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There was an unprecedented integration of world economies in the 1990s under the combined influence of the opening of Communist Bloc countries to the market economy and the ICT revolution. Goods and capital, with a few exceptions, underwent massive globalisation. Services and workers experienced more limited globalisation, despite growth in some areas.

A global or semi-global village?



By way of introduction...

Geneva, July 2008. Following endless days of intense negotiations, the Doha Cycle ends in failure. The World Trade Organization (WTO) members have not reached a compromise on reducing agricultural subsidies and tariffs on industrial and agricultural products. The prospect grows remote for reaching an agreement that places most countries on an equal footing with regard to trade relations – the “fruit at arm’s length” mentioned by OECD Secretary-General Angel Gurría. World trade integration remains unbalanced and incomplete.

And yet there has been a major upshift in globalisation since the early 1990s. The fall of the Berlin Wall in 1989 and the end of communist regimes defragmented the world. Western countries continued to open to international trade and pursue the deregulation begun in the post-war period. Hundreds of millions of workers and consumers from the former Communist Bloc countries joined the market economy, followed by a billion Indians, whose country has also emerged from a long period of economic isolation.

The ICT revolution made its mark at the same time. Computer science had become widespread in the 1980s, smoothing the way for considerable progress in corporate management and production methods. The Internet, and particularly broadband in the early 2000s, energised international trade. By creating instantaneous communication, eliminating intermediaries and reducing costs, the Web greatly increased corporate productivity. Made-to-measure component orders, assembly and deliveries were now possible. Companies engaged in direct sales, limiting stocks in favour of just-in-time production and distribution and minimising costs. Client companies and their outsourcer databases also communicate instantaneously. Computer systems now speak the same language, freed from geographical constraints.

For some, this new political and technological paradigm has definitively turned the world into the “global village” predicted by philosopher Marshall McLuhan in the late 1960s: a “flat world” that gives free rein to information and economic flows. For others, there are still many obstacles to trade, despite advances in telecommunications. Some analysts even refer to “semi-globalisation”. So which is it? This chapter describes the speeding up of globalisation in the last twenty years and highlights both its intensity and its limits, right up to the

recent economic crisis (see the interview with Raed Safadi at the end of this chapter). Further chapters will analyse its impact.

The (almost) flat world of goods and capital

In the 1990s, “globalisation” refers first and foremost to goods and capital. International trade has exploded, due to the emergence of new markets, but also (more surprisingly) to a strong increase in inter-company trade. The financial world is also more globalised and integrated than ever.

A world goods superstore?

Chinese clothing and components, Indian cars, Scandinavian mobile phones and furniture, Starbucks coffee stores in Paris, Wal-Mart supermarkets all over the world, Carrefour in China, Fnac in Rio... This is globalisation as reflected in our daily lives. These familiar brands and products illustrate an underlying trend that has grown in the past 20 years, despite a brutal setback in the wake of the 2007-08 financial crisis.

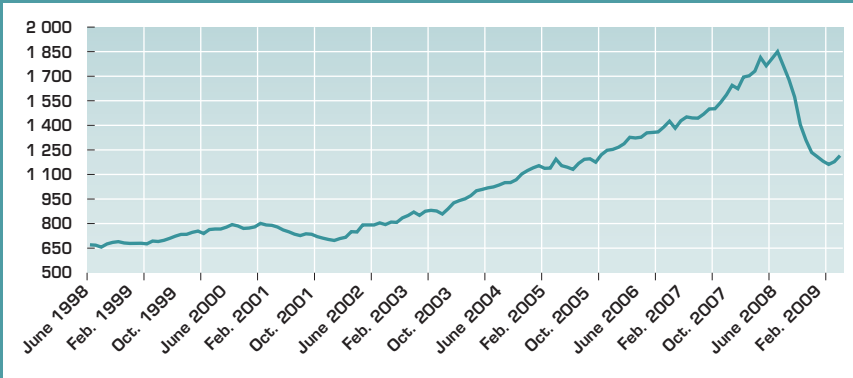
The trend in the global volume of trade in goods speaks for itself. According to the WTO, that volume grew 3% between 2000 and 2006, then 6.5% in 2007 alone. While the global crisis caused a savage 12% drop in 2009, volume quickly picked up again, rising 14% in 2010. The wealth generated by international trade represents an ever-growing share of total global wealth. In 2005, international trade represented 50% of global GDP, compared with 38% in 1985. Starting in 2002, it grew much faster than global GDP. In 2010, global exports of goods grew four times faster than the GDP, very clearly reflecting the growing commercial interdependence of world economies.

