

Global Economy-Introduction

Lecture 1

7 February 2025

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Globalization as a Persistent Economic Process

- Globalization is deeply rooted in human history and economic activity.
- The process has evolved for thousands of years, accelerating in recent centuries.
- Political, technological, and institutional changes have influenced globalization trends.
- Despite temporary setbacks, globalization tends to rebound due to its economic advantages.

Drivers of Globalization

- Technological advancements in transportation and communication.
- Trade liberalization and economic policies promoting open markets.
- Expansion of multinational corporations and international supply chains.
- Financial integration and capital mobility across borders.

Defining the Global Economy

- Composed of interconnected markets for goods, capital, and labor.
- Historical integration waves: 1850-1914 and 1950-present.
- Transformation of local economies into globally interdependent systems.
- Systemic risks emerge as economies become increasingly integrated.

Figure 1.1: Ratio of World Trade to World GDP (1500-2008)

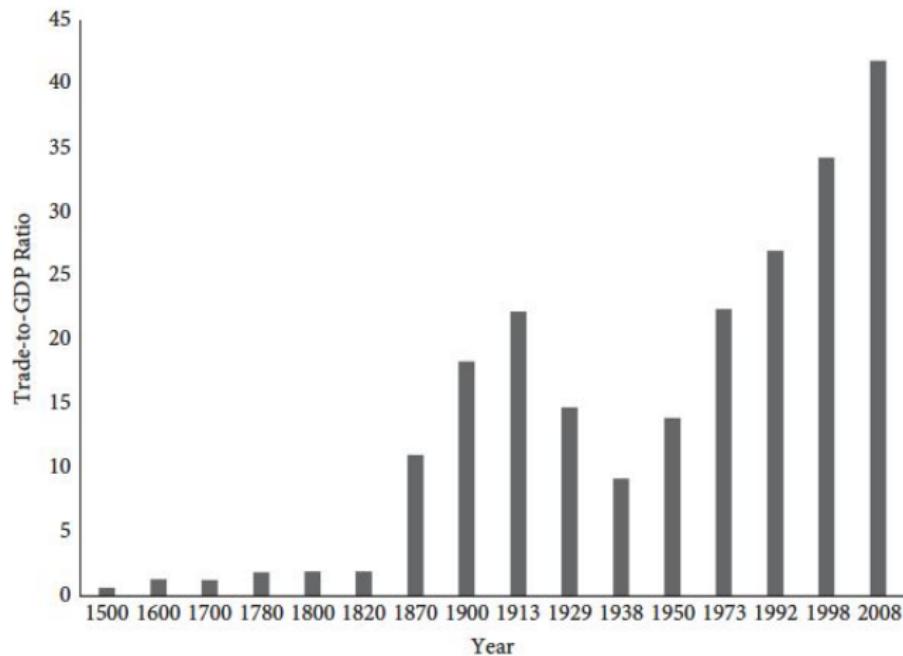


Figure 1.1 Ratio of World Trade to World GDP, 1500–2008

Sources: 1500–1820: author's calculations based on data underlying Estevadeordal, Frantz,

Figure 1.1: Ratio of World Trade to World GDP (1500-2008)

- Shows the long-run trend in trade openness.
- Significant increases observed during periods of industrialization.
- Trade declined during global economic crises and wars but rebounded strongly afterward.

Impact of Financial Markets on Globalization

- Growth of financial markets and investment across borders.
- Increased capital flows and financial interdependence.
- Risks associated with financial crises and speculative capital movements.

Figure 1.2: Ratio of Foreign Assets to World GDP (1820-2015)

