

# What about Globalization ?

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[www.developingfinance.org](http://www.developingfinance.org)

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# What about Globalization?

## An Introduction Seminar

**SKEMA September-December 2013**

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[www.developingfinance.org](http://www.developingfinance.org)

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# Worldwide network versus Globalization?

☞ In two words

**Worldwide Network**  
(in French: *mondialisation*)

Migration, information, values,  
knowledge & EI =  
The « Global Village »

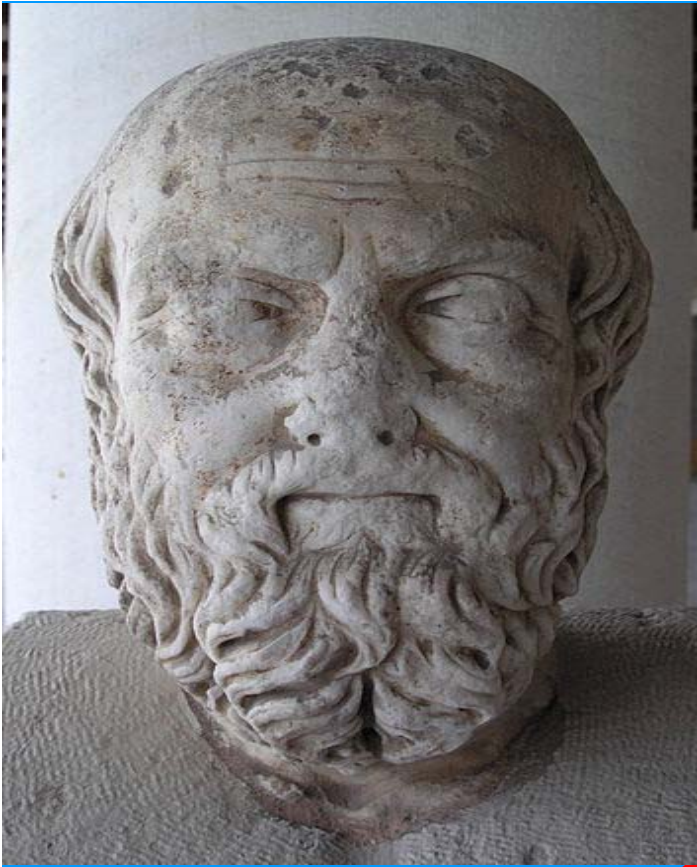
☞ In three words

**Globalization =  
Worldwide Market  
Economy**

Competitive trade and capital  
flows

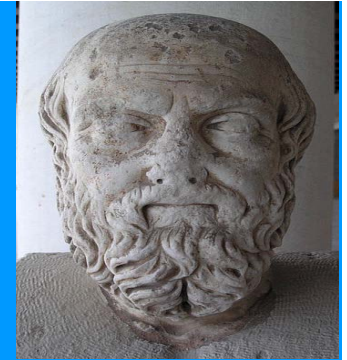


# Worldwide vs Global



# The World Network is NOT Globalization

MH Bouchet: Introduction au Nouveau Monde-Pearson, 2006



- ☞ Herodotus (V° before JC) « Histories »: first worldwide vision of the history and mankind: The Father of History is also the father of comparative anthropology and of ethnography, with a global history approach.
- ☞ The World Network is almost as old as mankind; it goes back well before the Phoenicians and the Greeks. Any time you've got interactions among different nations or different societies, you're beginning to expand the world network, because you get exchange of **goods, ideas and values** between different people.
- ☞ Technology breakthroughs from horse carriage to steam engine to NTIC provided a key impetus to the world network expansion!

# Worldwide demographic expansion



John H. Tanton, "End of the Migration Epoch," *The Social Contract*, Vol IV, No 3 and Vol. V, No. 1, 1995.

# Population worldwide

YEAR	1	1500	1830	1900	1945	1950	1960	1970	1980	85-90	95-98	2000	2013
Population	250	450	1050	1600	2000	2520	3021	3700	4435	5200	5900	6100	7100
$\Delta$ %	0,09%	0,1%	1,5%	2%	2,2%	1,5%	2%	2,1%	1,7%	1,6%	1,3%	1,21%	1,1%
Average Life expectancy	25	30	40	45	48	50	55	58	60	62	65	66	70
Japan-Norway	25	30	40	45	55	63	66	75	76	77	80	80	83
Angola-Chad	25	30	40	40	40	38	38	38	38	38	39	42	50
Japan/ Chad	1,0	1,0	1,0	1,1	1,4	1,6	1,7	2,0	2,0	2,0	2,1	1,9	1,7

# Globalization?

- ➔ **Worldwide expansion of the market economy**
- ➔ **Stage of capitalist system where market-based competitive forces prevail in almost every production and exchange of goods and services worldwide**



# In a nutshell:



1. Worldwide integration of cross-border market economic activities
2. Technology innovation leads to the global fragmentation of production process : offshoring and outsourcing
3. Rising competitiveness of EMCs, with fast growing population and rising global GDP share

The crisis will further unhinge the EU (and the West?) from center stage: the Western growth model is no longer a reference



# Who coined the term **Globalization**?

**Theodore Levitt (1925-2006)**

*Harvard Business School -1983*

- « **Globalization is technology based. It involves the change in technology and social behavior that allows MNCs to sell the same products worldwide** »

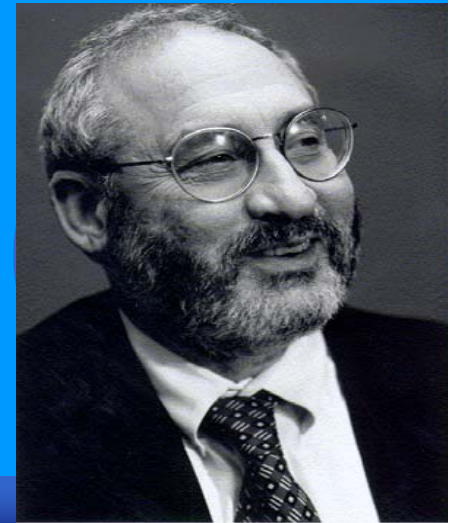




*“Globalization is an endeavor that can spread worldwide the values of freedom and civil contact !”*

