Structures of globalization

THE GLOBAL ECONOMY

- The basic foundation which should be given primary importance.
- If the economy is not stable, then the politics is not also stable.
- It influences the condition of the society as well as in politics.
- With this phenomenon of globalization, removing the barriers between national economies for smooth glow of goods, services, capital and labor greatly impacted states and nations around the globe.

According to Mohan (2009), economic globalization refers to the free movement of goods capital, services, technology, and information.

- It results to an increasing economic integration, an interdependence of national, reginal, and local economies around the world by strengthening the cross-border movement of goods, technologies, and capital

SILK ROAD

- The oldest trade route where one of the most profitable products, silk was transported in this network of pathways to Europe.

BEFORE THE COLONIAL ERA

- Native Filipinos were already in contact with the Chinese and Arabs, and Economic relationships was established then.
- Gold and spices of the Philippines were bartered for porcelains, silk, and perfumes.

THE OPENING OF THE SUEZ CANAL IN 1869

- It paved the way for European people to trade with the Asians.
- The **Galleon trade** implemented by the Spaniards in the Philippines from **1565-1815** intensified more the transfer of goods form one country to another.

THE AMERICANS

- Were directly connected to Asian trading routes.

The ideology of **mercantilism** motivated countries to search for islands that are rich w/ natural resources, particularly **gold**.

- According to **mercantilism principle,** the more gold the country has, in the addition to what it already possessed, the more powerful the country is.
- Later, the value of gold was used as a **common basis for currency prices** and **a fixed exchange rate.**
- On this time, the amount of money circulating in the country is based on how much gold reserves are stored in the government bank.

KEY PLAYERS / INDICATORS OF ECONOMIC GLOBALIZATION

INTERGOVERNMENT ORGANIZATION (IGO)

- Composed of nation – states that promote voluntary cooperation and coordination among its members. **But,**
- The decisions and agreements reached are not enforceable.
- Members of the IGO do not surrender and sovereignty to it.
- **Agencies that belong to IGO:**
    - World Trade Organization
    - World Intellectual Property Organization
    - Asian Development Bank
    - International Seabed Authority
    - World Wildlife Fund
    - World Health Organization
    - African Union

SUPRANATIONAL ORGANIZATION

- Either global or regional, surrender their power in specific areas to the higher organization.
- An entity where members states formed for mutual benefit and in pursuit of shared goals.
- Decisions reached, must be obeyed.
- There are often courts, determine when the violations have occurred.
- **Agencies that belong to Supranational Org.**
    - United Nations
    - Organization for Economic Cooperation and Development
    - International Labor Organization
    - North American Free Trade Agreement
    - Association of Southeast Asian Nations
    - International Monetary Fund
    - European Union

INTERNATIONAL NON-GOVERNMENTAL ORGANIZATION (INGO)

- Not created by an international treaty / intergovernmental agreement
- Often focuses on a specific around the world.
- It tries to help in alleviating the problems such as **Hunger, Disease, Literacy, Inequalities.**
- Not-for-profit voluntary associations in which its projects are founded by philanthropies or through partial government founding.
- It includes organizations which accept members designated by government authorities, provided that such membership does not interfere w/ the free expression of views of the organization.
- **Agencies that belong to NGO;**
    - World Educational and Cultural Organization
    - Asian Public Health Organization
    - Amnesty International
    - International Committee of the Red Cross
    - Service Civil International
    - International Organization for standardization (ISO)
    - International Chamber of Commerce

LARGE MANUFACTURING CORPORATION

- A major player which consists of multinationals and transnationals.
- Sells goods and manufactured products.
- Production is done in developing countries where taxes are low to make profit and sold in development countries in which people have disposable income.

DPI / disposable personal income

- One of the key economic indicators used to gauge the overall condition of the economy.
- Refers to the amount of money available for spending and saving in every household after income taxes have been deducted.

THE MULTINATIONAL CORPORATION (MNC)

- Also known as **global corporation.**
- An entity that owns and controls production of goods or services in one or more countries aside from their home country.
- It has international identity since they belong to a particular home country where they are headquartered.
- No coordinated product offering in each country hence it is more focused on adapting its products and service to each individual local market.

