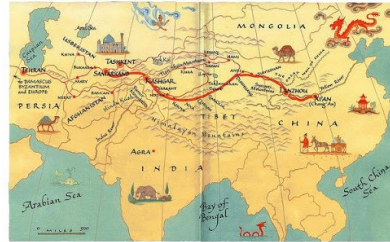


Silk roads (1st – 5th Century BC)

- In the 1st century BC, for the first time, luxury products from China started to appear in Rome.
 - They got there after being hauled for thousands of miles along the Silk Road.
 - The main commodities being traded were luxury items like silk



*BRI.
Belt & Road
Initiative.*

1

1

Silk roads (13th – 14th Century)

- As a percentage of the total economy, the value of these exports was tiny, and many middlemen were involved
- This trade route again opened in the 13th and 14th century under the influence of the Mongols



2

2

Spice routes (7th -15th centuries)

- The next chapter in trade happened thanks to Islamic merchants.
- This trade grew with the growth of the new religion – Islam
 - Trade was thus in the DNA of the new religion and its followers
- Muslim traders dominated Mediterranean and Indian Ocean trade



3

3

Spice routes (7th -15th centuries)

- The main focus of Islamic trade in those Middle Ages were spices.
- Unlike silk, spices were traded mainly by sea since ancient times.
 - Chief among them were the cloves, nutmeg and mace from the Maluku islands in Indonesia.
- But as with silk, they remained a luxury product, and trade remained relatively low volume.



4

4

Age of Discovery (15th -18th centuries)

- Truly global trade kicked off.
- European explorers accidentally discovered the Americas
- Aided by the discoveries of the so-called "Scientific Revolution", the Europeans first "discovered", then subjugated, and finally integrated new lands in their economies.



Navigation.
↳ Compass.
↳ Latitudes
↳ Longitudes.

5

5

Age of Discovery (15th -18th centuries)

- Magellan was able to circumnavigate the globe
 - It opened the door to the Spice islands, cutting out Arab and Italian middlemen.
- While trade once again remained small compared to total GDP, it certainly altered people's lives.
- Potatoes, tomatoes, coffee and chocolate were introduced in Europe, and the price of spices fell steeply.

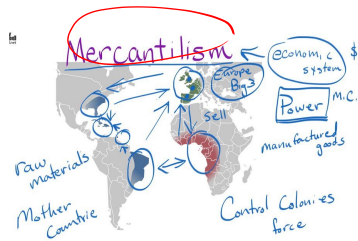


6

6

Age of Discovery (15th -18th centuries)

- The European empires set up global supply chains, but mostly with those colonies they owned.
- Moreover, their colonial model was chiefly one of exploitation, including the shameful legacy of the slave trade.
- The empires thus created both a mercantilist and a colonial economy, but not a truly globalized one.

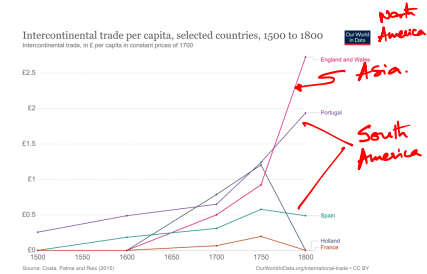


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7

Age of Discovery (15th -18th centuries)

- Before the 1st wave of globalization, trade was driven mostly by colonialism
 - Over the early modern period, transoceanic flows of goods between empires and colonies accounted for an important part of international trade.
- As we can see, intercontinental trade was very dynamic, with volumes varying considerably across time and from empire to empire.




8

8

1st wave of globalization (19th century - 1914)

Cotton → Clothes → Mkt → Sold
India UK India UK → WWI

- It was the era of the First Industrial Revolution.
- By the end of the 18th century, Great Britain had started to dominate the world
 - Geographically, through the establishment of the British Empire
 - Technologically, with innovations like the steam engine, the industrial weaving machine and more.
 - "With its advanced industrial technologies, Britain was able to attack a huge and rapidly expanding international market." - BBC




9

1st wave of globalization (19th century - 1914)

- For about a century, trade grew on average 3% per year. It propelled exports from a share of 6% of global GDP to 14% on the eve of WW-I.
 - "The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole Earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep." - John Maynard Keynes
- Foreign direct investment, too, was globalizing.
 - Those with the means in New York, Paris, London or Berlin could also invest in internationally active joint stock companies.