Alan Greenspan

*“Globalization, like the telephone, is both a blessing and a curse... A giant wave that can either capsize nations or carry them forward on its crest...”*J. Stiglitz



## General Colin Powell on Globalization... (2000)

- ☞ *There is no point in being « for » or « against » globalization. Like the weather, it is just there!*
- ☞ *One should concentrate on how to live with it, maximize its benefits, and minimize its cost! »*



# The « flat world » by Thomas Friedman (2006)



- ☞ « As the world goes flat, and the dynamics of collaboration and exchanges gets stronger and stronger, the gap gets larger and larger between cultures that have the will and the way to adopt and adapt this dynamics and those that do not ».
- ☞ *How outward is a country's culture, i.e. open to foreign influence and ideas? How well does it « glocalize »?*
- ☞ *How inward is the culture, i.e., is there a sense of national identity, and to what extent the elites focus on long-term sustainable development?*



# When did the Globalization **Big Bang** happen?

- ☞ **Historians** (Adam Smith, Gunder Franck, Wallerstein) often refer to the **XV<sup>o</sup> century** and the emergence of long-distance trade: **1492** (Columbus stumbles on the Americas in search of spices) or **1498** (Vasco de Gama ran around Africa)
- ☞ **Our view:** Globalization coincides with the **emergence of the capitalist market economy in the 19<sup>th</sup> century**. The world economy was fragmented and de-globalized before 1850. World-wide decline in international transport costs and commodity price convergence coupled with new trans-national actors in a post Westphalia world.

☞ See: WHEN DID GLOBALIZATION BEGIN? Kevin H. O'Rourke, Jeffrey G. Williamson, NBER Working Paper 7632, <http://www.nber.org/papers/w7632>, April 2000

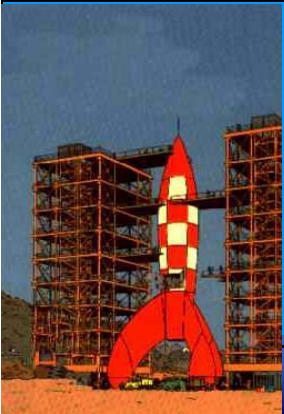
# Karl Polanyi: The market is **embedded** in society

- Prior to the XIX<sup>o</sup> century's industrial revolution, the economy was **embedded** in society. Markets were isolated and regulated by social institutions. The **economy was not autonomous**, but subordinated to politics, religion, and social relations.
- The rise of capitalism in Western Europe required subordinating society to the market rationale with an interlocking system of integrated and self-regulating markets that are supposed to adjust through the price mechanism, hence, **embeddedness**.
- But markets are neither natural or eternal. It is a recent invention linked to the emergence of the capitalist economy. Market development stemmed from state intervention: ideological and state-driven project in the XIX<sup>o</sup> century.
- The industrial revolution triggered a deeply-rooted social and technical reshuffling that led to both a rise in productivity and to a social system dislocation.

