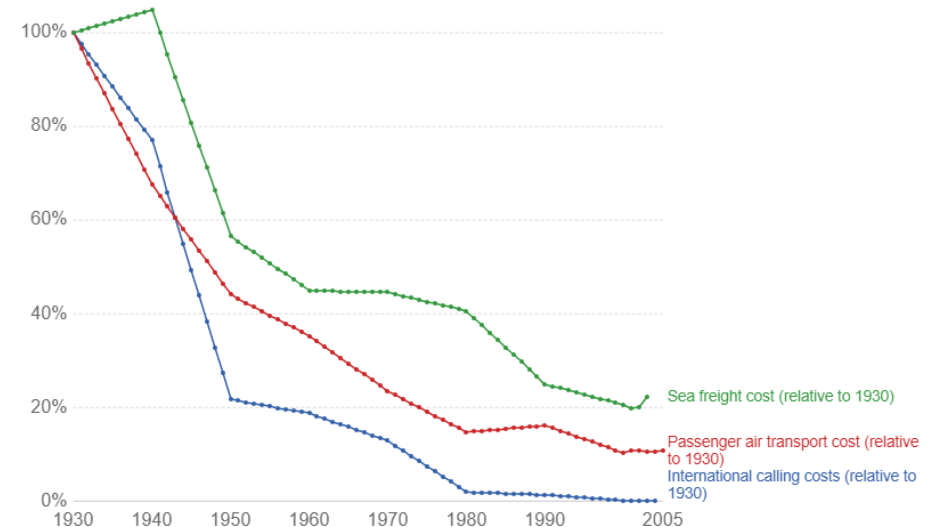
WAVES OF GLOBALIZATION



- **Second Wave of Globalization: 1945–1980**
- Horrors of the retreat into nationalism
- Falling transportation costs
- Decrease previously established trade barriers
- Trade liberalization – discrimination
 - Which countries participated
 - Which products were included

The decline of transport and communication costs relative to 1930

Sea freight corresponds to average international freight charges per tonne. Passenger air transport corresponds to average airline revenue per passenger mile until 2000 spliced to US import air passenger fares afterwards. International calls correspond to cost of a three-minute call from New York to London.



Source: Transaction Costs - OECD Economic Outlook (2007)

OurWorldInData.org/international-trade • CC BY

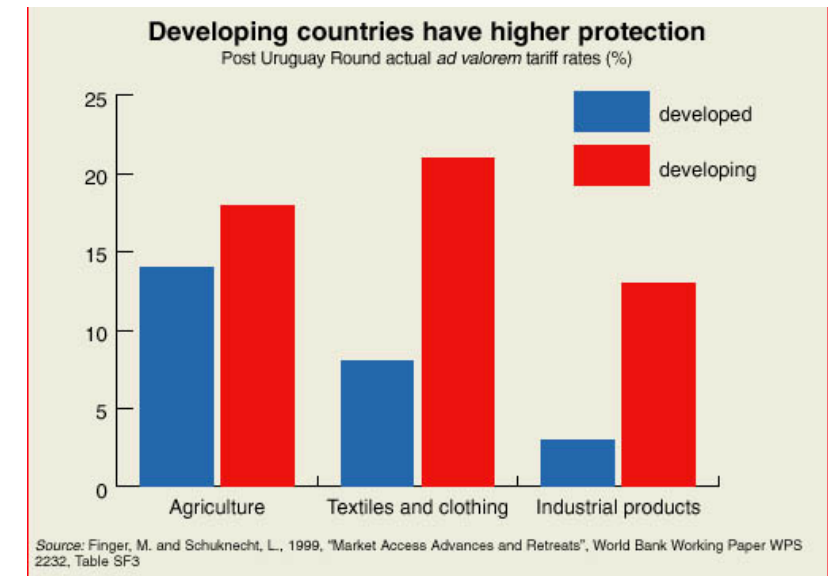


- Trade liberalization – discrimination
 - **Developed countries, manufactured goods**
 - Largely freed of barriers
 - Greatly increased the exchange of manufactured goods
 - Raise the incomes of developed countries
 - **Developing countries**
 - Eliminate barriers only for those agricultural products that did not compete with agriculture in developed countries
 - Manufactured goods - sizable barriers
-