Suez / Panama.



10

1st wave of globalization (19th century - 1914)

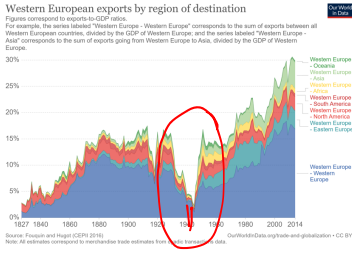
Developed → Emerging.

- The era saw rapid economic growth, trade that grew faster than GDP, mass migration from Europe to the New World and convergence of real wages between the old and new worlds.
- Migration rates were remarkable.
 - In the decade 1901-10, 5% of those from Austria-Hungary left the country, more than 6% of Britons, 7% of the Irish, 8% of Norwegians, and nearly 11% of Italians.
 - Argentina added another 30% to its population, in immigrants alone, in that decade.
 - Europe had lots of workers; the new world not so many. So as the workers moved, real wages nearly doubled in Europe during the period compared with a 50% rise in America.

11

1st wave of globalization (19th century - 1914)

- The first wave of globalization was marked by the rise and collapse of intra-European trade
- This chart shows that growth in Western European trade throughout the 19th century was largely driven by trade within the region
 - In the period 1830-1900 intra-European exports went from 1% of GDP to 10% of GDP
 - But this process of European integration then collapsed sharply in the interwar period.
 - After the Second World War trade within Europe rebounded, and from the 1990s onwards exceeded the highest levels of the first wave of globalization.
 - In addition Western Europe then started to increasingly trade with Asia, the Americas, and to a smaller extent Africa and Oceania.




12

The world wars

Austria Hungary

Assassination

- In 1914, the outbreak of WW I brought an end to just about everything including globalization.
 - War replaced trade, destruction replaced construction, and countries closed their borders yet again.
- In the years between the world wars, the financial markets, which were still connected in a global web, caused a further breakdown of the global economy and its links.
 - The Great Depression in the US led to the end of the boom in South America, and a run on the banks in many other parts of the world.
- Another world war followed in 1939-1945.
 - By the end of WW II, trade as a percentage of world GDP had fallen to 5% – a level not seen in more than a hundred years.



13

The world wars

- Globalization was one of the forces that helped create the WW I because of its profoundly destabilizing effects.
- In large part globalisation is about the more efficient allocation of resources—labour, capital, even land—and that creates change.
 - Germany and America were able to catch up and, in the latter's case, surpass the British economy.
 - The pax Britannica in which Britain supported global trade through its powerful navy and financial system was weakened; the Bank of England needed loans from other central banks when Barings collapsed in 1890.
- Industrialists emerged as the new source of power to challenge the old aristocratic elites
 - Workers were able to use their muscle to demand more rights and, increasingly, the vote.
- Elites turned to nationalism as a way of distracting voters from economic issues and shoring up their support.
- This nationalism led to clashes with the other great powers where their interests diverged; between Britain and Russia in Asia; Russia and Austria in the Balkans; Germany and France in north Africa.

14

13

14

2nd wave of globalization (1945 - 1989)

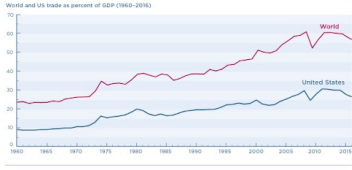
↳ 2nd Industrial Revolution

US vs Allies

↳ Berlin Wall USSR

- The end of the WW II marked a new beginning for the global economy.
- Under the leadership of the USA and aided by the technologies of the Second Industrial Revolution, like the car and the plane, global trade started to rise once again.
 - At first, this happened in two separate tracks, as the Iron Curtain divided the world into two spheres of influence. But as of 1989, when the Iron Curtain fell, globalization became a truly global phenomenon.
- In the early decades after World War II, institutions like the EU, NAFTA and other free trade zones were responsible for much of the increase in international trade.
 - The effect was profound. Worldwide, trade once again rose to 1914 levels; in 1989, export once again counted for 14% of global GDP.