*(The Great Transformation-1944)*

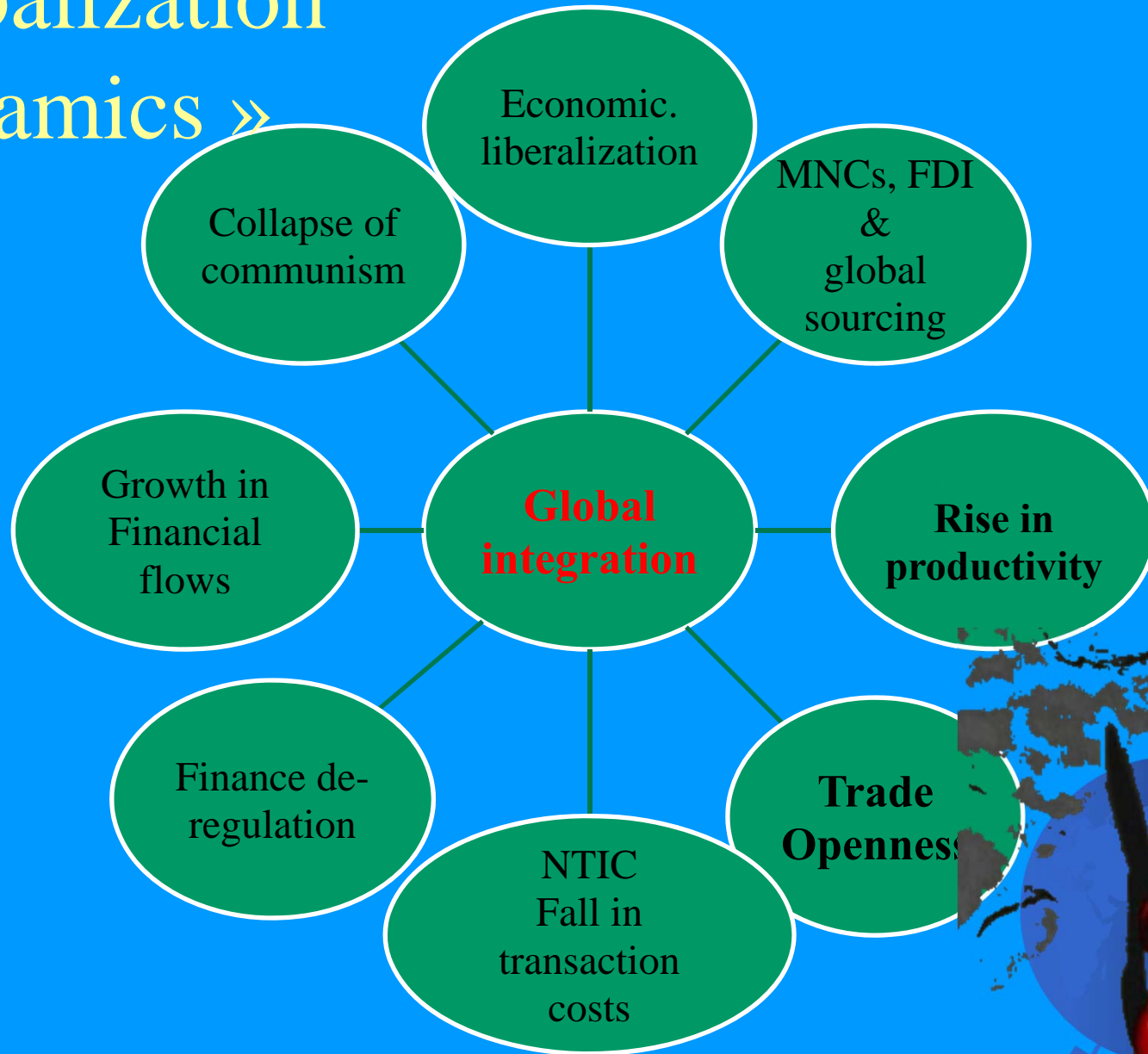


# The Prerequisites to Globalization: Population, Productivity and Income annual growth rates

	Year 1-1000	1000-1500	1500-1850	1850-2013*
<b>Real GDP per capita</b>	0	0,05%	0,2%	1,65%
<b>Population</b>	0,09%	0,1%	0,3%	1,95%
<b>Productivity</b>	<i>STAGNATION</i>	<i>STAGNATION</i>	0,5%	2,5%
	<i>STAGNATION</i>	<i>STAGNATION</i>	<i>Pre-Conditions</i>	<i>ACCELERATION</i>

\* **Developed countries (source: measuringworth.com)**

# « Globalization Dynamics »



# The 4 prerequisites of Globalization

1. **Sharp increase in productivity** (1850= industrial revolution)
2. **Economic, trade and financial liberalization** (1960-90 = trade and capital flows)
3. **Technological progress** (1950-2013): reduction in transaction costs (NTIC)
4. **Keen competition** for market shares and profits + shareholder pressure for wealth maximization:  
“**responsiveness revolution**”  
☞ Premium on competitiveness and flexibility



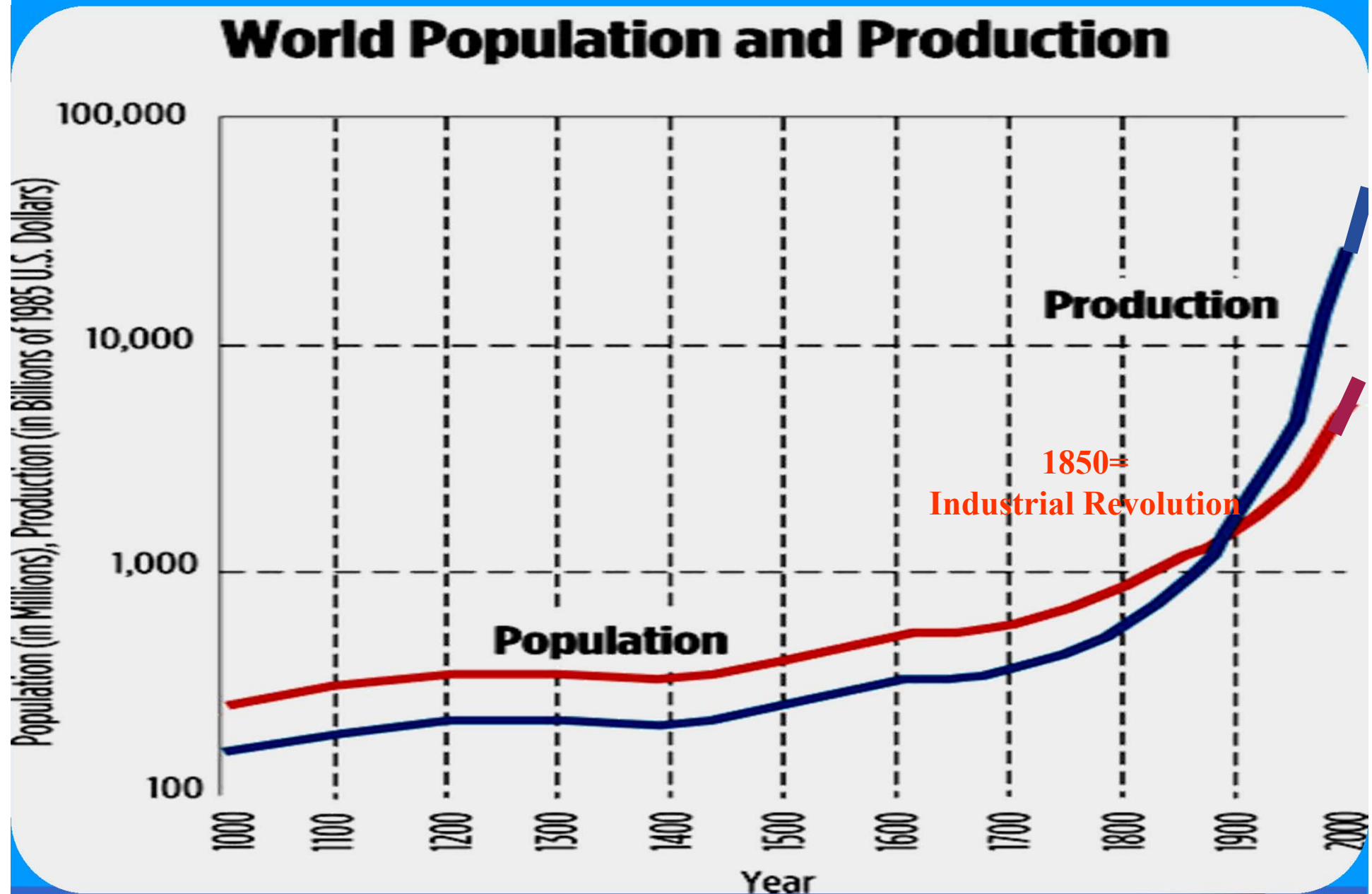
Globalization did not emerge overnight!  
Scientific and technological progress as development driver

