

Globalization, Regionalization, and the European Union

Lecture 1

23 September 2024

Objectives of lecture

- 1 Understand what is meant by the term globalization. (What is the meaning of globalization?)
- 2 Recognize the main drivers of globalization. (Which factors are affecting globalization?)
- 3 Comprehend the concept of regionalization. (What does regionalization mean?)
- 4 Identify the key forces behind regionalization. (What factors influence regionalization?)
- 5 The nexus between globalization and regionalization, and the EU

1) Globalization refers to the shift toward a more integrated and interdependent world economy.

- decline of barriers to cross-border trade and investment,
- technological advances in transportation and telecommunication sectors,
- convergence of national economies

Globalization has two significant facets:

- Globalization of Markets
- Globalization of Production

1. Globalization of Markets refers to merging historically distinct and separate national markets into one huge global marketplace.
 - From national economies to an integrated world market
 - Falling barriers to cross-border trade and investment have made it easier to sell internationally

2. Globalization of Production refers to the sourcing of goods and services from locations around the globe

- take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital).
- outsourcing productive activities to different suppliers results in the creation of global products

2) Main Drivers of Globalization

- the decline in barriers to the free flow of goods, services, and capital
- technological change, particularly the dramatic developments in communication, information processing, and transportation technologies

Decline in barriers to the free flow of goods, services, and capital

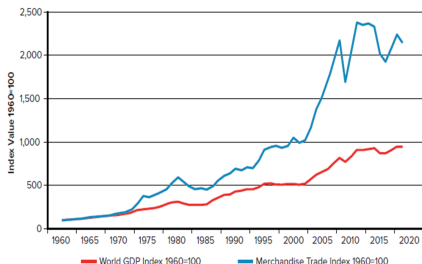


FIGURE 1.1 Value of world merchandised trade and world production 1960–2019.

Sources: World Bank, 2020; World Trade Organization, 2020; United Nations, 2020.

- The value of the world economy (adjusted for inflation) increased 9.4 times, while the value of international trade in merchandised goods increased 21.4 times.
- Trade in goods and services has been growing faster than world output for decades.

Why has trade in goods and services has been growing faster than world out?

- outsourcing (decreasing production cost)
- market integration (interdependence of economies)
- rising trade is the engine for global economic growth

Decline in barriers to the free flow of goods, services, and capital

TABLE 1.1 Average Tariff Rates on Manufactured Products as Percentage of Value

	1913	1950	1990	2018
France	21%	18%	5.9%	3.9%
Germany	20	26	5.9	3.9
Italy	18	25	5.9	3.9
Japan	30	—	3.3	2.5
Netherlands	5	11	5.9	3.9
Sweden	20	9	5.9	3.9
United Kingdom	—	23	5.9	3.9
United States	44	14	5.7	3.1

Sources: The 1913–1990 data are from “Who Wants to Be a Giant?” *The Economist: A Survey of the Multinationals*, June 24, 1995, pp. 3–4. The 2018 data are from the *World Tariff Profiles 2019*, published by the World Trade Organization.

- The impact of GATT agreements on average tariff rates for manufactured goods among several developed nations
- Average tariff rates have fallen significantly since 1950 and by 2018 stood at about 3.0–4.0 percent.

What are the other primary factor for declining barriers to the free flow of goods and services?

It's also important to note that in addition to the global efforts of the GATT and WTO, trade barriers have also been reduced by bilateral and regional agreements between two or more nations.

European Union (EU), North American Free Trade Agreement (NAFTA)

Technological Change - Telecommunication

- The Internet makes it much easier for buyers and sellers to find each other, wherever they may be located and whatever their size.
- The cost of microprocessors continues to fall while their power increases.

Technological Change - Transportation

- Commercial jet aircraft and super freighters
- Containerization, significantly lowering shipping costs goods over long distances

Transportation costs have plummeted, making it much more economical to ship goods around the globe

The long-term growth in cross-border flows of foreign direct investment

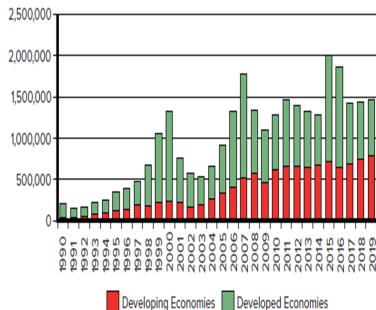


FIGURE 1.3 FDI Inflows (in millions of dollars) 1990–2019.