Trade grew to a third of the US economy and over half of the world's economy

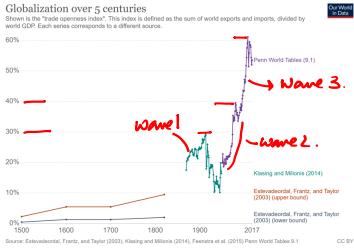


15

2nd wave of globalization (1945 - 1989)

- The ratio of total trade, exports plus imports, to global GDP is known as the 'openness index'.
 - The higher the index, the higher the influence of trade transactions on global economic activity.
- The first "wave of globalization" started in the 19th century, the second one after WW2
 - Until 1800 there was a long period characterized by persistently low international trade – globally the index never exceeded 10% before 1800.
 - This then changed over the course of the 19th century, when technological advances triggered a period of marked growth in world trade – the so-called 'first wave of globalization'.
 - The first wave of globalization came to an end with the beginning of the First World War, when the decline of liberalism and the rise of nationalism led to a slump in international trade.
 - After the Second World War trade started growing again.
- This new wave of globalization has seen international trade grow faster than ever before. Today the sum of exports and imports across nations amounts to more than 50% of the value of total global output.

Globalization over 5 centuries



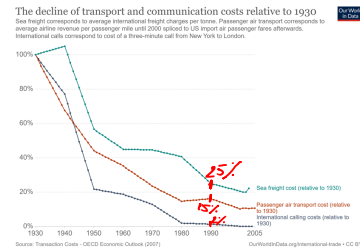
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16

2nd wave of globalization (1945 - 1989)

- The second wave of globalization was enabled by technology
 - The world-wide expansion of trade was largely possible because of reductions in transaction costs stemming from technological advances, such as the development of commercial civil aviation, the improvement of productivity in the merchant marines, and the democratization of the telephone as the main mode of communication.
- The first wave of globalization was characterized by inter-industry trade.
 - In the second wave of globalization we are seeing a rise in intra-industry trade (i.e. the exchange of broadly similar goods and services is becoming more and more common).

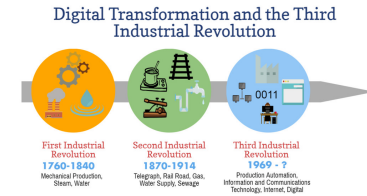


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3rd wave of globalization (1989 - 2008)

→ How many factors.

- A new technology from the Third Industrial Revolution, the internet, connected people all over the world in an even more direct way.
 - The orders Keynes could place by phone in 1914 could now be placed over the internet.
 - Instead of having them delivered in a few weeks, they would arrive at one's doorstep in a few days.
- What was more, the internet also allowed for a further global integration of value chains.
 - You could do R&D in one country, sourcing in others, production in yet another, and distribution all over the world.



18



Consequences of Globalization

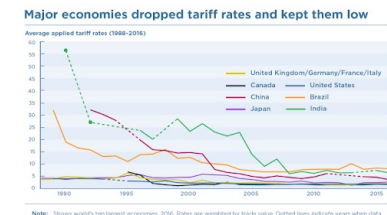
- 1990s - open trade in Russia
- 1990s - China began free-market reforms, stock markets opened in Shanghai & Shenzhen
- 1990 - India was in serious economic crisis
 - 1991 democratic government made major reforms to allow for trade of goods and services with other countries
- 1994 - Brazilian Central Government introduced Plano Real

LPG.
IMF/World Bank.

19

3rd wave of globalization (1989 - 2008)

- When the Soviet Union collapsed, globalization became an all-conquering force.
 - The newly created WTO encouraged nations all over the world to enter into free-trade agreements.
- Migration increased again
 - Reverse migration, from the developing world to the developed.
- Economic integration meant that financial crises could quickly spread
 - American subprime mortgages hit the world in 2008
 - Chinese bad debt a ticking time bomb



Emerging → Developed.

20

3rd wave of globalization (1989 - 2008)

- Within the economy two big changes have occurred.
 - Manufacturing capacity has moved from the developed world to Asia.
 - Technology has rewarded skilled workers and widened pay gaps.
- In the 2000s, global exports reached a quarter of global GDP. *25%*
 - Trade, the sum of imports and exports, grew to about half of world GDP. *50%*
- Voters have rebelled by turning to parties that reject globalisation.
 - Nationalism is on the rise again

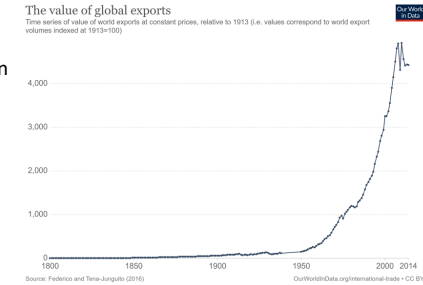


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21

3rd wave of globalization (1989 - 2008)

- Trade has grown remarkably over the last century
 - The integration of national economies into a global economic system has been one of the most important developments of the last century.
- This chart shows an extraordinary growth in international trade over the last couple of centuries: Exports today are more than 40 times larger than in 1913.



