

Announcements

- Tuesday: Locations of Manufacturing
- Thursday: No class
 - Midterm Exam I – Due Thursday
 - Two parts: Identification terms and analytical essay (upload separately to Canvas)
- Tuesday, 10/4
 - Development
 - NGO assignment

Structures of Economic and Financial Globalization

- Define economic globalization.
- Identify and explore principles and pillars of global economy.
- Introduce concept of BRICS and discuss the level of their ongoing significance for the global economy.

Bretton Woods, 1944

- The origin of the post-WWII economic order



Economic Globalization

- A definition from perspective of economics:
 - “Economic globalization can be defined as the process by which *markets* and *production* in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology.”
(European Commission, 1997)

Key Terms

- Economic growth / economic development
- Gross Domestic Product
- Gross National Income
- Inflation

“Traditional” Global Economic Powers

- Who?
 - Western Europe
 - The United States
 - Australia
 - Japan
 - South Korea
- Keys to success
 - Stable governments
 - Industry
 - Banking
 - Education
 - Funds for research and innovation
 - Access to resources



Key Principles of Global Economy

“Economism” and “Marketism”

- Privatization
- Liberalization
- Deregulation

Key Term: “Laissez-faire”

Key Term: “The invisible hand”

Key Term: Neoliberalism

Key Term: Comparative advantage

Washington Consensus

- Free trade
- Fiscal discipline
- Privatization
- Deregulation
- Secure property rights
- Competitive exchange rate

**Notable Extra Concepts from
Augmented Washington
Consensus:**

- Flexible labor markets
- Anticorruption
 - Transparency

Infrastructure of Global Economic Development: Finance

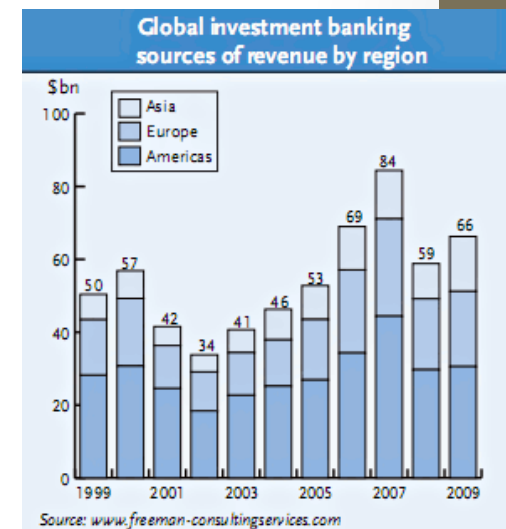
- Central Banks and “monetary policy” (not “fiscal policy”)
 - Examples: United States Federal Reserve and European Central Bank
- Functions:
 - Determine the amount of “liquidity” in markets
 - Interest rates / Base price of credit
 - Purchase and selling of bonds
 - Recent action of USFR: “Quantitative Easing”

Infrastructure: Finance

- “Sovereign wealth funds”
- Investment Banks
 - JP Morgan, Goldman Sachs, Barclays, Deutsche Bank, etc.

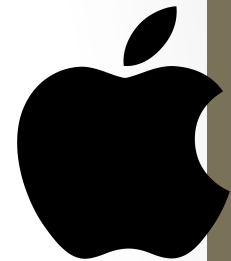
GRAPHIC

- Pros:
 - Provide credit for development and growth
- Cons of investment banks:
 - Overleveraged?
 - Role in global financial crisis
 - Too big to fail? “TARP”



Infrastructure: Multi- and Transnational Firms

- Definition: Multi- and Transnational firms
- 50 of the world's "top economies" are companies
- Example of Starbucks and McDonalds ([map](#))
- Pros:
 - Economies of scale (sometimes with a local twist)
 - Global branding
- Cons:
 - Primary allegiance: shareholders
 - Competition for local firms
 - Homogenization of products
 - Size and wealth
 - Tough business practices



Infrastructure: IGOs

Intergovernmental Organizations (IGOs)

- World Trade Organization (WTO)
 - Predecessor: GATT
- The World Bank
- The International Monetary Fund (IMF)
- “Conditionality” [“Austerity”]

World Trade Organization (WTO)

- Sets rules for global trading system
- “Most favored nation” trade status
- Primacy of “free trade,” predictable conditions, and competition
- Resolves disputes between member states
 - “Banana dispute” between EU and the US

The World Bank

- Loans for development and poverty reduction
 - “Country Assistance Strategy”
 - “Structural Adjustment Programs” (SAP) and “Poverty Reduction Strategy Paper” (PRSP)
 - Large infrastructure projects often a focus
 - Example: [Nigeria](#)
- “Conditionality”

International Monetary Fund

- Oversees global financial system
- 184 countries are members. Goals:
 - Foster global monetary cooperation
 - Secure financial stability
 - Facilitate international trade
 - Promote sustainable economic growth
 - Reduce poverty
- Provides loans and/or offers of control
 - Countries with balance of payment troubles
- *Conditions* for such assistance include:
 - Cut social expenditures
 - Lift import and export restrictions
 - Balance budgets
 - Remove price controls and subsidies
 - Privatize state-owned enterprises