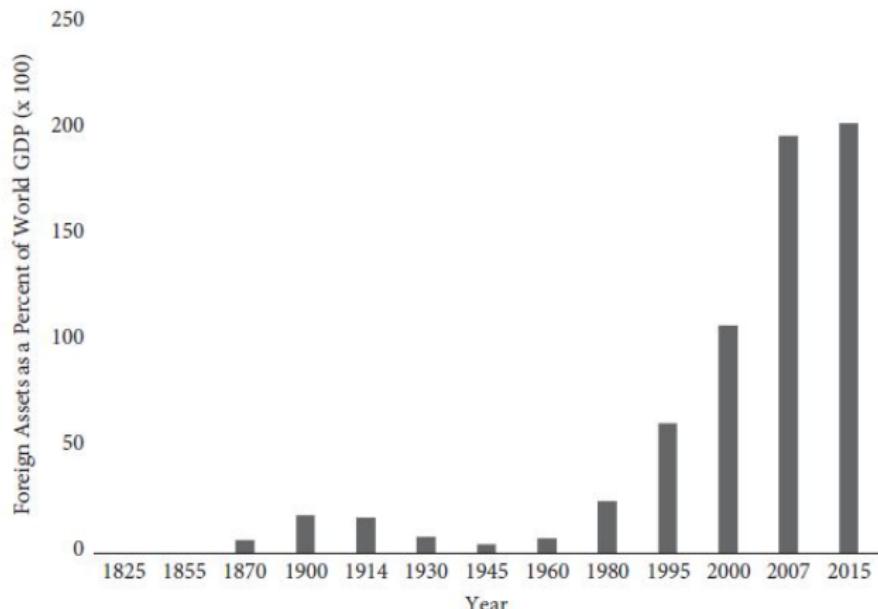


Figure 1.2 Ratio of Foreign Assets to World GDP, 1820–2015

Source: 1820–2000: Obstfeld and Taylor (2005); 2007–2015: author's calculations based on data from Lane and Milesi-Ferretti (2017) and World Bank (2021)

Figure 1.2: Ratio of Foreign Assets to World GDP (1820-2015)

- Demonstrates global financial integration over time.
- Capital mobility increased significantly in the late 20th and early 21st centuries.
- Financial crises have influenced trends in global capital allocation.

Role of Migration in the Global Economy

- Migration contributes to labor market flexibility and economic growth.
- Remittances from migrants support economies in developing countries.
- Policies on migration impact economic growth and demographic changes.

Figure 1.3: Ratio of Foreign-Born Population in the U.S. (1850-2008)

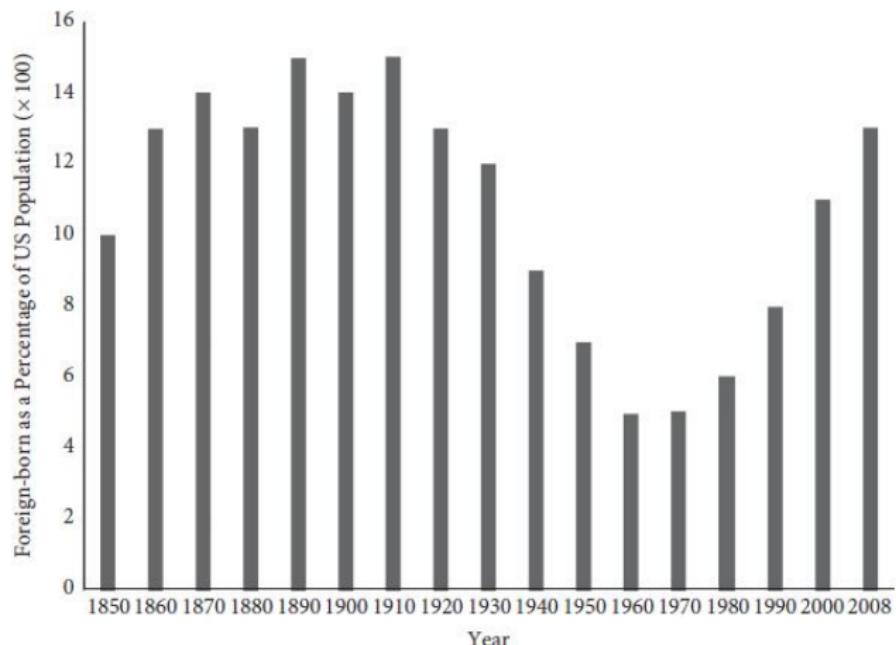


Figure 1.3 Ratio of Foreign-Born to US Population, 1850–2008

Source: 1850–1990: Gibson and Lennon (1999); 2000–2008: based on Kandel (2011)

Figure 1.3: Ratio of Foreign-Born Population in the U.S. (1850-2008)

- Highlights historical immigration trends in the U.S.
- Immigration peaks in the late 19th and early 20th centuries.
- Immigration declines due to restrictive policies but rises again in the late 20th century.

Economic Growth and Globalization

- Trade and investment contribute to long-term economic growth.
- Industrialization and technological progress drive global GDP growth.
- Growth disparities exist between developed and developing regions.

Figure 1.4: World GDP Per Capita (1 CE - 2008)