## Three major waves of technological innovation:

- **1750-1850:** technological breakthroughs (steam engines, cotton-spinning machines, and railroads) introducing mechanization, specialization, and mass production, hence higher labor productivity and lower costs.
- **1850-WWII:** modern industrial era (multiple innovations, such as electricity for use in homes and factories, internal combustion engine, antibiotics, powered flight, telephones, radio, television)
- **1970s and 1980s:** IT revolution , computers and biotechnology



# Acceleration of productivity = Economic take-off



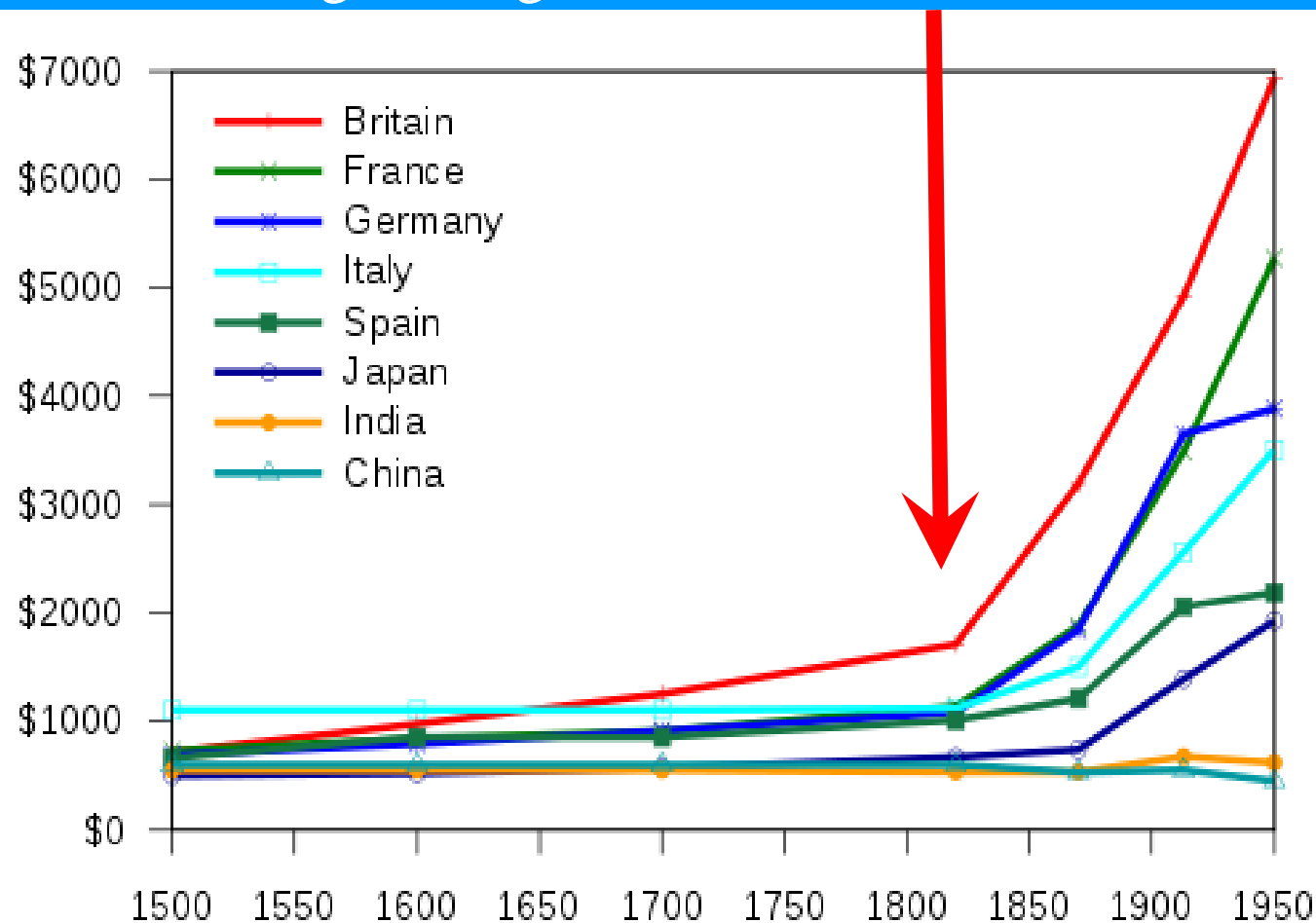
Source: R. Lucas

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# The great divergence!

- According to Kenneth Pomeranz, the surge in Europe's productivity and per capita income in the 1820s stems from access to energy and raw materials as well as technological advances, such as railroads, steamboats, mining, and agriculture

Coal and coke were extensively used in metallurgy and steam engines, being cheaper, more plentiful and more efficient than wood.