Some emerging economies opened to trade particularly quickly. Between 1985 and 2005, the share of foreign trade in the Chinese economy climbed from 24% to 69%. China, the third-largest trading power in the world since 2008, has become a major trading partner of OECD countries. Nevertheless, trade in goods is still much larger – both in volume and in value – within the OECD area than between

4. A global or semi-global village? (1990s to today)

EXPONENTIAL TRADE GROWTH, UP TO THE CRISIS...

Trade in goods throughout the whole OECD, USD billion, corrected for seasonal variations



During the last decade, international trade in OECD countries grew considerably. The 2008 global economic crisis triggered a sudden drop in trade, which resumed at a very fast past pace starting in 2009. In the fourth quarter of 2009, OECD country exports grew by 8%, and imports by close to 7%.

Source: OECD (2010), *OECD Factbook 2010*, OECD Publishing.

StatLink  <http://dx.doi.org/10.1787/888932780095>

the OECD area and the rest of the world. This is due in part to customs tariffs which, while much reduced among developed countries, remain high between developed and developing countries.

The expansion of the European Union from 15 to 27 member countries facilitated economic integration. The share of the 12 new countries in total EU imports rose from 5% in 1993 to 13% in 2005. Some political measures intended to facilitate trade (and described in Chapter 3) seem to have borne fruit.

Intermediate goods, the first driver of trade

One consequence of the fragmentation of production is that economic globalisation today is dominated by the trade and import of components. To produce a finished product – say, a computer – MNE subsidiaries or outsourcers trade its components, for example microprocessors, among themselves. Today, nearly 56% of manufactured goods and about 73% of services exchanged worldwide are intermediate materials and services destined to be included in a finished product or to complete a more complex service. In 30 years, the share of imported components in industrial product manufacturing tripled – from under 10% in 1970 to nearly 30% in 2003.

Low-wage countries have carved out an increasingly larger slice of the cake. Between 1992 and 2004, the share of total intermediate material imports into the OECD area from non-OECD countries rose from 15% to 32%. Today, China and ASEAN countries are the largest suppliers of components of all sorts (automotive, electronic, plastic...) into OECD countries.

“The fragmentation of production constitutes a major phenomenon in the globalisation process. This fragmentation has increased considerably over the last 10 or 15 years at most. Today, numerous countries have found a place somewhere in the global supply chain.”

Thomas Hatzichronoglou, Directorate for Science, Technology and Industry, OECD

A consequence of component globalisation is that intra-company trade has exploded as parent companies and foreign subsidiaries import semi-finished goods from other subsidiaries of the same group. Between 2000 and 2007, intra-company exports represented 15% to 50% of exports of foreign company subsidiaries in a number of OECD countries evaluated by the latest OECD economic globalisation indicators.

An incomplete globalisation of goods

Despite the exponential movement of goods around the planet, goods are far from “perfectly globalised”. First, a number of obstacles to international trade remain. Thanks to the WTO, tariffs have dropped (to an average of 5% globally in 2008), but some sectors remain highly protected. Agricultural products in particular have

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been the subject of the new Doha cycle discussions begun in 2001 under the aegis of the WTO. By early 2010, discussions were still stalling between the United States and Europe on one side, and some emerging economies such as India and Brazil on the other. Divergences remain, particularly with regard to reducing subsidies to European and North American farmers. And there are still also a number of non-tariff-related obstacles to trade, in the form of quotas and subsidies.