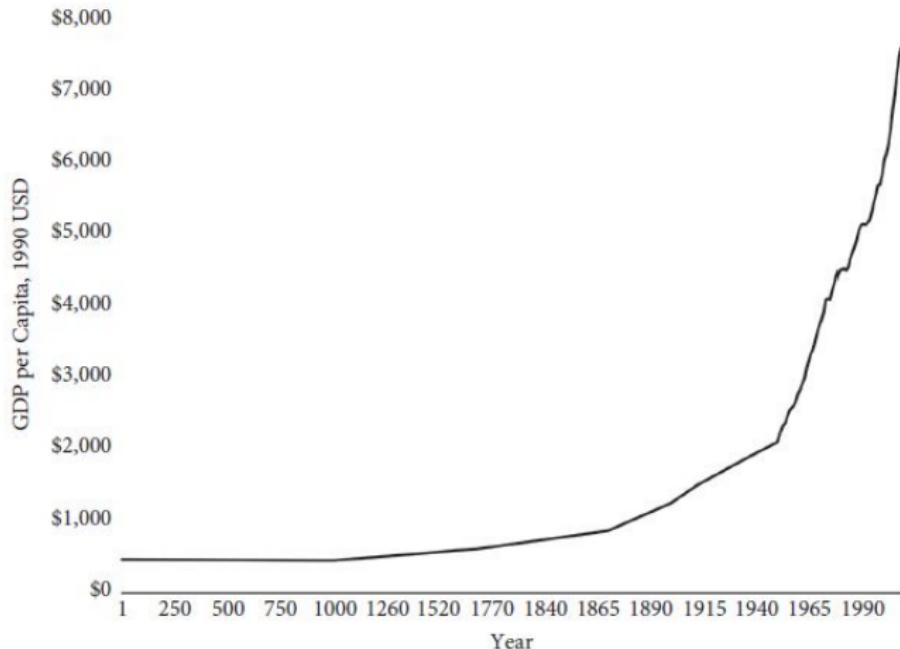


Figure 1.4 World GDP per capita 1 CE–2008 CE

Source: Bolt et al. (2018)

Figure 1.4: World GDP Per Capita (1 CE - 2008)

- Illustrates the long-term growth of global GDP per capita.
- Growth remained stagnant for centuries before accelerating during the Industrial Revolution.
- The 20th century witnessed unprecedented growth due to technological advancements.

Figure 1.5: Real GDP Per Capita by Region (1 CE - 2008)

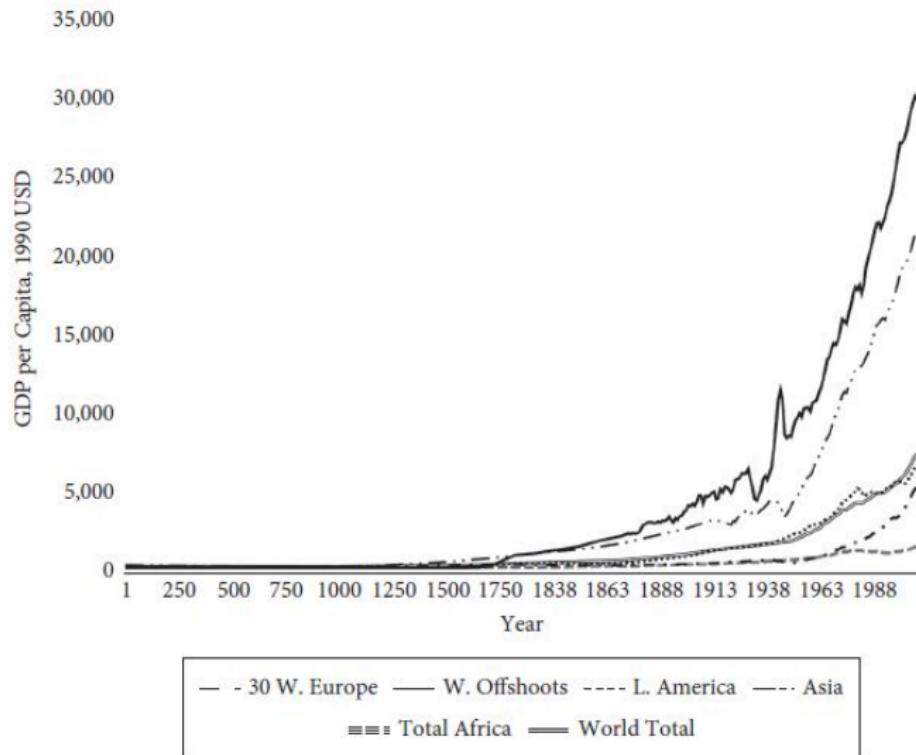


Figure 1.5 Real GDP per capita 1 CE–2008 CE, 5 Regions + World

Figure 1.5: Real GDP Per Capita by Region (1 CE - 2008)

- Depicts regional differences in economic growth over time.
- Western Europe and its offshoots experienced rapid growth after the Industrial Revolution.
- Africa and Latin America show slower long-term growth, with recent improvements.

Challenges and Prospects

- Global trade tensions and protectionism threaten economic integration.
- Technological advancements (e.g., AI, automation) may reshape labor markets.
- Climate change and sustainability concerns influence international trade policies.
- The future of globalization depends on geopolitical stability and institutional cooperation.

Summary

- Globalization remains a defining feature of the modern economy.
- Economic policies and international cooperation will shape its trajectory.
- Understanding historical patterns can inform future decisions.
- The global economy continues to evolve in response to technological and geopolitical changes.