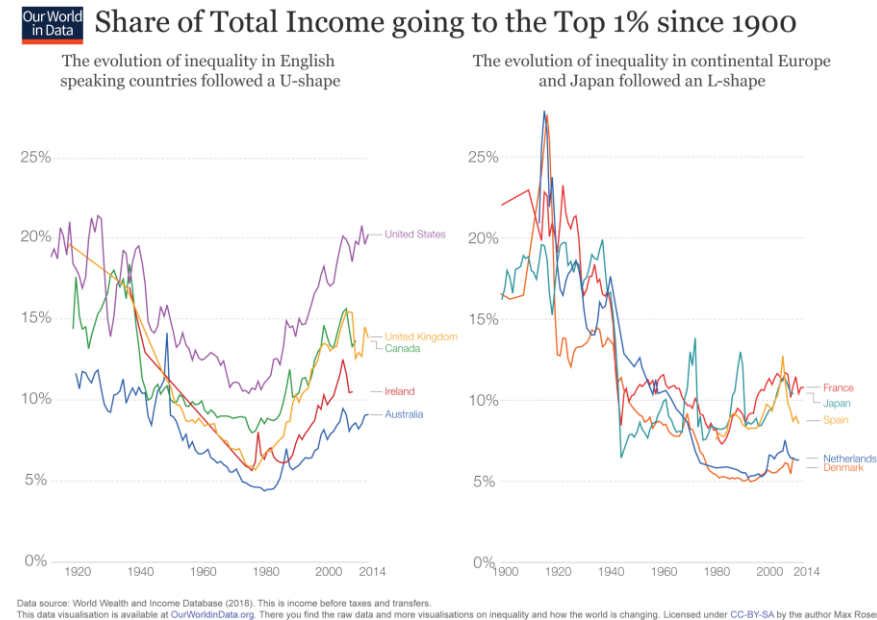
- **Second Wave of Globalization: 1945–1980**
- New kind of trade
- Rich country specialization in manufacturing niches
 - Gained productivity through agglomeration economies
- Firms clustered together
 - Some clusters produced the same product
 - Others were connected by vertical linkages
- Agglomeration economies
 - Benefit those in the clusters
 - Bad news for those who are left out



- **Second Wave of Globalization: 1945–1980**
- Most developing countries
 - Did not participate in the growth of global trade in manufacturing and services
 - Continuing trade barriers in developed countries
 - Unfavorable investment climates
 - Antitrade policies in developing countries
 - Dependence on agricultural and natural-resource products



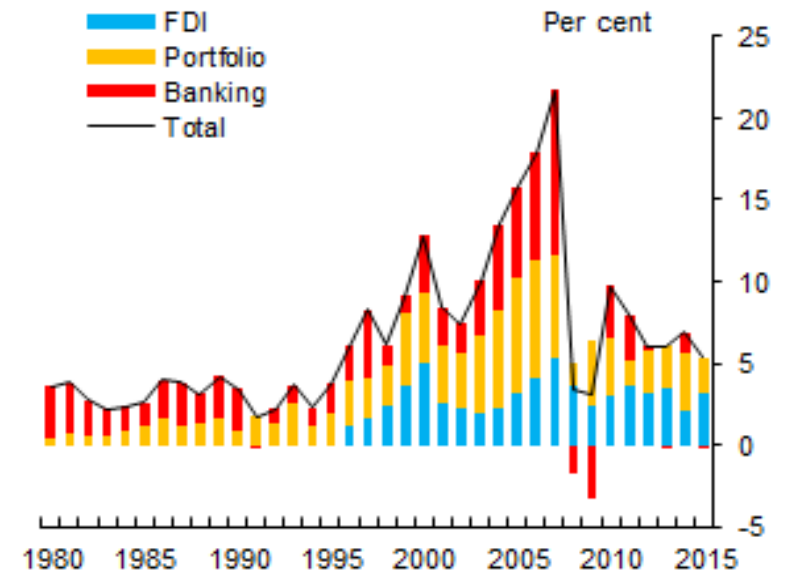
- **Second Wave of Globalization: 1945–1980**
- Increased per capita incomes within the developed countries
- Developing countries as a group were being left behind
- World inequality



WAVES OF GLOBALIZATION



- Latest Wave of Globalization, began in 1980
- A large number of developing countries
 - China, India, and Brazil
 - Broke into the world markets for manufacturers
- Other developing countries
 - Increasingly marginalized in the world economy
 - Decreasing incomes
 - Increasing poverty
 - Significant international capital movements



