

America in the Global Economy

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What Is Globalization?

Definition:

- Globalization is a process of *interaction and integration* 統合
- ✓ It includes: people, companies, and governments
- ✓ It is historically a process driven by international trade and investment
- ✓ It is supported by information technology.

Results of Globalization:

- ◆ Mixing of languages and cultures
- ◆ Spreads new technology and material things
- ◆ Makes some people or nations rich (economic development)
- ◆ Some people and nations lose economically (especially during the period of colonialism)
- ◆ Changes the natural environment— often in destructive ways
- ◆ Political and military conflicts

Historical Background:

For thousands of years, people—and, later, **corporations**—have been buying from and selling to each other across the world. One good example is the famous Silk Road across Central Asia that connected China and Europe during the Middle-Ages.

Columbus and the Beginning of Colonialism

In 1492, Columbus discovered America and this was the true beginning of globalization. This was the beginning of European colonialism, which involved slave labor and stealing resources from countries around the world. In colonialism, land all over the world was taken and then controlled by the nations of Holland, England, France, Portugal and Spain. These European nations became very wealthy. They took natural resources from these countries.

The Rise of Capitalism:

Around 1603, the first corporations were formed in Holland (The Dutch East India Company) and England (The British East India Company). Many other companies followed. The corporation raises money for investment by selling stock.

This new type of business organization worked with colonialism to produce great wealth for a new class of businessmen. They developed trade, increasing the wealth of their home country.

India- cotton and tea and spices

China- tea and porcelain

North America- furs, tobacco, sugar, lumber, fish

Indonesia- rubber and spices

Modern Globalization

In today's world, globalization is happening very quickly.

Why?

- ◇ New technology (transportation and communication)
- ◇ New government policies (emphasizing free trade)

*Since 1950, for example, world trade has increased by 20 times,

*From just 1997 to 1999 foreign investment nearly doubled, from \$468 billion to \$827 billion.

The main feature of globalization is an international industrial and financial business structure.

Taking advantage of new opportunities in foreign markets, multinational corporations 多国籍企業 have built foreign factories and established production and marketing arrangements with foreign partners.

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Anti-globalization Movements:

Globalization is deeply controversial (論争)

Supporters of globalization:

~It allows poor countries to develop economically

Opponents of globalization:

~free international markets has benefited multinational corporations in the Western world; poor people in poor nations have benefited very little.

Anti-globalization initiatives/plans:

- Fair trade movement
- Environmental thinking (sustainability)
- CSR (Corporate Social Responsibility)

America and Globalization

We can say that America is the heart of the global economy, receiving goods and money (investment capital) and moving it all around the planet.

- ✧ America is the dominant player in the global marketplace: it accounts for about 25% of the global economy.
- ✧ Although America doesn't really depend on exports as much as other countries (only about 10% of GDP comes from exports), nevertheless, the global economy depends on America.

*About 16% of all global exports are sold in America. ***This gives America a lot of power in the global market place since it is the biggest consumer of goods and services.***

- ✧ The United States is the center for finance in the global economy.
- ✧ The U.S. dollar remains the global currency

Current Global Economic Trends

The BRIC economies are the new big players in the global marketplace (Brazil, Russia, India, and China). China now accounts for about 10% of all global exports and controls the world's largest monetary reserves.

America now depends on China as a source of credit, and China is emerging as a major international investor.

I. Globalization: What is it?

***Technological, political, economic and social changes that are connecting individuals and societies across borders.**

- ◆ Internationalization of Economic Activity (trade and finance)
- ◆ Technological changes (especially communications and transportation)
- ◆ Globalized production systems~ corporations with no country (e.g., DaimlerChrysler)

Why America?

There are 3 general factors behind America's success: size, innovation and educational attainment.

Also:

- Macroeconomic stability
- The rule of law (contracts, trade agreements)
- Deregulation, privatization
- International investment

A Modern History of Globalization

In the 20th century, globalization was driven by the emergence of America in the international economy. An amazing variety of new American inventions were sold overseas, and a greater presence in financial markets boosted U.S. power. New and faster methods of transportation and communication helped connect America to world markets.

The Economic Crisis of the 1970's and the New Economy

1970's-

- Economic crisis which led to breakdown of the American economic system and a restructuring of business
- Falling wages and family incomes
- The end of labor union power

***In the 1970's the American economy fell apart– but there was a new shift to global markets, and many new areas of growth.**

International Finance

- ◆ Even during the economic crisis of the 1970's and the recession of the 1980's international finance and trade grew fast-
- ◆ From 1973-79 world trade tripled.
- ◆ From the early 1970's to the early 1980's new foreign investment by multinational corporations went from about \$15 to \$100 billion a year
- ◆ International lending went from about \$25 billion to \$300 billion;
- ◆ International financial markets- grew from \$160 billion to \$3 trillion in 1985

The 1980's

A new phase of globalization took off, with deregulation and free trade agreements/zones. This resulted in a huge increase in world trade and direct foreign investment (FDI) which continues even today.

Also:

- There was a new trend towards deregulation and privatization and M&A (freedom from government control).

All this freedom from government control and the privatization of national financial systems led to *speeding up of global integration*.