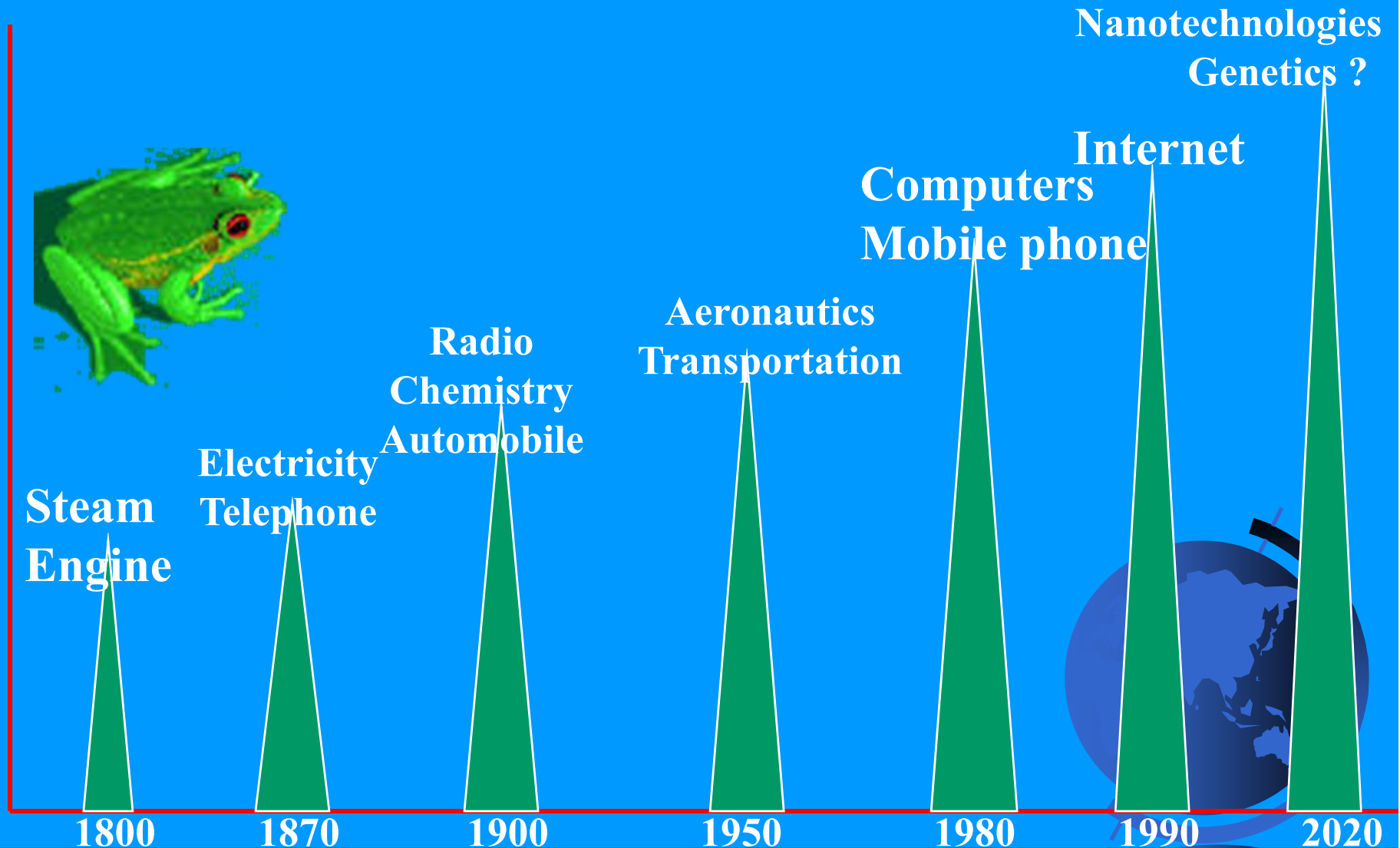


Source: A. Maddison,  
K. Pommeranz

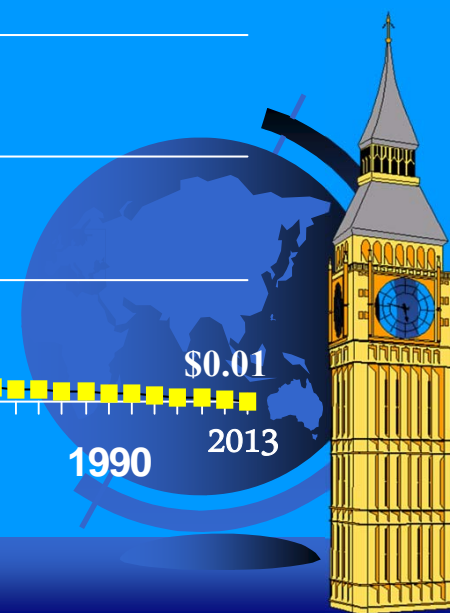
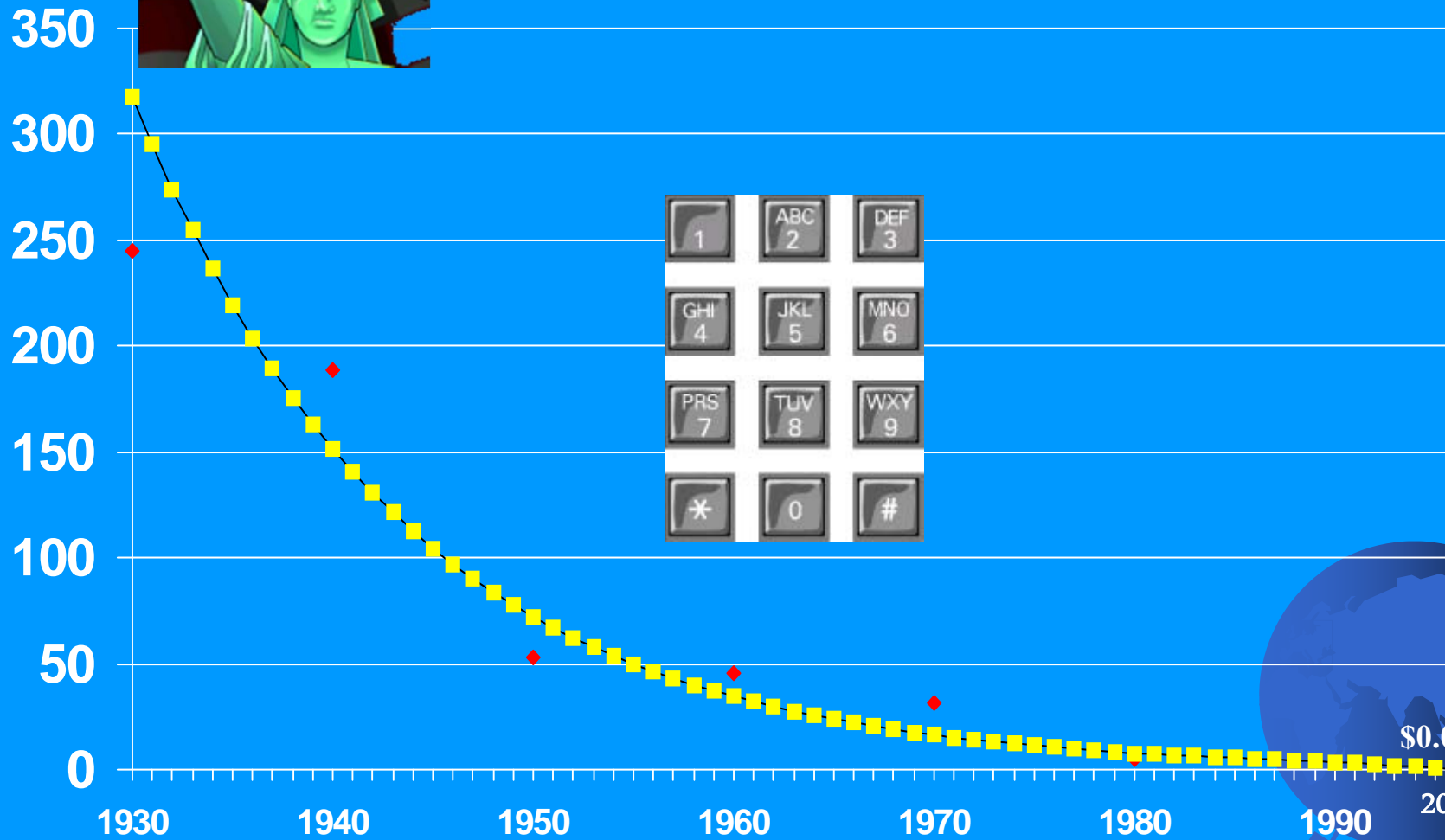
# Emerging Globalization

YEAR	1750	1850	1900	1960	1980	1990	1995	1999	2005	2009	2013	2015
Population	760	1200	1570	3021	4435	5260	5900	6000	6500	6800	7100	7300
$\Delta\%$	0,30%	0,50%	0,60%	2,20%	1,70%	1,60%	1,30%	1,30%	1,10%	1,10%	1%	0,95%
GDP	500	850	1800	6500	10900	20000	29000	30000	46000	58000	74000	80000
$\Delta\%$	0,40%	2,50%	3,50%	2,40%	2,50%	3,30%	2,80%	3,70%	4,60%	-0,60%	3,10%	4%
GDP per capita	650	750	1260	2150	2610	3800	4900	5000	6900	8500	10500	11000
$\Delta\%$	0,20%	0,50%	1,50%	1,80%	1,50%	1,50%	1,20%	1,50%	1,50%	1,00%	1,60%	2%
Wealth Gap ppp	2	4	10	33	45	50	60	71	70	70	70	68