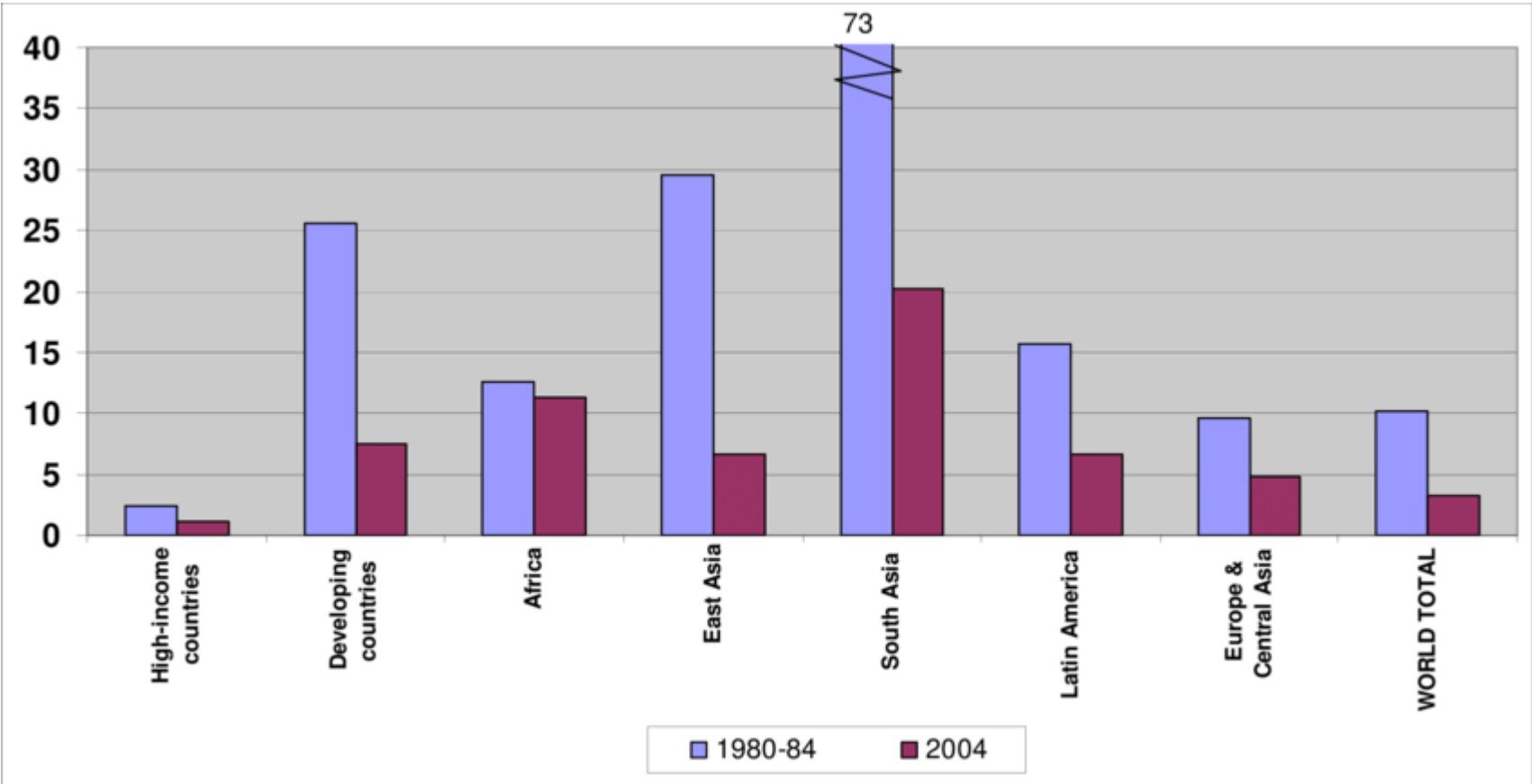
- **Latest Wave of Globalization, began in 1980**
- Some developing countries
 - Competitive advantage in labor-intensive manufacturing
 - Bangladesh, Malaysia, Turkey, Mexico, Hungary, Indonesia, Sri Lanka, Thailand, and the Philippines
- Tariff cuts
- Lower barriers to foreign investment
- Technological progress in transportation and communications
- Protectionist policies in developed countries