The 1990's

The rise of new economic players- a challenge to American dominance- from Japan, German and emerging Asian economies (Singapore, Hong Kong, South Korea and Taiwan)

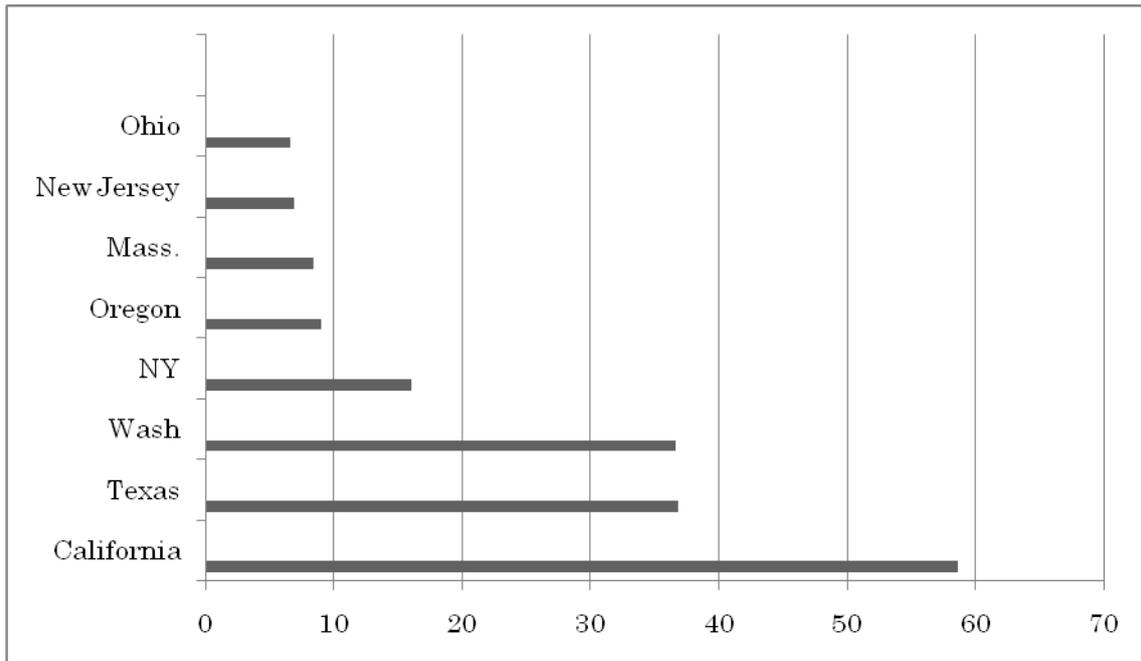
After 1995 America comes back thanks to the digital revolution/IT revolution, which supports the new global supply chains.

Into the 21st Century

China, Russia and India have taken top places in the global supply chain for both manufacturing and services. As a result of the rise of these (BRIC) economies, 2.7 billion people have joined the global economy; about 1.5 billion workers have joined the global workforce.

Many Americans complain about U.S. jobs being lost and moving overseas to Asia, especially China, however there are benefits as well as costs to this shift in global economic power to Asia.

Merchandise Exports to Asia \$ billions 2007



China and America in the New Global Economy

American invests heavily in China, and China is beginning to invest in America. While China has a cheap, effective manufacturing base at home, China doesn't have any globally recognized brands.

A weak U.S. dollar and a weak U.S. economy make smaller U.S. companies attractive to Chinese and other foreign investors:

- In 2007, foreign acquisitions of American companies totaled \$407 billion, an increase of 93% from the previous year.
- Although Canada, Britain, and Germany topped the list of foreign investors, China is becoming an increasingly important player.

U.S. Investment in China

U.S. foreign investment into China, while only a small fraction of total U.S. foreign investment in the world (less than 1% of total U.S. FDI in

2006) is nevertheless still considerably larger than Chinese investment in the United States

Although China has welcomed foreign investment in the last two decades because it needed to grow, and inward investment has surged since China joined WTO in 2001, there are some restrictions on inward foreign investment.

Investment in financial services is still restricted in China, but gradually opening up. Still prohibited is investment in publications, broadcasting, media, and various internet-based businesses.

Political Economy in the New Global Economy

In the past, in most cases private corporations were the main force shaping global economics, but in the case of China, we see the rise of states as global economic players; these new players are not always democratic governments- China, the United Arab Emirates, and Russia, rich state owned companies.

Can American private corporations compete with foreign state-owned firms in the long run???? It's a good question....

The Future: Asian and America

While China doesn't need the extra capital, it needs the technology, market know-how, and managerial expertise that come with foreign investment. American business will continue to invest in China for its comparatively skilled workforce, its good infrastructure, and most importantly, its access to the Chinese consumer.

- ◇ India is also expected to see continued economic growth, taking a strong place in the global marketplace.

Japan

The Japanese have some serious economic and social problems (huge government debt, declining population), yet Japan will continue to be a strong player in the global economy. Japan has the following strong points

- 1) A high saving rate
- 2) High quality mid and large sized corporations producing the types of products needed in the new global economy (**e.g., fuel efficient cars, semiconductors, consumer electronic goods, petrochemicals, aerospace, and more**)
- 3) Top quality infrastructure (transportation and communication)
- 4) A fully digitalized society (IT revolution)
- 5) A society oriented towards business