IMPACT OF GLOBALIZATION ON MACROECONOMIC POLICY

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Abstract. *Globalization – the growing integration of economies and societies around the world – has been one of the most hotly-debated topics in international economics over the past few years. Rapid growth and poverty reduction in some countries that were poor 20 years ago have been positive aspects of globalization. But globalization has also generated significant international opposition to concerns about increased inequality and environmental degradation.*

There are many definitions of globalization. One of them could be: globalization is an ecosystem in which economic potential is no longer defined or contained by political and geographic boundaries. Economic activity has no bounds in a globalized economy. A globalized world is one where goods, services, financial capital, machinery, money, workers and ideas migrate to wherever they are most valued and can work together most efficiently, flexibly and securely. Where does economic policy come into play in this world?

This paper presents some aspects of globalization and the impact on the new strategy of macroeconomics policy.

***Key words**: globalisation, economic trends, macroeconomic policy*

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Globalization as phenomenon

The past century has seen more advances in development and global prosperity than in all human history. There are many reasons for these achievements, but globalization has played an important catalytic role and it is a widespread perception that globalization is having a decisive impact on development.

In spite of the wide usage and the intensive debate that is now underway, there is no precise or widely-accepted definition of globalization. Globalization can be summarized as the global circulation of goods, services and capital, but also of information, ideas and people. And over the past few years, globalization – the growing integration of economies and societies around the world – has been one of the most hotly debated topics in international economics.

The accelerated development of globalization starting in the 1980s-1990s is due to many factors, two having played a particularly important role. The first is technical progress especially in information technology, international communication and global transportation. Not only goods but also services and knowledge can flow much easier because of innovations such as the Internet. The second major development is the shift in policy orientation as governments have reduced barriers that have curbed the development of domestic markets and their links to the international economy.

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It is necessary to underline the degree to which the concept of globalization has penetrated our culture. The state has been used to justify deregulation, privatization, environmental degradation, free trade, deficit/debt mania, high interest rates, zero inflation targets, anti-labour legislation, cuts of social spending and upper income and corporate taxes. These policies were, of course, implemented by individual nation states. The trouble with the concept of globalization is that, objectively, it is largely a myth, while the consequences of its power to organize the thoughts of people and action of policy-makers.

Globalization trends

As an effect of globalization, over the past decade international economic integration has proceeded rapidly, with global trade and cross-border capital flows rising substantially in relation to GDP. These developments have been accompanied by an economic growth, but with structural changes in product and labour markets in the OECD economies, and with effects on income distributions across the countries.

Under present conditions, the macroeconomic policy is associated with a prospective continuation of international trade and financial integration. And it takes into account the changes at the international level. It can be observed that global economic development becomes more dependent on the development of non-developed countries. Their share in world output, trade, capital markets is set to increase substantially. If the process of globalisation continues at the current pace, non-OECD economies are projected to account for approximately 60% of world real output (evaluated in PPP terms), one-half of nominal world trade (at current market rates), and a third of nominal cross-border asset and liability holdings by 2025.

The recent globalization trends with a focus on financial flows, trade flows and Gross Domestic Product (GDP) growth could be summarized as follow:

a. Trade and financial integration

Global trade has expanded markedly over the past 25 years; financial integration has also proceeded rapidly. The increase in cross-border financial flows was particularly strong. This rise in cross-border trade and capital flows has been driven by a number of different factors, including the ongoing liberalization of trade policies and capital control in many countries and the continued reductions in transport, communication and information costs. These developments have helped the production of many goods and services to become more fragmented into components that are dispersed over different countries through international outsourcing and off-shoring, raising international trade.

b. International differences in asset returns

The strong growth in size of gross international portfolio holdings in the recent decades has raised the level at which economies are exposed to exchange rate and international asset price fluctuations. Financial market disturbances such as the emerging market crises of the 1990s could thus have a much greater impact on the world economy today than at the time of the crises. Given the stronger financial links between all countries, such events may also have macroeconomic consequences for the developed countries.

The growth of international portfolio holdings also implies that a given rate of return differential between the assets and liabilities of a country or region now has a much larger effect on the dynamics of its net foreign investment position. With portfolios likely to continue to increase in size over time, differences in relative returns, as well as valuation effects, could become still larger.

c. Growth and income convergence

The recent past has seen a period of comparatively rapid global economic growth. Annual world GDP growth averaged 4% during 1995 to 2005, compared with 3% during 1980 to 1994. Developments in Asian economies have steadily become a more important influence on global economic growth than in the past, reflecting their strong growth and rising share in world GDP.