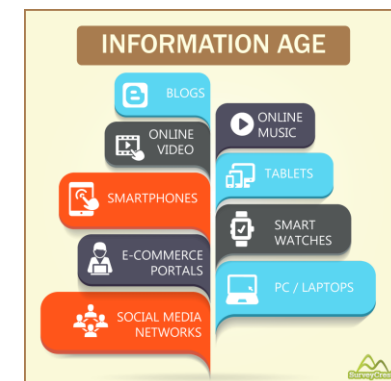
- Latest Wave of Globalization, began in 1980
 - World
 - More globalized - international trade, capital flows
 - Less globalization - labor flows
 - Foreign outsourcing
 - Certain aspects of a product's manufacture are performed in more than one country
 - Manufacturing - moved to wherever costs were the lowest
 - Job losses for blue-collar workers
 - Cries for the passage of laws to restrict outsourcing
-

WAVES OF GLOBALIZATION - Tarrifs



WAVES OF GLOBALIZATION

- **Latest Wave of Globalization, began in 1980**
- By the 2000s, foreign outsourcing of white-collar work
- Information Age
- Digitization, Internet, and high-speed data networks around the world
- Sending upscale jobs offshore
- Accounting, chip design, engineering, basic research, and financial analysis
- Foreign outsourcing
 - Reduce costs of a given service: 30 to 50%



WAVES OF GLOBALIZATION



| U.S.Company | Country | Type of Work Moving |
|--------------------|--------------------|--|
| Accenture | Philippines | Accounting, software, office work |
| Conseco | India | Insurance claim processing |
| Delta Air Lines | India, Philippines | Airline reservations, customer service |
| Fluor | Philippines | Architectural blueprints |
| General Electric | India | Finance, information technology |
| Intel | India | Chip design, tech support |
| Microsoft | China, India | Software design |
| Philips | China | Consumer electronics, R&D |
| Procter & Gamble | Philippines, China | Accounting, tech support |

WHY IS GLOBALIZATION IMPORTANT?



- Law of comparative advantage
 - Citizens of each nation can gain
 - Spend more of their time and resources doing those things in which they have a relative advantage
 - If a good or service can be obtained more economically through trade
 - Trade for it instead of producing it domestically
 - How the available resources can be used to obtain each good at the lowest possible cost
-

WHY IS GLOBALIZATION IMPORTANT?



- Open economies
 - Produce a larger joint output
- Competition - essential to both innovation and efficient production
- International competition
- Domestic producers - strong incentive to improve the quality of their products
- Weakens monopolies



WHY IS GLOBALIZATION IMPORTANT?



- **Globalization**
- Rapid growth in some countries
- Increased demand for commodities
 - Crude oil, cooper, steel - higher prices
- Increased supply of substitutes
 - Biodiesel, ethanol
- Domestic economy
 - Vulnerable to disturbances initiated overseas
- Increased competition from abroad





Advantages and disadvantages of globalization

Advantages

- Productivity increases faster when countries produce goods and services in which they have a comparative advantage. Living standards can increase more rapidly.
- Global competition and cheap imports keep a constraint on prices, so inflation is less likely to disrupt economic growth.
- An open economy promotes technological development and innovation, with fresh ideas from abroad.
- Jobs in export industries tend to pay about 15 percent more than jobs in import-competing industries.
- Unfettered capital movements provide the United States access to foreign investment and maintain low interest rates.

Disadvantages

- Millions of Americans have lost jobs because of imports or shifts in production abroad. Most find new jobs that pay less.
- Millions of other Americans fear getting laid off, especially at those firms operating in import-competing industries.
- Workers face demands of wage concessions from their employers, which often threaten to export jobs abroad if wage concessions are not accepted.
- Besides blue-collar jobs, service and white-collar jobs are increasingly vulnerable to operations being sent overseas.
- American employees can lose their competitiveness when companies build state-of-the-art factories in low-wage countries, making them as productive as those in the United States.



- **The impact of globalization on the business sector:** The emergence of various forms of international companies and multinational corporations that become the ground of the whole structure of the globalized economy
 - Globalization significantly reduces the success-chances of small and medium-sized enterprises that are not able, from a cost perspective, compete these large transnational corporations
 - **Transnational corporation:** person or entity without legal personality, which is made up of parent companies and their foreign affiliates
 - **Multinational corporation:** a company that is composed of companies that operate in at least two countries
-