22

22

3rd wave of globalization (1989 - 2008)

- Trade has grown more than proportionately with GDP
- The chart plots the value of trade in goods relative to GDP (i.e. the value of merchandise trade as a share of global economic output).
- Over the last hundred years of economic growth, there has been more than proportional growth in global trade.
 - Up to 1870, the sum of worldwide exports accounted for less than 10% of global output.
 - Today, the value of exported goods around the world is close to 25%.



23

23

4th wave of globalization (2009 -)

- As before the 4th wave of globalization moves in tandem with the 4th industrial revolution.
 - The new frontier of globalization is the cyber world.
- The digital economy, in its infancy during the third wave of globalization, is now becoming a force to reckon with through e-commerce, digital services, 3D printing.
 - It is further enabled by artificial intelligence but threatened by cross-border hacking and cyberattacks.



24

24

4th wave of globalization (2009 -)

- Protectionism, trade wars and immigration stops are once again the order of the day in many countries.
 - In the West particularly, many middle-class workers are fed up with a political and economic system that resulted in economic inequality, social instability, and – in some countries – mass immigration, even if it also led to economic growth and cheaper products.
- As a percentage of GDP, global exports have stalled and even started to go in reverse
 - As a political ideology, “globalism”, or the idea that one should take a global perspective, is on the wane.



25

25

4th wave of globalization (2009 -)

- At the same time, negative globalization is expanding too
 - Through the global effect of climate change.
- Just as in the first era, globalisation has disrupted international and domestic power structures.
 - Voters will reward nativism
- Governments will appear to grab a larger share of global trade for their own countries.
 - In doing so, they will cause trade to shrink.



The adverse effects of globalization include environmental degradation and pollution

26

26

4th wave of globalization (2009 -)

- From the early 1980s to 2008, most companies could count on a business-friendly political environment.
 - But it looks as if that era has ended.
- We may see more resistance to globalisation from governments
 - Foreign takeovers will be blocked
 - Domestic companies will be subsidised or favoured in government programmes
 - Tit-for-tat trade embargoes and tariffs will be imposed
 - The WTO could come under threat.
 - Immigration will be discouraged, even of high-skilled workers.



27

27

Current World Trading System

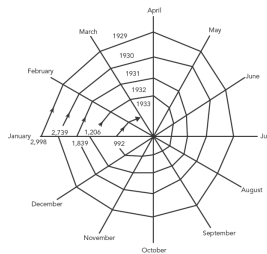
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How has the Current World Trading System Emerged?

- Until the **Great Depression** of the 1930s, most countries had some degree of protectionism
 - Smoot-Hawley Act (1930)
- **After WWII**, the U.S. and other nations realized the value of free trade
 - established the General Agreement on Tariffs and Trade (GATT) - a multilateral agreement to liberalize trade

Figure 8.1: Down the Tube: Contraction of World Trade during the Great Depression 1929–1933 (millions US\$)



Source: C. Kindleberger, 1973, *The World in Depression* (p. 170), Berkeley: University of California Press.

29

29

How has the Current World Trading System Emerged?

*- Auto
- Electronic
- Gaming.*

- In the 1980s and early 1990s protectionist trends emerged
 - Japan's perceived protectionist (**neo-mercantilist**) policies created intense political pressures in other countries
 - persistent trade deficits by the U.S
 - use of non-tariff barriers increased
- **GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT): 1948–1994**
 - The GATT's major contribution was to reduce the level of tariffs by sponsoring rounds of multilateral negotiations

30

30

How has the Current World Trading System Emerged?

- The Uruguay Round of **GATT negotiations** began in 1986 focusing on
 - Services and intellectual property
 - going beyond manufactured goods to address trade issues related to services and intellectual property, and agriculture
 - The **World Trade Organization**
 - it was hoped that enforcement mechanisms would make the WTO a more effective policeman of the global trade rules

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How has the Current World Trading System Emerged?