In real life	
<p>Jan Blomme, Strategic director of the Antwerp port authority (the second-largest port in Europe)</p> <p>Jan Blomme has worked for the Antwerp port authority for over 20 years. "We've had to expand the left bank and create new basins to absorb container ship traffic", explains the strategic director; just back from India the day before. "Ports are the thermometers of globalisation."</p> <p>An explosion of traffic over the last 10 years: "Our expansion in the 1950s and 1960s was mostly due to the development of heavy industry, as well as imports of energy and raw materials. Then de-industrialisation hit Europe, which decreased its coal imports. Automotive manufacturers, for example, diversified their supply sources and reduced their reliance on steel."</p> <p>Yet the port of Antwerp has never been so successful. Traffic has literally exploded in the past 15 years. In 1990, 102 million tonnes of merchandise transited through the port. In 2007, this went up to 187 million tonnes – "an 80% leap!" exclaims Blomme. All this, thanks to globalisation. "We first saw signs of the stepped-up globalisation process in 1988-90, with the impact of the opening of China to international trade. But the turning point was 1994, when we pulverised our activity forecasts."</p> <p>"Containers have divided the costs of transport by three": For Blomme,</p>	<p>globalisation is inseparable from the revolution created by container ships. In 1993, containers represented only one-quarter of traffic in goods transiting through Antwerp port. Today, half of the goods transiting through Antwerp arrive or leave in containers. "Before, dockers loaded and unloaded bags or crates. Containers have made merchandise handling much faster, removing bottlenecks. Logistics flows are much more efficient. To top it off, goods are better protected from theft and accidental damage, which is an important source of savings."</p> <p>Growing numbers of components and semi-finished products: "The development of container transport, combined with the establishment of new computer and communications infrastructures, allowed companies to manage increasingly complex supply processes", states Blomme. "MNEs have been able to redesign the production process, producing a specific component in a specific area that's either cheaper or better equipped than another. Indonesia and Thailand, for example, have benefited from these movements. Product customisation has also grown. Companies now wait until the last minute for the customer's exact order to assemble the components and deliver the finished product. The distance between the producer and the consumer has shrunk considerably."</p>

In *The Travels of a T-Shirt in the Globalised Economy* (2005), US economist Pietra Rivoli follows the travels of a T-shirt from the cotton field to the store and remarks: “Whatever the positive or negative effects of competitive markets, in my T-shirt’s journey around the world it actually encountered very few free markets.” Manufacturers and importers taking advantage of tax incentives and subsidised farmers dominate the markets, sometimes forcing developing countries to lower their prices below subsistence levels to remain competitive. The protected goods are often those that would normally give the developing countries a comparative advantage. This trend, however, is on the wane, perhaps because the 2008 economic crisis fuelled fears of a return to protectionism – which didn’t happen. A March 2010 joint report by the WTO, the United Nations Conference on Trade and Development (UNCTAD) and the OECD indicated that a majority of G20 member economies had rejected protectionism, considered an obstacle to recovery.

The golden years of financial globalisation

The world economy depends on corporate activity and international trade, but also to a great extent on finance – which has played a major role in economic globalisation, particularly in the last decade. As we’ve seen, the opening of borders to foreign capital initiated in the 1970s became more pronounced in the late 1980s. This concerns finance in a broader sense – bank loans and commercial credits, stocks and bonds (in other words, portfolio securities), FDI, but also currency exchanges, migrant fund transfers to their country of origin, and so on.

This evolution has had a considerable impact: in 30 years, the value of international financial flows has grown disproportionately compared with that of international trade flows. For example, the value of international banking transactions (consumer loans, business loans, etc.) has exploded, from 6% of global GDP in 1972 to nearly 40% in the late 1990s. Likewise, international transactions on the Foreign exchange market (Forex) have reached dizzying heights, soaring from USD 200 billion a day in 1986 to nearly USD 3 000 billion a day in 2007, according to the Bank for International Settlements (BIS). In total, foreign assets and international commitments in direct and portfolio investments expanded from 20% to 140% of GDP between 1970 and the mid-2000s – a much more significant and rapid evolution than international trade (from about 30% to 50% of global GDP) during the

same period. There has, thus, been a major trend towards global financial integration in the past two decades.

But global finance covers a multitude of areas. Here we'll look at FDI, followed by financial markets. The 2008 economic crisis stalled these two essential components of financial globalisation quite brusquely – at least for a while. We'll discuss the resulting soul-searching in Chapter 8.

Widespread cross-border investments

FDI is particularly revealing of global economic integration. When an MNE establishes operations abroad, it can create a new entity or acquire all or part of an existing local company – which includes re-investing the profits of, or granting loans to, its foreign subsidiary. FDI growth often goes hand in hand with growth in international trade of goods and services. As recent MNE strategies have shown, a growing share of FDI is earmarked for developing and exporting foreign production. FDI is thus at the crossroads of financial globalisation and trade globalisation.