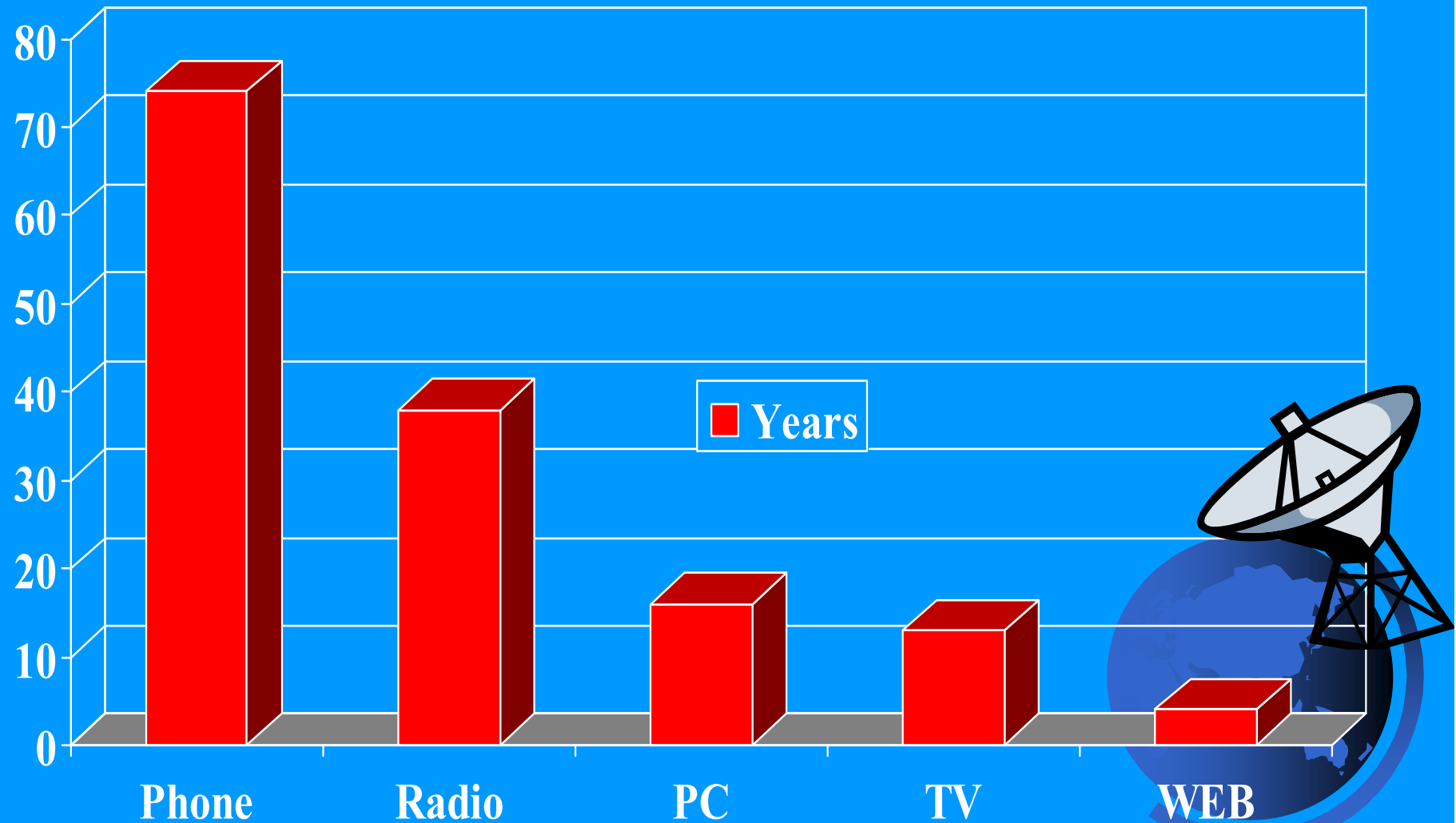
# Technological Innovation Cycles



# Cost of a 3-Minute Telephone Call NY- London (Constant 1990, U.S. \$)



# Number of years for mass-access (>50 million people market)



**Globalization =**

**Overwhelming supremacy of  
cross-border transactions:**

**☞ what gets value is what is traded**



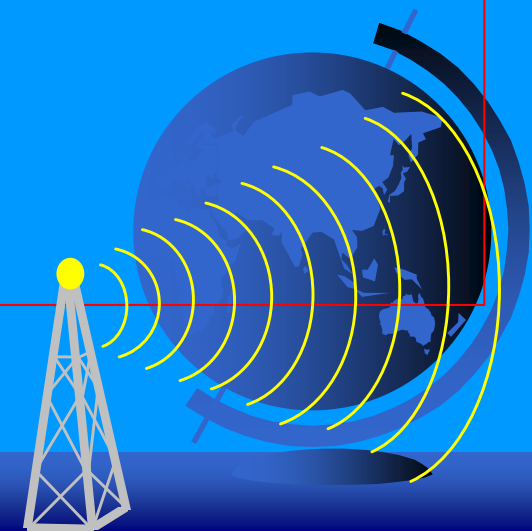
# **NEW world/OLD world =** **Key role of trans-national flows**

## **FLOWS**

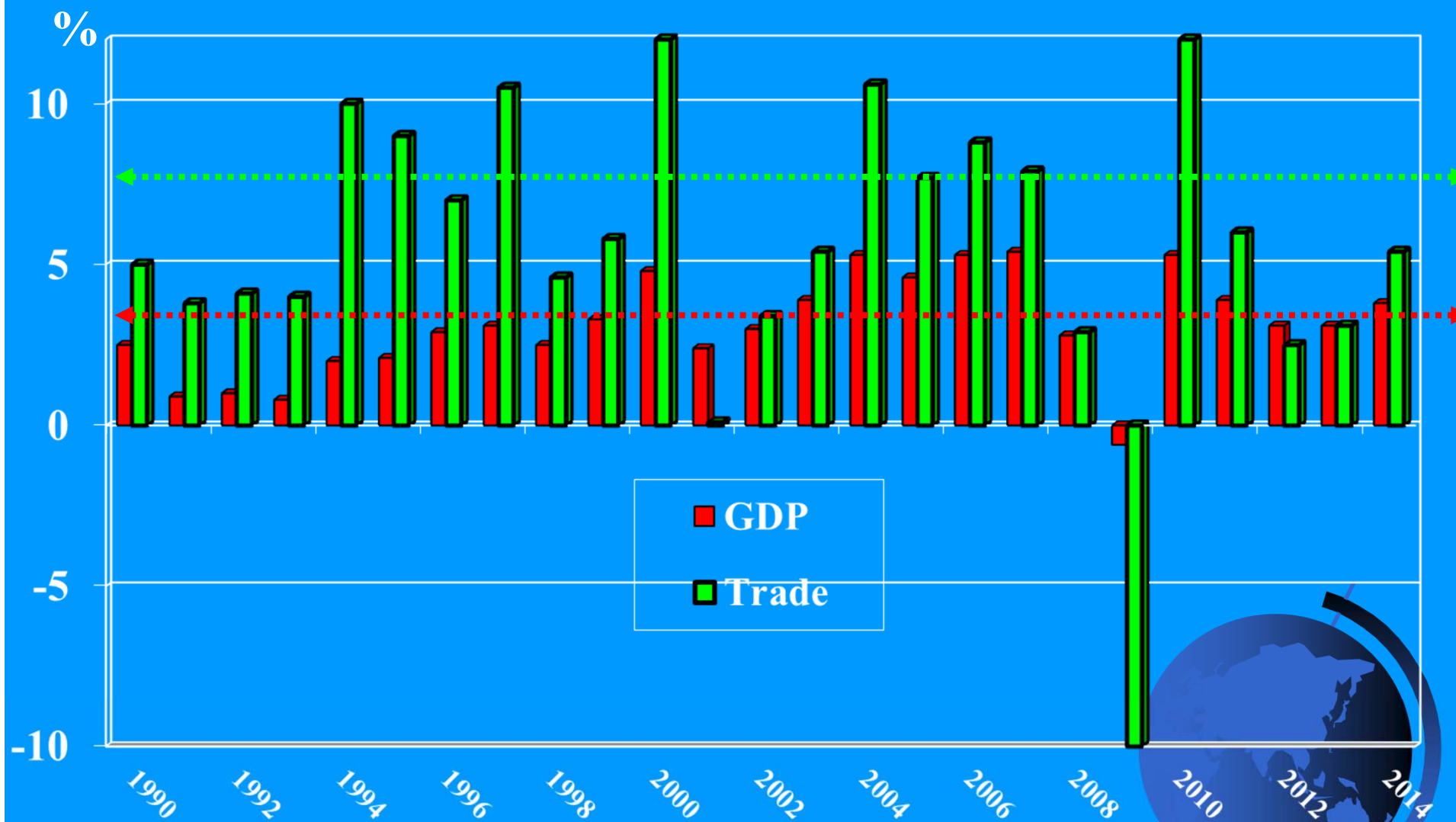
- **Trade of Goods & Services**
- **Capital flows and FDI**
- **Culture & Knowledge**
- **Economic Intelligence**