Critiques of IGOs

- IGOs are tools of wealthy countries' interests
 - Favor their banks and industries
 - IMF (Europe head) and World Bank (US head)
 - Both based in Washington, DC
- Impose rules on affected countries; don't allow for own decisions
 - Markets over democracy
- Needs of everyday people in affected countries ignored
 - Not enough focus on “equality” or on “bottom-up” development (more on this later in the semester)



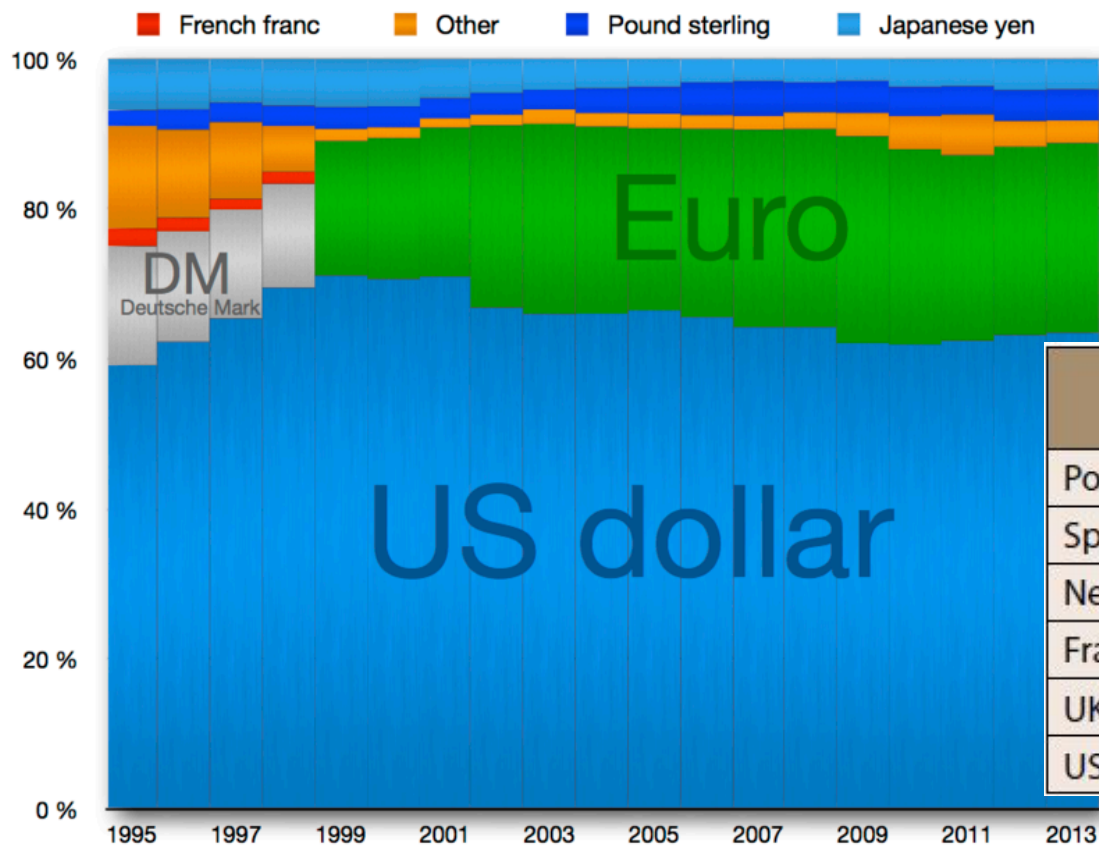
Conditionality: “Austerity”

- Response to Euro sovereign debt crisis.
- As condition for loans from IMF and European Central Bank:
 - Reduce budget deficit through spending cuts, tax increases
 - GOAL: improve “balance sheets” of debtors and make them more attractive to creditors
 - CONTROVERSIAL
 - Effective? Short term pain for long term gain?
 - Higher unemployment



Pillar of Global Economy: US Dollar as Reserve Currency

- “Exorbitant privilege”



	Period when currency held reserve status	Duration
Portugal	1450-1525	75 years
Spain	1525-1635	110 years
Netherlands	1635-1710	75 years
France	1710-1815	105 years
UK	1815-1925	110 years
US	1925-present	88 years

Pillar of Global Economy: Foreign Direct Investment

- Firms in emerging economies investing in or taking over companies in developed countries
 - Access to customers in developed countries
 - Quick way to gain foothold in country
 - Buy “brand name”
 - Tata’s purchase of Jaguar / Geely’s purchase of Volvo
 - Cheaper and faster than building own brand

A New Pillar? Emerging Economies

- The BRICS
 - Originally:
 - Brazil
 - Russia
 - India
 - China
 - Now also
 - South Africa

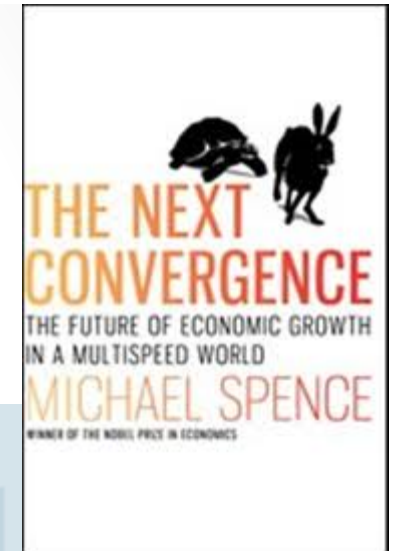
Not a unit like the
EU or NAFTA!!!!



