

## Position Paper II

Since the termination of Bretton Wood System in 1970s, the world started to pass into the new globalization era, so-called second age of globalization. Due to the new rules of the 'game', such as floating exchange rate system and free movement of capital, together with the technological advancement globally, different aspects of the world economy, which are international trade, finance, immigration, and production, have been affected. Newly emerged issues of inequality and world economic crises were the subject of numerous disputes, showing also the existence of several drawbacks of the globalization project.

Firstly, the new wave of globalization led to the increased international trade throughout the last decades. Many newly established international organizations, such as OECD (The Organization for Economic Co-operation and Development) and WTO (World Trade Organization), were facilitating this positive trend. It was stated that after 1990s the world trade grew at a higher pace than the world output (Ravenhill, 2008). Moreover, it can be seen in the graph below that trade as percentage of world GDP has increased from around 27% in 1970 to almost 72% in 2017, demonstrating a huge increase (see Figure 1). Free trade policies that are enforced by some international organizations are being popular around the globe. The tendency of trade liberalization can be also observed in the graph of weighted world tariff rate, which has significantly been decreasing so far (see Figure 2).

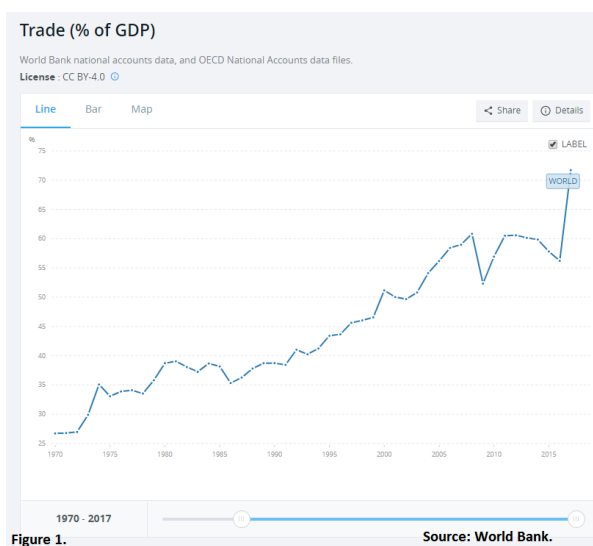


Figure 1.

Source: World Bank.

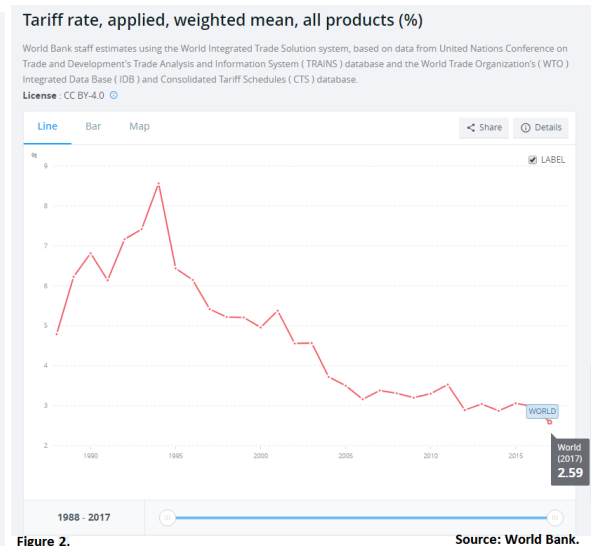


Figure 2.

Source: World Bank.

Another reasonable economic explanation for that is highly competitive environment due to the FDIs (Foreign Direct Investments). After the period of protectionism policies and restricted movement of capital internationally, FDIs became an incentive and a driver for many countries to lower the tariff rates in order to be attractive for foreign investments. As can be seen in Figure 3, net inflows of FDI have an increasing trend, although fluctuating sometimes due to economic crises and different phases of global business cycle.

Furthermore, the demolition of previous constrained monetary system was the reason for

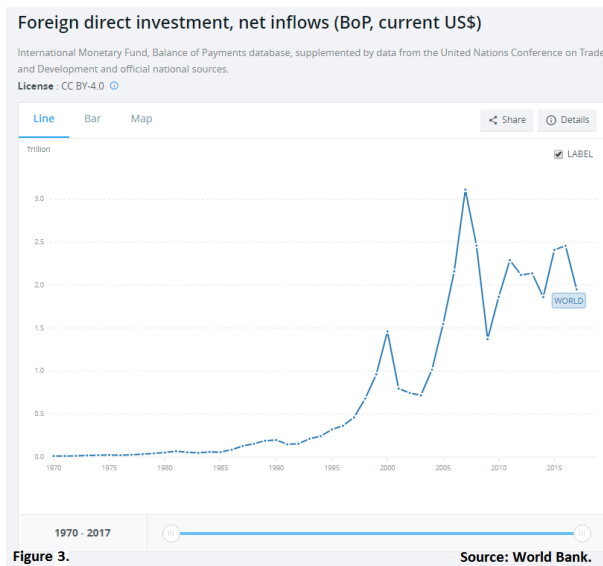
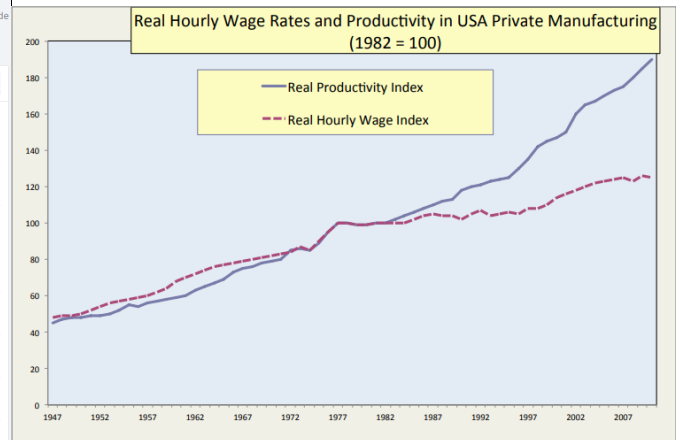


Figure 3.

Source: World Bank.



Source: Economic Policy Institute, Washington DC

Figure 4.

Retrieved from Acar, Sevil, Ebru Voyvoda and A. Erinc Yeldan (2018).

the international financial market to expand largely around the world. In this way the financial sector was also assisting the production, although the global finance expands considerably higher than the real produced output. Additionally, the production has been also improving and rising due to technological advancement of 21<sup>st</sup> century. Generally, the share of manufacture produced in developed countries decreases, while developed ones, mostly Newly Industrialized Countries (NICs), produce manufacture more and more because of the cheap cost of labor in those countries (Ravenhill, 2008). However, the international finance is mostly concentrated in the developed economies, particularly in the western world. The migration of labor after the 1970s is relatively more stable and immobile, in most cases occurring from the South to North direction (Ravenhill, 2008). The underlying reason for that is highly regulated control of borders ubiquitously and costs of migration.

Lastly, among the drawbacks of globalization are economic crises that immediately affect from one part of the world to everywhere and also inequality being resulted from globalized economic system. As seen in the graph, after 1980s profits of companies are considerably higher than the production costs (see Figure 4). It was also stated that the owners of logo and design earn 60%, while the producers far less (Klein, 2002). It is one of the reasons of the rich getting richer and the poor getting poorer.

To conclude, even though the globalization has many positive sides, it has also adverse effects on some groups of people around the globe. Therefore, relevant policies have to be implicated to improve the well-being of everyone.

## References

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