One important finding is that poorer regions/countries can experience faster GDP per capita growth rates than richer ones for some time, even if in the long run the levels of per capita output differ. Moreover, more open economies experience faster convergence to the technological leader (in this case, the United States). This supports the proposition that more open economies benefit from technology spillovers from foreign countries and thus achieve higher economic growth.

d. Global imbalances

The strong economic growth experienced in recent years led to rising demand for commodities, thereby raising several commodity prices towards or over historical peaks in real terms. Non-OECD economies have been the main driver behind the increase in demand as they have experienced above average output growth rates and at the same time have had a higher level of energy consumption per unit of incremental output. The associated increases in the terms of trade of the major oil producers have contributed to the increase in global current account imbalances in recent years, with the United States having a sizable current account deficit and a number of countries in East Asia and the Middle East having rising current account surpluses. These imbalances have been matched by corresponding changes in net foreign asset positions, although as discussed above, especially in the case of the United States, this has been partially offset by revaluation effects, stemming from movements in exchange rates and asset prices.

Economic policy facing globalization

Governments responding to the prerequisites of putative globalization cut corporate taxes and regulations lowering the costs of production in order to make their firms competitive in the more internationalized economy, which they helped to create with free trade agreements. Slow growth along with tax cuts caused these governments to cut deficits and debt by shrinking the welfare state in order to prevent capital flight and to attract new capital to locations where corporations did not have to compete as much with the state for finance, labour or resources.

Fighting inflation meant high real interest rates, increasing unemployment. The increasing reserve army of the unemployed lowered wage expectations and enabled capital to intensify the labour process and extend the working day. Some of the increased surplus from production was used for a spate of investment in new productivity-enhancing machinery. The effects of less regulation, lower unit labour costs and less corporate taxes, all “required” by the new global economic context, had the effect of lowering the costs of production and enhancing productivity in order to be a competitive economy. The various free trade agreements and the evolving GATS are intended to further reduce the state sovereignty over resources and regulations and to facilitate the entry of capital into new areas not ready available for capital accumulation. Public education, public energy, public water supply and public health care are all targets. The purpose of these initiatives is to raise the rate of profit and extend the domain of capital accumulation.

Opposition to globalization

Multinationals and their national governments have attempted to free themselves from constraints with respect to regulations, labour, and taxes. Old institutions are contracted and/or transformed while new ones are formed as the system struggles to restore accumulation. The World Trade Organization and other free trade agreements can be seen as a strategy to use international rules to overcome domestic resistance to the multinationals' interests.

However, this attempt at turning the world into a free enterprise zone has led to legitimization problems for capital, as environmentalists, unions, and anti-poverty activists have coalesced to resist. They have largely abandoned parliamentary politics as the domain of capital and have declared their opposition in large numbers everywhere capital attempts to organize those rules with the noteworthy exceptions of meetings in police states. In all countries, the environmentalists, unions and citizen organizations demand labor rights, environmental control and public not private sovereignty over everything from health and education to energy and water supply.

Further development of globalisation

The analysis of the future developments based on the globalization processes has important implications for macroeconomic policy issues, including the sustainability of current external imbalances, the transmission of macroeconomic shocks across countries, and the convergence of GDP per capita between countries. Specifically, the main implications for the economic policy are as follows:

- The monetary policy would need to take greater account of developments in developing economies in the future. Policymakers from developed countries may have to act more promptly and more vigorously to economic shocks in order to limit the impact on their economies. At the same time, in the future, policymakers may need to respond less to domestic country-specific shocks, since a greater share of the effects of such shocks will be absorbed by other countries via trade and financial links.
- As an effect of the continuation of the globalization, the GDP growth in developing countries will remain well above that in the developed economies reflecting higher productivity growth and more favorable demographic developments. The economic and social policy will focus on the rise in GDP per capita and decrease the global imbalances between countries.
- The strong economic growth experienced in the recent years led to rising demand for commodities, thereby raising several commodity prices towards or over historical peaks in real terms. Especially the Asian economies have been the main driver behind the increase in demand as they have experienced above average output growth rates and at the same time have a higher level of energy consumption per unit of output than the average OECD economy. The associated increases in the terms of trade of the major oil producers have contributed to the increase in global current account imbalances in recent years. If this situation continues in the future, the policy should focus to obtain a change in net foreign asset positions, specially for financial assets with movements in exchange rates and asset prices.

In the future, the globalization process has two possible paths for the extent. One possibility is to continue the current trends, with considerably enhanced future levels of global trade and capital flows, in line with the trends seen over the recent past. With GDP per capita levels in most developing economies still far below those in the developed economies, there is a large potential for catching-up which may translate into a prolonged period of profound economic growth.

The second possibility is that social, political, and environmental concerns associated with ongoing globalization may lead to pressures to slow down the trend towards greater global integration.

Both possibilities provide insights about possible future economic growth and development, the associated evolution of cross-border trade and capital market links and some of the policy settings that may be associated with such outcomes.

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