- The WTO encompassed GATT along with two sister organizations
 - the **General Agreement on Trade in Services (GATS)**
 - working to extend free trade agreements to services
 - the Agreement on **Trade Related Aspects of Intellectual Property Rights (TRIPS)**
 - working to develop common international rules for intellectual property rights
- The WTO, IMF and World Bank together propagated **The Washington Consensus**

IMF world Bank.

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Figure 8.2: Six Main Areas of the WTO

<i>Umbrella</i>	Agreement Establishing the WTO		
<i>Three main areas</i>	Goods (GATT) ✓	Services (GATS) ✓	Intellectual Property (TRIPS) ✓
<i>Dispute settlement</i>	Dispute Settlement Mechanisms		
<i>Transparency</i>	Trade Policy Reviews		

Source: Adapted from World Trade Organization, 2003, *Understanding the WTO* (p. 22), Geneva: WTO.

33

TRADE DISPUTE SETTLEMENT

- Sets time limits for peer review panel, which consists of three neutral countries as peers, to reach a judgment
- Removes the power of the accused countries to block unfavorable decision; WTO decisions are final
- The WTO does not have enforcement capability; WTO simply recommends that losing countries change their laws or practices, and authorizes the winning countries to use tariff retaliation to compel the offending countries to comply with the WTO rulings

India Economy Dumping → WTO → China Trade Barriers

34

THE DOHA ROUND—“THE DOHA DEVELOPMENT AGENDA”

Doha Round – a round of WTO negotiations to reduce agricultural subsidies, slash tariffs, and strengthen intellectual property protection that started in Doha, Qatar, in 2001; officially known as the “Doha Development Agenda,” it was suspended in 2006 due to disagreements

- The importance of the WTO is an issue of debate
 - Supporters use China as an example—since joining the WTO, China has become the world’s third-largest merchandise importer
 - Critics point to the fact that there is no compelling evidence that the WTO has had a significantly positive influence on trade

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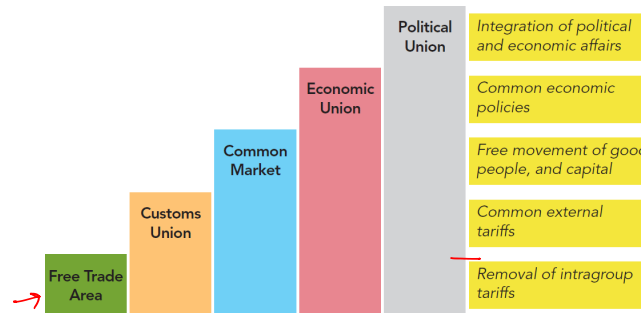
What is Regional Economic Integration?

- **Regional economic integration** - agreements between countries in a geographic region to reduce tariff and non-tariff barriers to the free flow of goods, services, and factors of production between each other
- **Question:** Do regional trade agreements promote free trade?
 - In theory, yes, but the world may be moving toward a situation in which a number of regional trade blocks compete against each other

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Types of Regional Economic Integration



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What are the Levels of Regional Economic Integration?

1. A **free trade area** eliminates all barriers to the trade of goods and services among member countries
 - **European Free Trade Association (EFTA)** - Norway, Iceland, Liechtenstein, and Switzerland
 - **North American Free Trade Agreement (NAFTA)** - U.S., Canada, and Mexico

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What are the Levels of Regional Economic Integration?

2. A **customs union** eliminates trade barriers between member countries and adopts a common external trade policy
 - **Andean Community** (Bolivia, Colombia, Ecuador, and Peru)
3. A **common market** has no barriers to trade between member countries, a common external trade policy, and the free movement of the factors of production
 - **Mercosur** (Brazil, Argentina, Paraguay, and Uruguay)

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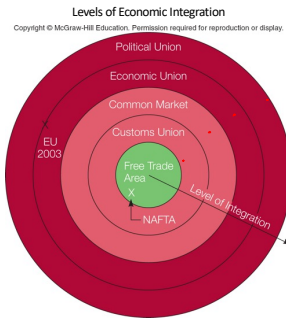
What are the Levels of Regional Economic Integration?

4. An **economic union** has the free flow of products and factors of production between members, a common external trade policy, a common currency, a harmonized tax rate, and a common monetary and fiscal policy
 - **European Union (EU)**
5. A **political union** involves a central political apparatus that coordinates the economic, social, and foreign policy of member states
 - the EU is headed toward at least partial political union, and the U.S. is an example of even closer political union

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What are the Levels of Regional Economic Integration?