TRANSATIONAL CORPORATION (TNC)

- A commercial enterprise that operates substantial facilities that does business in more than one country.
- It is different w/ MNC.
- It is borderless thus, does not consider any country its national home.
- Each individual foreign market is given decision-making; research and development; and marketing powers by TNC.

A company which imports and exports products and exports products only w/ no investment outside of the home country is merely referred to as an international corporation. **In other words,** it has no foreign direct investment (FDI).

Exotic retail shops are the best examples of this kind of corporation.

DIFFERENCE BETWEEN MULTINATIONAL & TRANSATIONAL		
	MULTINATIONAL	TRANSITIONAL
	➔ Own a home company and its subsidiaries. ➔ Have a centralized management system ➔ Will face a barrier in decision making due to its centralized management system.	➔ Do not have subsidiaries **but** just many companies. ➔ Do not have centralized management system. ➔ Able to gain more interest on local markets since they maintain their own systems.
EXAMPLE COMPANIES / CORPORATION	✓ Shell ✓ Ford ✓ Pfizer ✓ Hp ✓ Bridgestone ✓ Citibank ✓ Xerox	✓ Pizza hut ✓ Nestle ✓ Dell ✓ Kfc ✓ Mcdo ✓ Oral-B ✓ Lego

ROLES OF INTERNATIONAL FINANCIAL INSITUTIONS IN THE GLOBAL ECONOMY

ROLES OF MNC IN THE ECONOMY	ROLES OF TNC IN THE ECONOMY
Promotion of Foreign Investment. MNC's can bridge the gap between the requirements of foreign capital for increasing foreign investment in a certain country. 1. Promotion of Foreign Investment ➔ Bridge the gap between foreign capital for increasing foreign investment. 2. Technology Transfer ➔ Transfer to sophisticated technology is essential for raising productivity in developing countries to start productive in developing countries to start productive ventures requiring high technology. 3. Promotion of Exports ➔ Promoting experts of a nation where they contribute. 4. Investment of Infrastructure ➔ Well invest in infrastructure such as power projects, modernization of telecommunications, airports, and ports. ➔ Ability to raise resources both globally and domestically.	1. Conquers new markets and seek to further expand economic power. 2. Create complex new opportunities to attract resources and entering foreign markets. 3. An important tool for transfer of technology and management experience to industrial countries. 4. Staff of TNC's enable to organize production and coordination more effectively considering the extensive experience in managing large firms.

BANK

- A financial institution that accepts deposits from the public and creates credit,
- It is highly regulated in most countries due to its significant role in financial stability.

INTERNATIONAL BANK

- Sells financial services and does not create money.
- An intermediary that simply move money from the capital markets to business and institutions.
- Reliable transfer of funds and translations to business practices between countries and different customs all over the world are made possible then.

LARGE BANK

- Large international bank has a major role in globalization.
- Act as affiliate to smaller banks that do not have branches in other countries.

MNC and TNC can consolidate their financial business transactions at a single bank from trade finance, currency transactions, loans, inventory to payroll.

Aside from other banks, financial elites can benefit from this although there is always a possibility that income can become concentrated in the hands of the wealthy. Or **it may lead to income inequality.**

MODERN WORLD – SYSTEM

IMMANUEL WALLERSTEIN (1974)

- Essentially capitalist in nature
- A social system that has boundaries, structures, member groups, rules of legitimation, and coherence.
- The life of the system is made up of the conflicting forces which hod it together by tension and tear it apart as each group seeks eternally to remold it to its advantage
- It possesses the characteristics of an organisms which in some respects change and remain stable in others.

World-system is not new

- It existed long before in which the countries were bound together based on political and military denomination.
- The economic forces pull people, states and societies toward the area of worldwide economic transaction.
- A unit w/ a single division of labor and cultural systems.
    - This determined relationships between different regions including the types of labor conditions w/in regions.