The evolution of global FDI is reflected in the surge by MNEs, since the 1970s, to set up foreign operations, particularly in the 1990s-2000s. Global FDI in OECD countries has mushroomed in the last decade, despite a sudden collapse in 2000/01 following the burst of the Internet bubble and the terrorist attacks of 11 September 2001. In 2007, total inward and outward FDI flows in the OECD area were close to USD 3 500 billion – a historic record (see graph). While the 2008 crisis caused a severe fall of FDI in the following year, recent figures indicate a recovery.

Even more revealing of global economic integration is the fact that the share of FDI in capital formation has grown. In the early 2000s, OECD countries spent over 10% of their capital on FDI – up from a 4% average in previous decades. From 2005-08, the relative weight of foreign subsidiaries in industrial sector turnover grew in almost all OECD countries. However, this increased globalisation of corporate financing varies according to the development level of the major world regions.

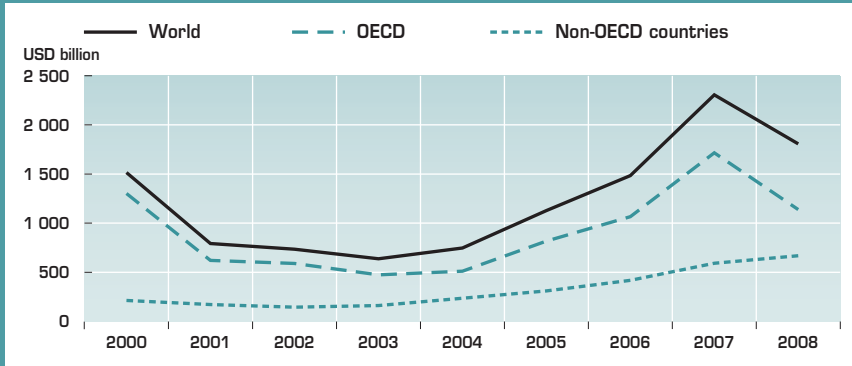
The dynamism of developing countries with regard to FDI

Until recently, developed countries absorbed most global FDI. According to UNCTAD, developed countries captured USD 1 250 billion in




VERY DYNAMIC FOREIGN INVESTMENT, UNTIL THE CRISIS HITS...

Inward FDI flows by development level, USD billion



After a decade of rapid increase, inward FDI halted suddenly following the financial crisis in several developed countries. In 2008, inward FDI dropped 35% in the OECD area. On the other hand, non-OECD countries – particularly Asia – continued to receive an important flow of FDI (+13% over the same period).

Source: OECD (2010), *Indicators of Economic Globalisation*.

StatLink  <http://dx.doi.org/10.1787/888932780114>

FDI in 2007 – or 68% of the USD 1 830 billion global volume. However, its 2011 report indicated that for the first time in 2010, emerging and transition economies absorbed over 50% of global FDI and represented 50% of the top 20 FDI host countries.

Even more significantly, developing and transition economies also invest abroad. Their outward FDI flows have greatly increased and today represent 29% of global outward FDI. In 2010, six developing or transition economies ranked among the 20 largest global investors. This illustrates the “wealth shift” of recent years, accelerated by the 2008 economic crisis (see Chapter 5).

Increasingly integrated financial markets

Financial markets are also emblematic of the more recent phase of economic globalisation. Take stocks and bonds. They're the most directly linked to corporate activities, which relied on them heavily for financing from the 1970s onward after adoption of a range of rules promoting their use and trade. Stock ownership has become increasingly important in corporate financing systems, to the expense of business loans. Equities – whether as shares in companies (stocks) or fragments of debt (bonds) – feed corporate activity and can be traded like any other product. In parallel with this development, many countries have lifted barriers to international capital movements – as seen in the previous chapter. This has enabled economic actors (households, companies, and governments) to trade securities on all the major global markets. This combination of the growing weight of stock markets in economic activity and the deregulation of capital is at the root of today's very advanced financial market globalisation.

Some facts and figures

First, the annual amount of international securities trading in developed countries has outgrown their cumulated GDP. In the 1970s, it only represented a minuscule share. This reflects the growing internationalisation of stock markets.

Another illustration of this phenomenon: securities traded on the major world stock markets are increasingly owned by foreign operators. According to French Central Bank governor Christian Noyer, non-residents held 46% of French market capitalisation and slightly over 50% of French government bonds in 2007.