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What Limits Efforts at Integration?

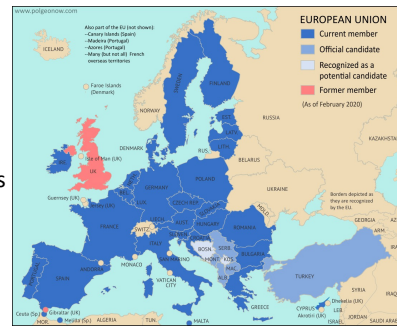
- Economic integration can be difficult because
 - while a nation as a whole may benefit from a regional free trade agreement, certain groups may lose
 - it implies a loss of national sovereignty *Brexit.*
- Regional economic integration is only beneficial if the amount of trade it creates exceeds the amount it diverts
 - trade creation** occurs when low cost producers within the free trade area replace high cost domestic producers
 - trade diversion** occurs when higher cost suppliers within the free trade area replace lower cost external suppliers

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What is the Status of Regional Economic Integration in Europe?

- Europe has two trade blocs
 - The **European Union (EU)** with 27 members
 - The **European Free Trade Area (EFTA)** with 4 members
- The EU is seen as the world's next economic and political superpower



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What is the European Union?

- The devastation of two world wars on Western Europe prompted the formation of the EU
 - Members wanted lasting peace and to hold their own on the world's political and economic stage
- Forerunner was the European Coal and Steel Community (1951)
 - In 1951, Belgium, France, Germany, Italy, Luxembourg, and the Netherlands signed the European Coal and Steel Community (ECSC)
- The European Economic Community (1957) was formed at the **Treaty of Rome** with the goal of becoming a common market
 - In 1957, six member countries of the ECSC signed the Treaty of Rome, which launched the European Economic Community (EEC)—later known as the European Community (EC)

44

44

What is the European Union?

- The **Single European Act** (1987)
 - committed the EC countries to work toward establishment of a single market by December 31, 1992
 - was born out of frustration among EC members that the community was not living up to its promise
 - provided the impetus for the restructuring of substantial sections of European industry allowing for faster economic growth than would otherwise have been the case

45

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What is the Political Structure of the European Union?

- The main institutions in the EU include:
 - The **European Council** - the ultimate controlling authority within the EU
 - The **European Commission** - responsible for proposing EU legislation, implementing it, and monitoring compliance with EU laws by member states
 - The **European Parliament** - debates legislation proposed by the commission and forwarded to it by the council
 - The **Court of Justice** - the supreme appeals court for EU law

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What is the Euro?

- The **Maastricht Treaty** committed the EU to adopt a single currency
 - created the second largest currency zone in the world after that of the U.S. dollar
 - used by 17 of the 27 member states
 - Britain, Denmark, and Sweden opted out
- since its establishment January 1, 1999, the euro has had a volatile trading history with the U.S. dollar

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Is the Euro a Good Thing?

- Benefits of the euro
 - savings from having to handle one currency, rather than many
 - it is easier to compare prices across Europe, so firms are forced to be more competitive
 - gives a strong boost to the development of highly liquid pan-European capital market
 - increases the range of investment options open both to individuals and institutions
- Costs of the euro
 - loss of control over national monetary policy
 - EU is not an **optimal currency area**

48

48

What is the Status of Economic Integration in the Americas?

- There is a move toward greater regional economic integration in the Americas
- The biggest effort is the **North American Free Trade Area** (NAFTA)
- Other efforts include the **Andean Community** and **Mercosur**
- A hemisphere-wide Free Trade of the Americas is under discussion



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What is the North American Free Trade Agreement?

- The **North American Free Trade Area** includes the United States, Canada, and Mexico
 - abolished tariffs on 99% of the goods traded between members
 - removed barriers on the cross-border flow of services
 - protects intellectual property rights
 - removes most restrictions on FDI between members
 - allows each country to apply its own environmental standards
 - establishes two commissions to impose fines and remove trade privileges when environmental standards or legislation involving health and safety, minimum wages, or child labor are ignored

50

50

Is the North American Free Trade Area Beneficial?