## **STOCKS**

- **Territory**
- **Population**
- **Military power**
- **Raw materials**
- **Gold and silver reserves**



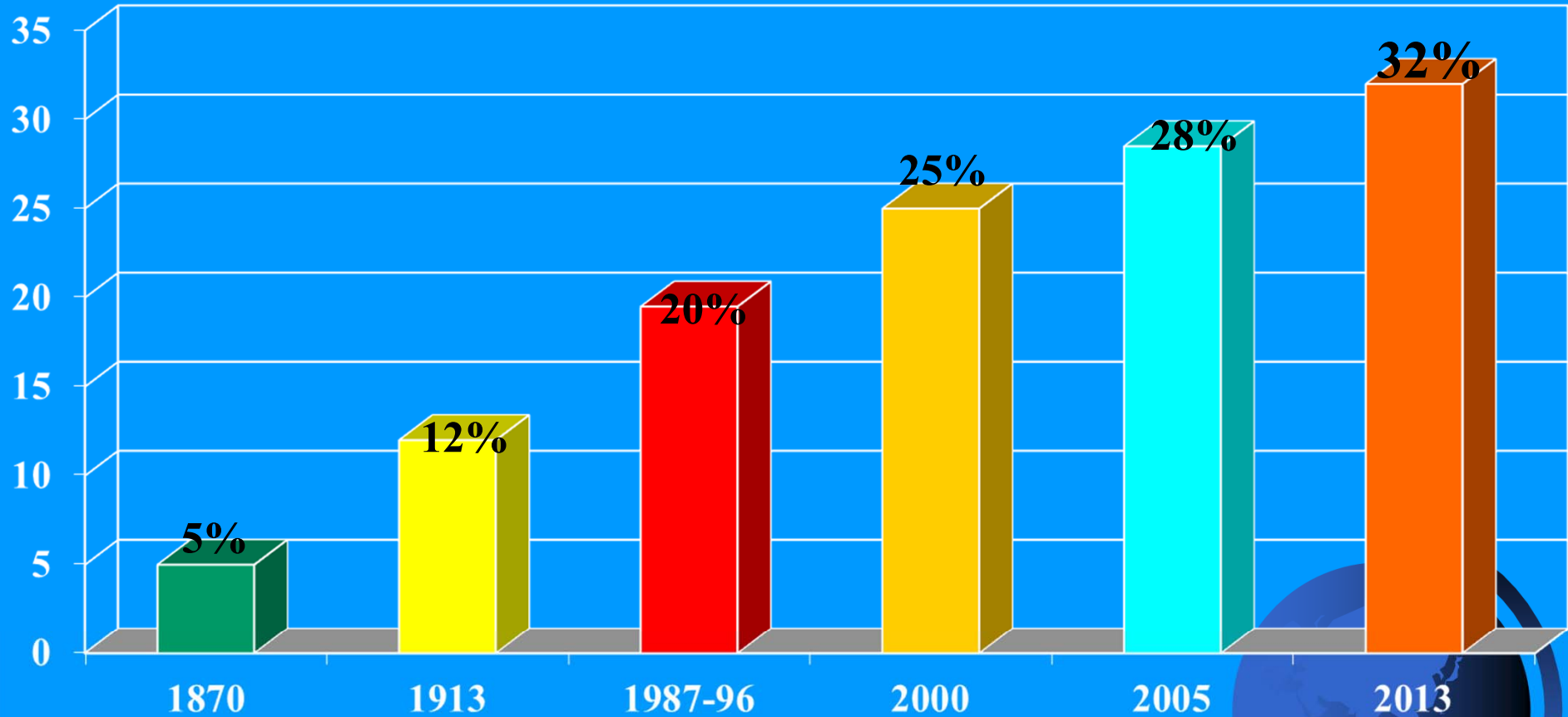
# Growth rate of global GDP and Trade 1990-2014



IMF/WTO-2014

# Index of global trade openness

XGS/GDP %



Globalization + NTIC =  
**Globalized Knowledge Economy**



# What is the Knowledge Economy?

- ➔ **An economy whose growth momentum and competitive advantage are driven by dynamic investment in intellectual capital and innovative R&D, with deep structural, institutional and organizational implications.**