Finally, the indexes of the major global financial centres (Frankfurt, London, New York, Paris, and Tokyo) have fluctuated in almost perfect synchrony since the late 1990s. Before that, indexes could behave very differently. Between 1930 and 1950, the correlation between Wall Street and Paris was even negative: when yields went up on one side of the Atlantic, they went down on the other. The fact that the stock market indicators of major financial centres today change in almost perfect unison demonstrates that stock traders can act almost simultaneously in all the world's financial centres.

The weight of financial markets in economic activity has, then, increased strikingly at the same time as they have internationalised. How do we explain this weight?

Principal causes

Three major trends emerged in the late 1970s, called the “3 Ds”: deregulation, disintermediation and decompartmentalisation. We have already mentioned deregulation in the wider sense – the removal or relaxing by governments of barriers to movements of capital. Disintermediation means that companies and households can now secure financing directly on the markets rather than through banks. (This phenomenon – largely due to the development of shareholder capitalism – should however be nuanced, because banks remain vital intermediaries in numerous financial market transactions.) Finally, an important defragmentation movement has helped further facilitate securities trading on financial markets: operators can now navigate the different kinds of financial market (money market, bond market, exchange market, futures markets, etc.) to find financing, investments or hedging instruments and trade all sorts of securities across borders.

It is worth noting that financial products have become even more diverse and internationally mobile with the emergence of derivatives. These complex products were designed to spread and minimise risks linked to conventional securities (stocks, bonds, etc.). Since their appearance in the 1990s, they have become increasingly sophisticated and are now a market in and of themselves. The total value of derivatives traded is much greater than that of stocks and bonds. The spread of the 2008 financial crisis stemmed in part from these kinds of product and their internationalisation (see Chapter 8).

Finally, the growing globalisation of financial markets since the 1990s cannot be dissociated from their growing computerisation, which enabled traders to buy and sell securities instantaneously on all the major stock markets. Some traders carry out last-minute operations on traded securities, sometimes with huge sums at stake. And some stock operations are performed today by computers, without any human intervention whatsoever. This further boosts the movement of capital across the planet and reinforces the international integration of financial markets.

But financial globalisation is still incomplete

It shouldn't be concluded from the above that finance is entirely globalised today. First of all, world finance was more integrated in some (essentially monetary) respects in the late 19th century than it is today. Before the Bretton Woods Agreement, the vast majority of international transactions were paid for – and made simpler – with the gold standard, even if international capital movement was otherwise very limited.

In the same vein, the fixed exchange rate system established at Bretton Woods came closer to a true global monetary system than the current international monetary system. Today, governments – or monetary zones such as the euro zone – can exercise sovereignty on their currency rate.

Also, while cross-border investment has increased dramatically, market participants still appear to prefer domestic investments to international investments: both equity investments in companies and market transactions are more national than international. Cultural proximity, then, is still an important factor in financial decisions.

Finally, let's not forget that while free capital movement became widespread in the 1970s, some governments (such as India, Pakistan, and to some extent China) still greatly restrict financial flows.

Services and workers:

A case of “semi-globalisation”?

Today, the services and employment markets are still primarily domestic, due essentially to the importance of cultural factors in these sectors. In many fields, “Globalisation is still just beginning”, noted former OECD Secretary-general David Johnston in the *OECD Observer* in 2005. But services and labour cover a whole range of disparate activities, some of which are highly globalised.

The intense internationalisation of a small number of services

Goods and services represent, respectively, 80% and 20% of total international trade – a share that has remained stable over the past 30 years. In the OECD area, international trade in services represented on average less than 6% of total GDP from 2005-08, and international trade in goods 22% of GDP. Yet services are the largest sector in developed countries, representing 70% of the total value added of OECD economies – a share which is rising.

Several factors explain why services are less globalised. By virtue of their intangible nature, services are less easy to export than goods – it’s simpler (in principle) to export a computer than an after-sales service. Many services (such as the hotel industry, personal services, industrial cleaning firms) require physical proximity and for the supplier and consumer to share the same language and culture, which isn’t the case when selling a product.

Further, some services are “protected” because they are deemed strategic to the general interest. Depending on the country, education, health, energy and public transportation are more or less protected from international competition. Yet some public sectors (telecommunications, transport, energy, etc.) have been open to competition – especially within the European Union – since the early 1990s.