Source: United Nations Conference on Trade and Development, *World Investment Report 2020*.

- The increasing importance of developing nations as the destination of foreign direct investment
- The amount of investment directed at both developed and developing nations increased significantly, a trend that reflects the increasing internationalization of business corporations

The change in the outward stock of foreign direct investment as a percentage of GDP

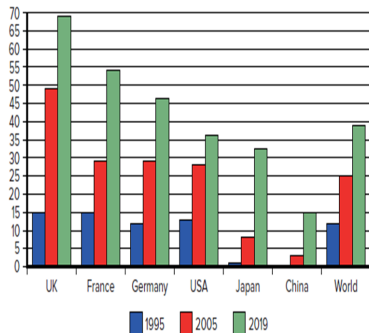


FIGURE 1.2 FDI outward stock as a percentage of GDP.

Sources: OECD data 2020, World Development Indicators 2020, UNCTAD database, 2020.

- A striking increase in the outward stock of FDI over time
- Firms based in a nation increasingly depend on their revenues and profits on investments and productive activities in other nations (interconnected markets)

- 1) The enhancement of economic interdependence within a specific region through the establishment of trade agreements, customs unions, shared regulatory standards, and coordinated economic policies.
- 2) Institutional arrangements designed to facilitate the free flow of goods and services and to coordinate foreign economic policies between countries in the same geographic region.

- A surge in regional trade blocs that promote economic integration
- As of 2020, there were 303 regional trade agreements in force.
- The failure of the WTO's Doha Round has left national governments feeling that they can better advance their trade agenda through multilateral agreements.

Selected Regional Integration Associations

Year of Founding	Name	Membership in (2020)
1952	European Union	27
1967	Association of Southeast Asian Nations (ASEAN)	10
1967	East African Community	6
1973	Caribbean Community (Caricom)	15
1975	Economic Community of West African States (ECOWAS)	15
1980	Latin American Integration Association (ALADI)	13
1981	Gulf Cooperation Council (GCC)	6
1985	South Asian Association for Regional Cooperation (SAARC)	8
1989	Asia-Pacific Economic Cooperation (APEC)	21
1991	Southern Common Market (Mercosur)	4
1992	Southern African Development Community (SADC)	16
2002	African Union	55

Resource: McCormick, J. (2020). Understanding the European Union: A Concise Introduction. 8th Edition, Bloomsbury Publishing, pp.12

Key Factors for the participation in Regional Initiatives:

- Increased bargaining power within a multilateral trade system
- Easy access to external markets
- Avoidance of trade diversion effects
- Security and Political Stability

Three key developments are particularly significant:

- Effective integration requires more than just the reduction of tariffs and quotas (EU Single Market Program)
- The shift from close integration to a more open model (transition from import substitution industrialization to export-led growth)
- The emergence of trade blocs in which high-income industrialized countries and low-income developing countries participate as equal partners in agreements (NAFTA with Mexico, EU Enlargement and Eastern European Countries, EU-Turkey Custom Union)

Impediments to Regionalization

- It has its costs: While a nation as a whole may benefit significantly from a regional free trade agreement, certain groups will lose, at least in the short to medium term.
- National Sovereignty: Mexico's concerns about maintaining control of its oil interests resulted in an agreement with Canada and the United States to exempt the Mexican oil industry from any liberalization of foreign investment regulations achieved under NAFTA.

The pros of Regionalization:

- Diversification of markets and Economies of Scale
- Increased export, import, and foreign direct investment
- Greater political cooperation and stability, reducing the likelihood of conflicts
- Better infrastructure development, such as transportation and communication networks
- Greater mobility of labor

The pros of Regionalization:

- More global power and influence for member states working together
- the promotion of innovation, opportunity, competition and choice
- The creation of world-class corporations through mergers and acquisitions
- Easier travel within the EU as a result of freer cross-border movement
- accruing from the pooling of the economic and social resources of multiple member states

The pros of Regionalization:

- Improved standards as less advanced member states follow the lead of more progressive states
- New opportunities created in the poorer parts of the region by cross-border funds and investments
- The encouragement of democracy, human rights and free markets as a result of cooperation and integration

Economies of Scale is unit cost reductions associated with a large output scale

- have a number of sources, including
- the ability to spread fixed costs over a large volume,
- the ability of large-volume producers to utilize specialized employees,
- equipment that are more productive than less specialized employees and equipment.