MICROECONOMIC ASPECTS OF GLOBALIZATION



SILESIAN
UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KATOWICE

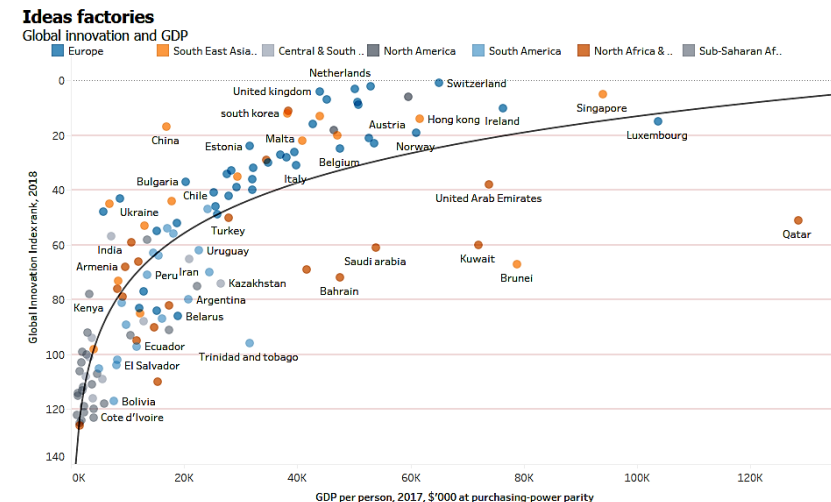
- There are two types of transnational corporations in the world economy:
- **Multinational corporations**: fusion of two or more firms from different countries
- **Transnational companies**: allocation of a company's capital to other countries
- Ways through which a company, allocated in one country obtain ownership interests in other states:
 - build a business in the host country from the ground up (Hyundai)
 - buy an existing company, or part of it (Mittal Steel)



MICROECONOMIC ASPECTS OF GLOBALIZATION



- **Positive aspects of multinational companies:**
- The ability to fund the research and development at an appropriate level
- Ability to rapidly and widely spread the innovations across the world,
- Risk: the possibility of limiting the current form of political and economic sovereignty of the state
- The size and growth of multinational companies can be measured by the volume of turnover, its profits or number of employees



MICROECONOMIC ASPECTS OF GLOBALIZATION



List of largest companies by revenue [\[edit \]](#)

State-owned enterprise (government owns 50% or more)

| Rank ↕ | Name ↕ | Industry ↕ | Revenue (USD millions) ↕ | Profit (USD millions) ↕ | Employees ↕ | Country ↕ |
|--------|--------------------------|--------------|-----------------------------|----------------------------|-------------|---------------------------------|
| 1 | Walmart | Retail | \$514,405 | ▲ \$6,670 | 2,200,000 | United States |
| 2 | Sinopec | Oil and gas | \$414,649 | ▲ \$5,845 | 619,151 | China |
| 3 | Royal Dutch Shell | Oil and gas | \$396,556 | ▲ \$23,352 | 81,000 | Netherlands / United Kingdom |
| 4 | China National Petroleum | Oil and gas | \$392,976 | ▲ \$2,270 | 1,382,401 | China |
| 5 | State Grid | Electricity | \$387,056 | ▲ \$8,174 | 917,717 | China |
| 6 | Saudi Aramco | Oil and gas | \$355,905 | ▲ \$110,974 | 76,418 | Saudi Arabia |
| 7 | BP | Oil and gas | \$303,738 | ▲ \$9,383 | 73,000 | United Kingdom |
| 8 | ExxonMobil | Oil and gas | \$290,212 | ▲ \$20,840 | 71,000 | United States |
| 9 | Volkswagen | Automotive | \$278,341 | ▲ \$14,332 | 664,496 | Germany |
| 10 | Toyota | Automotive | \$272,612 | ▲ \$16,982 | 370,870 | Japan |
| 11 | Apple | Electronics | \$265,595 | ▲ \$59,531 | 132,000 | United States |
| 12 | Berkshire Hathaway | Conglomerate | \$247,837 | ▲ \$4,021 | 389,000 | United States |
| 13 | Amazon | Retail | \$232,887 | ▲ \$10,073 | 647,000 | United States |
| 14 | UnitedHealth | Healthcare | \$226,247 | ▲ \$11,986 | 300,000 | United States |
| 15 | Samsung Electronics | Electronics | \$221,579 | ▲ \$39,895 | 221,579 | South Korea |
| 16 | Glencore | Commodities | \$219,754 | ▲ \$3,408 | 85,504 | Switzerland |
| 17 | McKesson | Healthcare | \$214,319 | ▲ \$34 | 70,000 | United States |
| 18 | Daimler | Automotive | \$197,515 | ▲ \$8,555 | 298,683 | Germany |
| 19 | CVS Health | Healthcare | \$194,579 | ▼ -\$594 | 295,000 | United States |
| 20 | Total | Oil and gas | \$184,106 | ▲ \$11,446 | 104,460 | France |



Thank you for your Attention!