Despite this, services have been, overall, more globalised since the 1990s. Thanks to ICT, new “intermediate” services – business services, computer technicians, data management, programming, scientific research and engineering – can now be outsourced. Their recent internationalisation has also been facilitated by the emergence of a qualified labour force in low-wage countries.

India, for example, has captured much of the market for these kinds of service. Indian companies have built such critical mass – a single company might employ 60 000 computer technicians of all levels – that they can handle the most diverse requests coming from industrialised countries. Countries such as the Philippines, Viet Nam and China are also very active. Thus a New York hospital chain now outsources patients’ claims processing to Xi’an, in central China, where rental and operational costs are 40% lower than in Beijing. This high technology development cluster now exports all kinds of service activities and symbolises the globalisation of a particularly strategic service centre: research and development (R&D).

“While the internationalisation of R&D isn’t entirely new, the current phase has three distinguishing characteristics: it’s gathering pace, it is spreading to more countries, including developing countries, and it goes beyond adapting technology to local conditions. In the 1980s, R&D investments mainly took place between developed countries through mergers and acquisitions (M&As), but in the 1990s developing countries became increasingly attractive locations for R&D investments.”

OECD (2008), *Internationalisation of Business R&D: Evidence, Impacts and Implications*

Since 1996, R&D investments have grown fastest in China thanks to investments by foreign MNEs. The Xi’an innovation area – which should eventually cover 90 km² – features a technology park housing thousands of companies. The Chinese space programme was developed here. Several major MNEs that rely crucially on R&D, including Japan’s NEC and Germany’s Siemens, now develop some of their products there. Meanwhile, US telecom manufacturer Motorola and database software giant Oracle have established R&D centres in Beijing and the Franco-American Alcatel-Lucent group has an important research centre in Shanghai.

Major groups are now also investing in India and run one or several strategic R&D centres there. Since the early 2000s, US industrial conglomerate General Electric (GE) has operated its largest R&D centre (in terms of researchers and performance) in Bangalore, southern India. MNEs are motivated by proximity to a vast supply of qualified personnel, which they can rely on to handle increased demand.

Highly controlled labour flows

Of all the areas touched by globalisation, labour is the least affected. Today, migrants represent only 3% of world population. There are several reasons for this, including the many uncertainties (mainly due to linguistic and cultural differences) inherent in moving to a foreign country. Many countries also strictly regulate immigration according to the state of their economy, their labour needs, and sometimes their identity crises.

Despite the psychological, cultural and political obstacles, labour globalisation is nevertheless on the rise, with increased migratory flows over the past 20 years. Contrary to popular belief and sometimes

exaggerated media coverage of the subject, migrant flows do not go simply from poor countries to affluent countries. Today, migration is distributed according to major development areas: one-third of migrants migrate “south-north”, one-third “south-south”, and the final third “north-north” (north-south migrations are very limited). But it’s true that migration from developing countries to developed countries has increased since the 1960s and that the dynamic has accelerated since the mid-1990s. Thus, in most OECD countries, the share of foreign workers in the active population has grown. According to the World Bank, immigrants account for over 10% of the population of high-income countries.

The 2008 economic crisis seems to have somewhat slowed migration. Workers from developing countries are more reluctant to emigrate to Western countries in the throes of a full-blown crisis, particularly in sectors that were once eager for foreign labour, such as the construction industry in Spain and Ireland. But everything indicates that migration from developing countries to developed countries will continue to rise in coming years. This trend also applies to highly qualified workers.

The globalisation of brain power

Many highly qualified workers are more mobile than others and often work abroad or for foreign companies. While a minority have long migrated from one developed country to another, their south-north flows are more recent. In developing countries – and especially emerging countries – highly qualified workers are increasingly numerous. Many of them therefore choose to move to developed countries, which offer higher wages and more attractive career prospects. This feeds the “brain drain” debate as affluent countries attract those individuals most likely to lead their native country on the path to development.

But businesses in developed countries are also going to the emerging economies where the highly qualified workers live. As we’ve seen, Western MNEs have set up R&D sectors in China and India. The advent of the knowledge economy – where knowledge and innovation are the most important source of value added – means that highly qualified workers are especially in demand and employers are now tracking high potential on university campuses.