The cons of Regionalization:

- Loss of sovereignty, national independence and the freedom of national governments to make decisions
- Loss of national identity as laws, regulations and standards are harmonized
- internal migration arising from the removal of internal border controls, and its effects on jobs
- increased cross-border crime, disease, and the movement of undocumented immigrants

The cons of Regionalization:

- Institutions are undemocratic, elitist and inefficient, and that they generate burdensome new regulations
- Concern for becoming a federal state at the expense of the self-determination of its member states
- Increased competition and job losses brought by the removal of market protection

Globalization and regionalization are interconnected processes that influence each other in several ways

- Globalization leading to regional economic agreements to boost trade and investment within regions
(Economic Integration)

- Regionalization facilitating policy alignment and allowing to address global challenges like climate change and health policies
(Policy Coordination)

Globalization and regionalization are interconnected processes that influence each other in several ways

- Globalization promoting the spread of cultural products **X**
Regionalization preserving local cultures and identities
(Cultural Exchange)

- Regionalization leading to uneven development within a region **X**
Globalization exacerbating inequalities between regions and leading to tensions

Globalization and regionalization are interconnected processes that influence each other in several ways

- Resistance to Globalization

Regionalization can be a response to globalization, as countries seek to protect their interests and maintain local control in the face of global pressures

the idea that the processes of globalization are often facilitated or shaped by regional partnerships and frameworks

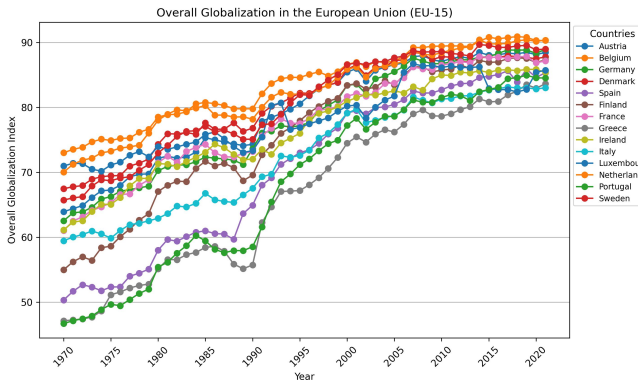
- Regional trade and investment agreements providing a structured environment to collaborate, making it easier to engage in global trade and investments
- Countries in regional initiative creating larger markets that attract FDI and enhance competitiveness in the global economy

the idea that the processes of globalization are often facilitated or shaped by regional partnerships and frameworks

- Regions serving as testing grounds for new policies later to be adopted on a global scale allowing for tailored approaches considering local contexts
- During global uncertainty, regional partnerships providing a safety net allowing countries to rely on their neighbors for economic stability and support global economy

Globalization of European Union

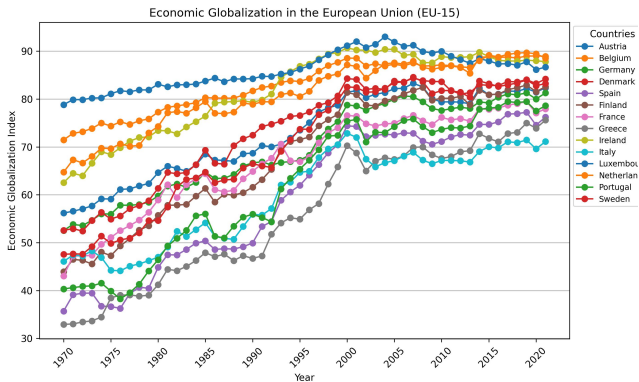
Overall Globalization



- KOF Globalization Index measures the degree of globalization of countries
- It assesses economic, social, and political dimensions of globalization, including trade, investment, cultural exchange, and international cooperation
- It provides insights into how integrated countries are in the global landscape