Goldman Sachs video:

<http://www.youtube.com/watch?v=AqXsuVJOQIk>

The New Global Balance / The “Great Convergence”

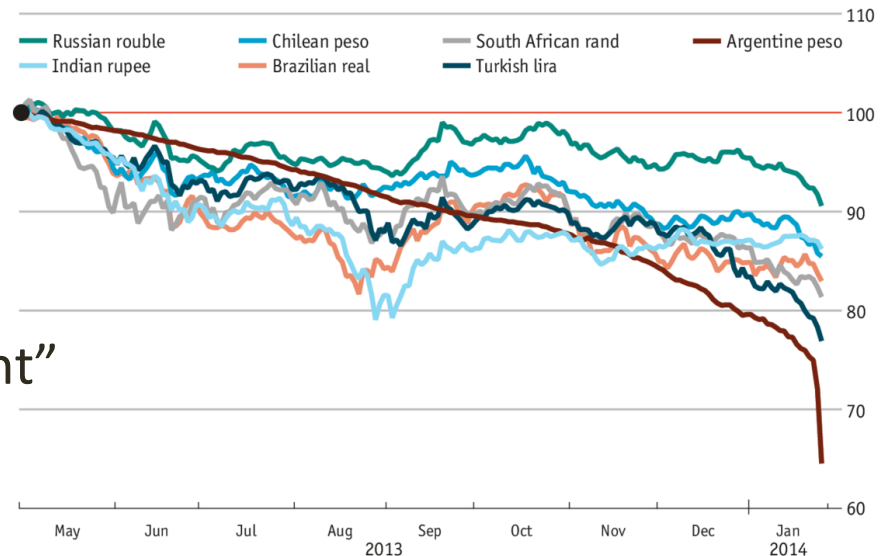


Challenges for the BRICs

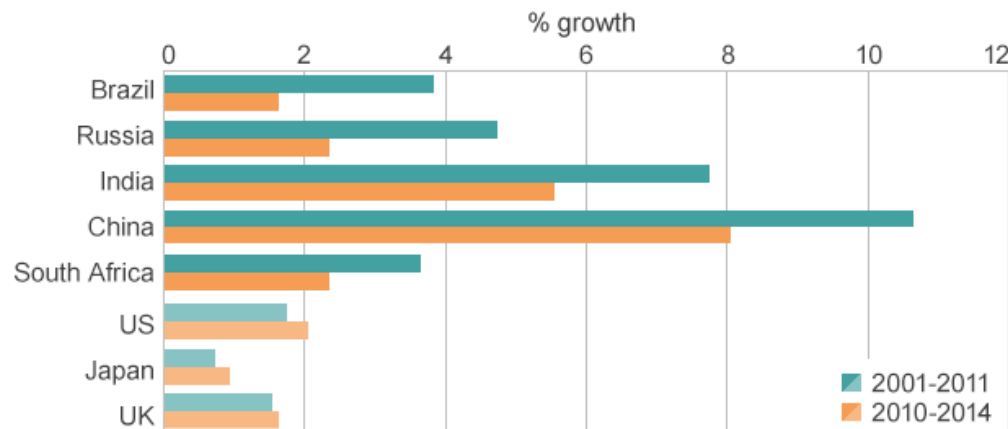
- Advantages not permanent
- Dangers of inflation
- Falling currencies
- Perils of “middle-aged development”
- Rising unemployment rates
- Corruption and transparency

Exchange rates against the dollar

May 1st 2013=100



Average annual growth rates for the BRICS and three major developed economies



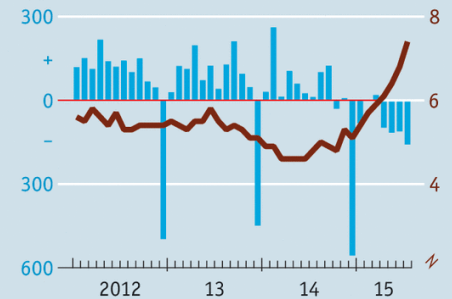
Source: Calculated from IMF World Economic Outlook Database October 2014

The wrong sort of rise

Brazil

Change in number of jobs, '000

Unemployment rate, %



Conclusions and Reminders

Conclusions

- Global economy has different components
- Free market principles generally pervasive in global economy
- The BRICS – great potential and great challenges

Reminders

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