- **Supporters** of NAFTA claimed that:
 - Mexico would benefit
 - from increased jobs as low cost production moves south and will see more rapid economic growth as a result
 - the U.S. and Canada would benefit from
 - access to a large and increasingly prosperous market
 - the lower prices for consumers from goods produced in Mexico
 - low cost labor and the ability to be more competitive on world markets
 - increased imports by Mexico

51

51

Is the North American Free Trade Area Beneficial?

- **Critics** of NAFTA claimed that
 - jobs would be lost, and wage levels would decline in the U.S. and Canada
 - pollution would increase due to Mexico's more lax standards
 - Mexico would lose its sovereignty

52

52

Who was Right?

- Research indicates that NAFTA's early impact was subtle, and both advocates and detractors may have been guilty of exaggeration
- NAFTA is credited with helping create increased political stability in Mexico
- Other Latin American countries would like to join NAFTA

53

53

What is the Andean Community?

- The **Andean Pact**
 - formed in 1969 using the EU model
 - had more or less failed by the mid-1980s
 - was re-launched in 1990, and now operates as a **customs union**
 - renamed the **Andean Community** in 1997
 - signed an agreement in 2003 with **Mercosur** to restart negotiations towards the creation of a free trade area

54

54

What is Mercosur?

- **Mercosur**
 - originated in 1988 as a free trade pact between Brazil and Argentina
 - was expanded in 1990 to include Paraguay and Uruguay and in 2005 with the addition of Venezuela
 - may be diverting trade rather than creating trade, and local firms are investing in industries that are not competitive on a worldwide basis
 - initially made progress on reducing trade barriers between member states, but more recently efforts have stalled

55

55

What is the Central American Trade Agreement and CARICOM?

- There are two other trade pacts in the Americas
 - the **Central American Trade Agreement** – (CAFTA, 2005) - to lower trade barriers between the U.S. and members
 - **CARICOM** (1973) - to establish a customs union
- Neither pact has achieved its goals yet
- In 2006, six CARICOM members formed the **Caribbean Single Market and Economy** (CSME) - to lower trade barriers and harmonize macro-economic and monetary policy between members

56

56

What is Free Trade of the Americas?

- Talks began in April 1998 to establish a Free Trade of The Americas (FTAA) by 2005
- The FTAA was not established and now support from the U.S. and Brazil is mixed
 - the U.S. wants stricter enforcement of intellectual property rights
 - Brazil and Argentina want the U.S. to eliminate agricultural subsidies and tariffs
- If the FTAA is established, it will have major implications for cross-border trade and investment flows within the hemisphere
 - would create a free trade area of 850 million people who accounted for nearly \$18 trillion in GDP in 2008

57

57

What is the Status of Economic Integration in Asia?

- Various efforts at integration have been attempted in Asia, but most exist in name only
 - **Association of Southeast Asian Nations** (ASEAN)
 - **Asia-Pacific Economic Cooperation** (APEC)

58

58

What is the Association of Southeast Asian Nations?

- The **Association of Southeast Asian Nations** (ASEAN, 1967)
 - currently includes Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Myanmar, Laos, and Cambodia
 - wants to foster freer trade between member countries and to achieve some cooperation in their industrial policies
- An **ASEAN Free Trade Area** (AFTA) between the six original members of ASEAN came into effect in 2003
 - ASEAN and AFTA are moving towards establishing a free trade zone

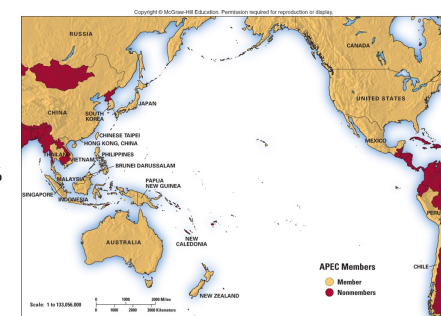


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What is the Asia-Pacific Economic Cooperation?

- The **Asia-Pacific Economic Cooperation** (APEC)
 - has 21 members including the United States, Japan, and China
 - wants to increase multilateral cooperation
 - member states account for 55% of world's GNP, and 49% of world trade



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What is the Status of Economic Integration in Africa?

- Many countries are members of more than one of the nine blocs in the region
 - but, since many countries support the use of trade barriers to protect their economies from foreign competition, meaningful progress is slow
- The **East African Community** (EAC) was re-launched in 2001, however, the effort so far appears futile

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