Globalization of European Union

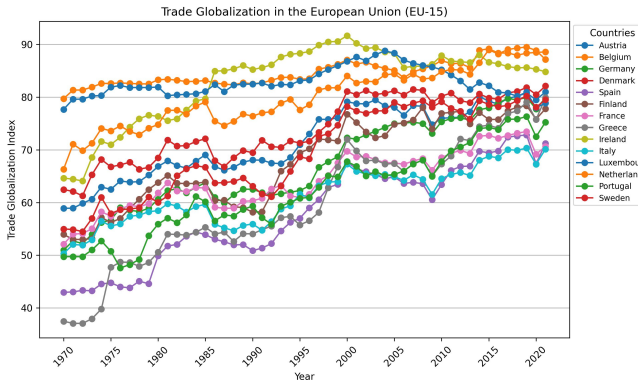
Economic Globalization



- Economic globalization measures the extent to which countries are integrated into the global economy
- Trade, FDI, Capital Flows, Trade Barriers, and Economic Policies

Globalization of European Union

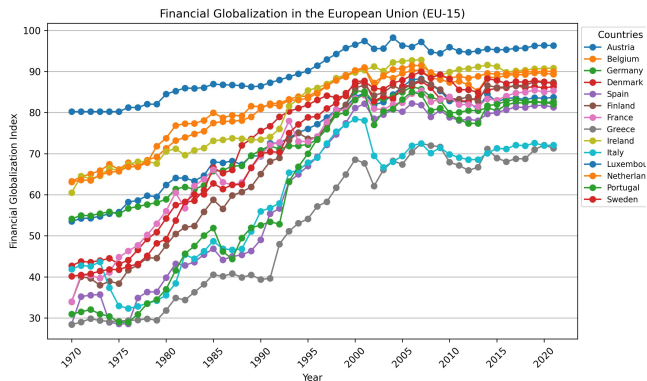
Trade Globalization



- Trade globalization encompasses trade in goods, trade in services, trade partner diversity, trade regulations, trade taxes, tariffs, and trade agreements

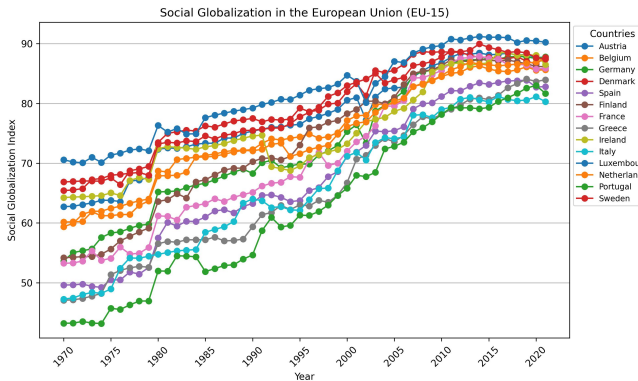
Globalization of European Union

Financial Globalization



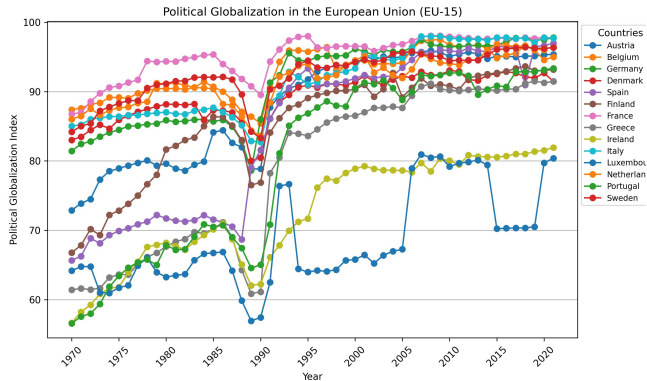
- Financial globalization includes FDI, portfolio investment, international debt and reserves, international income payments, investment restrictions and agreement, capital account openness

Social Globalization



- Social globalization comprises international voice traffic, international tourism, migration, international students, internet bandwidth, international patents, international trade marks

Political Globalization



- Political globalization indicates the embassies, UN peacekeeping missions, International NGOs

KOF Globalization Index

- developed by the Swiss Economic Institute (KOF) at ETH Zurich
- Gygli, S., Haelg, F., Potrafke, N., & Sturm, J. E. (2019). The KOF globalisation index–revisited. *The Review of International Organizations*, 14, 543-574
- Dreher, A. (2006). Does globalization affect growth? Evidence from a new index of globalization. *Applied economics*, 38(10), 1091-1110.
- KOF Globalization Index
<https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>