In fact, companies are now engaging in global competition to attract those PhD candidates who will become the best researchers in their respective disciplines. Those governments that will win the brain war will have a huge competitive advantage in the knowledge economy. Some higher education institutions now decentralise operations. In 2004, Britain's Nottingham University created two new Asian campuses in China and Malaysia. A growing number of universities are following suit, which allows them to exchange professors, researchers and future graduates. In 2007, 2.5 million students were enrolled in a university outside their own country. This represents a 59.3% increase (and average 6.9% annual increase) since 2000 and is a much faster phenomenon than growth in the total number of enrolled students. Higher education is fast becoming globalised.

By way of conclusion...

Globalisation of goods and capital has seen unprecedented growth since the early 1990s, but the world is still not “flat”. The metaphor of the global village is vastly exaggerated, even with regard to the movement of goods. Many obstacles to trade remain and in some sectors globalisation has barely begun. The 2008 economic crisis seems to have slowed it down temporarily (see the conversation below) and highlighted some imbalances. Having assessed the scale of globalisation in its various guises, we can begin to evaluate its effects.

Globalisation is not necessarily desirable in and of itself. Its impacts can be mixed and are sometimes difficult to measure. While some of its effects are obvious, indirect impacts can play a more important role. The following chapter seeks to take stock of the most controversial aspects of globalisation.

A conversation	
<p>Raed Safadi, deputy director, Trade and Agriculture directorate, OECD</p> <p>"We must make the best possible use of our comparative advantages."</p> <p><i>Following the 2008 financial and economic crisis, international trade screeched to a halt. Did the crisis lead to "deglobalisation", as some commentators have stated?</i></p> <p>Absolutely not. While the volume of international trade did indeed plummet to 12.5% in 2009, this stemmed from factors such as lower demand, the composition of international trade according to the different product types and the lack of financing opportunities for trade that followed the late 2008 financial crisis. Due to the difficulties they were experiencing, banks tightened their credit conditions. This affected all sectors of the economy, and particularly exports, for several reasons. On the one hand, banks consider international transactions as riskier, by their very nature, than domestic transactions. In times of crisis, banks are even more risk-averse than usual in financing international trade operations. In addition, the financial and economic crisis translated into a general drop in demand, including international trade. One could talk of "deglobalisation" if countries had reacted to the crisis by applying protectionist measures, but this was not the case. The OECD, which constantly called on governments to resist protectionist tendencies, wielded positive influence in this respect. In fact, international trade picked up very quickly from as early as 2009. In the fourth quarter of 2009, OECD area exports and imports grew 8% and 7% respectively.</p> <p><i>Yet globalisation undeniably helped the crisis to spread. Doesn't this prove that global economic integration can also be dangerous?</i></p> <p>International economic relations are like relationships among people: getting close can be beneficial, but living together can require effort. It means making compromises</p>	<p>and taking risks. When a husband or wife falls ill, the other spouse also runs a higher risk of becoming ill – which doesn't mean that the union isn't desirable. One could be tempted to end the relationship and become self-sufficient, but that would mean losing all the benefits of the relationship.</p> <p><i>Aren't there examples of countries that have made lasting progress, while remaining closed to international trade?</i></p> <p>No. Countries that have remained isolated from the rest of the world with the belief that they could grow and develop just on the basis of their own economy have failed. Look at the USSR, or at North Korea today, which has no competitive industries. The past two decades have shown that countries – and particularly developing countries – that open to trade and economic integration experience enhanced growth and development. In the 1970s, about two-thirds of South-East Asian countries were poor. Today, thanks to their integration into world markets, most are experiencing spectacular growth. Likewise, China owes its economic success to the fact that it opened to the global economy in the late 1970s.</p> <p><i>That said, the successful countries you highlight entered globalisation very gradually and kept some regulations.</i></p> <p>We're not saying countries should launch into globalised markets without any protection. Some precautions may be necessary to ensure a safe transition to an open economy. The rules of the WTO precisely aim to correct certain imbalances through preferential regimes and derogations according to national strengths and weaknesses. Now more than ever, consensus is necessary within the multilateral frameworks (among others) of the WTO, the IMF and the OECD.</p> <p>The real problem lies in unilateral restrictions and regulations, which create important distortions in international trade and serious financial imbalances. We must all work towards maintaining an equilibrium.</p>