Wallerstein categorized these regions of the world into 4 according to their relative position w/in the world economy:

1) THE CORE

- Powerful, wealthy, and highly independent of outside control regions.
- They dominated the capitalist world-economy and exploits the rest of the system.
- Countries in the northwestern Europe were the first core region developed.

2) THE PERIPHERY

- Areas that lack strong central governments and controlled by other states.
- These regions, which exported raw materials to the core relied on coercive labor practices and are heavily exploited.
- Countries in **Africa region** and **Latin America** are example of least economically developed.
- Based on the World Trade Map, you will see the Philippines also categorized as a Periphery region.

3) THE SEMI-PERIPHERY

- Nations lie between 2 extremes, the core and the periphery, and served as **buffers.**
- They are either exploiting / exploited.
- Tensions can exist between central and local governments.
- They always strive to get into a dominant position of the core state.
- **India** and **Portugal** are examples

4) THE EXTRENAL AREAS

- Regions that maintained their own economic systems.
- They managed to remain outside of the modern world economy.
- Internal trade is given significance by the countries of the region.
- **Russia** is the best example in this case where its power helped regulate the economy and limited foreign commercial influence.

The pressure for incorporation into the world-economy comes out from the nations being incorporated but rather from the need of the world-economy to expand its boundaries.

A balance is important between the state's power and the pressure brought by the outside economic forces.

GLOBAL ECONOMIC INTEGRATION

- Global economic integration if thought to improve the allocation of natural resources, promote technology transfer, and enhance living standards.
- However, it is frequently blamed for growing trade imbalances, increased financial market volatility, and less effective domestic macroeconomic policies.

FACTORS IN PROMOTING THE GROWTH OF ECONOMIC GLOBALIZATION.

The central role of multinational enterprises in the process of the economic globalization **cannot be rejected.**

The breakdown of national barriers through the creation single, integrated world market has facilitated mobility of capital, growth in foreign direct investment, and increases important of transnational corporations (TNCs).

1) REGIONAL INTEGRATION

- States that are within the specific geographical region usually come together to establish a free zone and trade between themselves.
- The practice of two or more countries sitting, meeting, and discussing together, trying to overcome the economic crisis and promote development of it is regional integration.
- An example of this is **the North American Free Trade Agreement** (NAFTA) signed among **Canada, Mexico and United States** creating **a trilateral trade bloc** in **North America**.

2) TRADE LIBERALIZATION

- The free flow of trade between countries around the world.
- The removal of the trade barriers such as;
    - Tariffs
    - taxes on goods
    - services

  is being emphasized by this factor.

3) FOREIGN DIRECT INVESTMENT (FDI)

- Takes place when a foreign firm or individual establishes business operations or acquires business assets which include **establishing ownership** and **controlling interest** in a company in another country.
- It is usually made in open economies that offer skilled workforce and above-average growth prospects for the investor.
- It FDI establishes effective control or influence over the decision-making of foreign business.

The capitalist economist believes that **privatizing and deregulating the economy** will lead to unlimited happiness in the society.

4) PRIVATIZATION

- The government allows private companies to compete in the industry and enterprise.
- This includes turning ownership of a state-owned corporation to a private individual or corporation.

5) DEREGULATION

- ➔ The removal of regulatory barriers in doing business allowing more competition from others but still dominated few players.

Example in the Philippines is **the privatization of the former National Steel Corporation (NSC)** and the **deregulation of oil prices**. Ironically, the effects of such action from the government were not beneficial to the Filipino community per observation.

THEORY OF NEO-LIBERALISM

- ➔ Liberalization and privatization of the economy with reduction of trade barrier for economic development which would benefit all humankind.
- ➔ States should only provide enabling environment for businesses to thrive.
- ➔ Thus, multinational enterprises should have less government policies restriction to have more free access to investment and production in the national and local units.

Factors have exposed some of the injustices and ugly face of globalization. Joseph Stieglitz (2002) opinioned that **economic globalization was never aimed to help the citizens of the developing world.**

The 3 institutions that run it, namely:

- ➔ The International Monetary Fund
- ➔ World Bank
- ➔ World Trade Organization

are all instruments of exploitation in the hands of the elite states of the advanced developed countries