4. A global or semi-global village? (1990s to today)

A conversation (cont.)	
<p><i>Can't a certain measure of protectionism be legitimate in some cases?</i></p> <p>Today, a country that adopts a protectionist attitude shoots itself in the foot. Any country that limits imports of certain products would immediately be subjected to protectionist reactions from other countries importing its own products. Given that international trade consists very largely today of trade in semi-finished products, any country that adopts protectionist measures would go against the interests of its own companies, because it would increase the cost of sourcing semi-finished products from the rest of the world.</p> <p>Globalisation gives companies, consumers and workers the ability to choose their suppliers, their products, their employers, etc. Governments shouldn't limit this freedom of choice, except when absolutely necessary – such as when there is a need to protect public health or security.</p> <p><i>But globalisation doesn't always benefit everyone. Some African farmers, for example, are penalised and sometimes threatened by the opening of their national borders to international competition.</i></p> <p>Of course, some adjustments can be painful. It's up to governments, NGOs and international organisations to make sure the transition goes</p>	<p>as smoothly as possible. But in the long term, openness is always preferable. It's not advisable to aim for food self-sufficiency when a country's climate, soil or topography make farming difficult. Similarly, a country whose agricultural sector isn't very profitable must try to orient its producers to other sectors. It's best for a country to open its borders to agricultural products from other countries and make the best possible use of its own comparative advantages.</p> <p>Let me add that not all African farmers have suffered from globalisation – as witnessed by the Kenyan farmers who specialise in cut flowers and have been successfully exporting them around the world for several years.</p> <p><i>International trade was one of the first sectors to start to recover as of mid-2009. Do you think it will grow stronger?</i></p> <p>That will depend on the determination of governments to promote international trade effectively. I think that trade will have stabilised by the time the Doha Agreement is finally reached. Only then will international trade truly flourish. If countries seize this opportunity while taking measures to help vulnerable populations adapt, this will necessarily benefit growth, progress and well-being.</p>

Find out more

FROM OECD...

On the Internet

International trade statistics: This website measures the intensity of international trade. It provides access to several databases on the trade in goods (broken down by product and partner country) and services (broken down by service type and partner country) and the balance of payments of many countries. It also features numerous analyses of international trade data, as well as methodological recommendations. www.oecd.org/std/echanges.

Publications

International Trade: Free, Fair and Open?

(2009): This OECD Insights manual maintains that prosperity has rarely – if ever – been reached or maintained without the help of trade. Yet trade alone isn't a sufficient condition for prosperity. Policies on employment, education, health and other sectors are necessary to enhance well-being and overcome the challenges of a globalised economy.

Measuring Globalisation: OECD Economic Globalisation Indicators 2010: (2010, available only in English.) This second edition presents numerous indicators: capital movements, FDI, international trade, the economic activity of MNEs and technological globalisation. This edition also includes indicators of the financial crisis, investments in financial products, the environment, and the emergence of global value chains.

... AND OTHER SOURCES

On the Internet

WTO Statistics Database: This interactive database allows users to determine the profiles of many individual countries, as well as groups of countries, in various sectors: trading structure and measures, tariffs and tariff policies, and the main "infrastructure services" (transport, telecommunications, finance and insurance). www.stat.wto.org.

Publications

Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter:

Pankaj Ghemawat, a professor at the Esade business school in Barcelona, develops here an original view of globalisation. He insists on the unfinished aspect of the process, which he terms "semi-globalisation". For him, cultural, regulatory and administrative differences still help maintain very defined national borders.

Global Monitoring with the BIS international banking statistics (2008):

Based in Basel, the Bank for International Settlements (BIS) collects and analyses a large quantity of statistical data on global financial flows. These resources establish a particularly enlightening map of global finance.

Reaping the Benefits of Financial Globalization:

This document, published by the IMF before the 2008 financial crisis, paints a broad and fairly comprehensive picture of financial globalisation.



From:
Economic Globalisation
Origins and consequences

Access the complete publication at:
<https://doi.org/10.1787/9789264111905-en>

Please cite this chapter as:

Huwart, Jean-Yves and Loïc Verdier (2013), "A global or semi-global village? (1990s to today)", in *Economic Globalisation: Origins and consequences*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264111905-5-en>

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