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GLOBALIZATION

A BASIC ECONOMIC APPROACH

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PREFACE

This text was originally a lecture given at Vestfold College. I found it obvious that a lot of students are in a need for some basic information about the economic approaches to globalization.

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1 INTRODUCTION

The term *globalization* is commonly used in so many different ways that it is difficult to find an exact meaning. Many of the social processes in the world today are said to be “globalization”. So what is globalization?

That is what we will discuss in this paper, and first of all we will have an economic approach to the phenomenon. Economic globalization constitutes integration of national economies into a common international economy through trade, multinational corporations, foreign investments and flows of production factors between countries, like raw material, capital, technology and workers. Global migration is also a part of the globalization development. With background in a historical perspective we will look closer into globalization concerning these factors.

How do we explain globalization and what are the motivated forces behind it? Is it to the best of people in the world or is it forced on us of multinational corporations for the reasons of profit. However, we will start with what we briefly have experienced in Norway the last fifty years.

Looking at Norway fifty years ago we may generally say that:

- Steady yearly economic growth created optimism and belief in a better future in all social levels of the society, and a hope for a future more equal distribution of income.
- The society was still mostly local in the way that most people lived their lives close to their relatives and the neighbourhood was more important than today. Public support was still very limited.
- Most people did not travel much, had short holidays mostly visiting their families, there was no televisions, few had access to private telephones and cars and even if airplane was available people did mostly travel by buss, train or boat. Letters written by hand was the most important way to communicate besides man to man communications.
- Peoples and cultures from outside northern Europe and Northern America and especially from the third world, was nearly unknown and very exotic.
- The float of information was limited, most important in addition to the “jungle telephone” was local newspapers and the one national radio channel.
- The national economy was dominated by the production of raw commodities for export and manufactory commodities for the national

markets. Financial transactions mostly were payment for trade and direct national investment.

- All economic activity in the country was strongly regulated by the national government.
- Strongly regulated by the government was also foreign trade and especially international capital transactions.

Of course this list is not complete, but gives a roughly survey. Let us look at a corresponded list for Norway today (2004):

- Steady yearly growth in the national economy is no longer taken for sure. Many people feel unsure about the future. A lot of industry firms, especially manufactory firms, are closing down, unemployment is relatively high (compared with fifty years ago) and social and income inequality is increasing,
- Mobility is much more common. Not only from removed areas to the cities, but also within the cities. The families are smaller and divorces much more common, people are generally getting older.
- Public arrangements for social security today are very much better than fifty years ago, but the number of people living on these arrangements are increasing very fast and creates big problems for how to fund this arrangements.
- The country has become multi-national, multi-religious and multi-cultural. We can see television channels from nearly all country on earth, hear all kind of music, read world literature etc. We travel by cars and planes and are using mobile telephone for communication with other people wherever in the world they must be. We go worldwide for holidays.
- There is an increasing pressure for job-effectiveness and parts of the public sector are to be privatized or compete with private firms. We consume more than ever. The public quota of the national income is higher than ever but the problems in public services increasing.
- The capital marked is more important than ever and industry is more and more dominated by international business.
- Structural economic problems hit many people, which mean unemployment, mobility and more direct public support to help people in need.
- Fifty years ago nobody talked about environment. Today environmental problems are high on the political agenda.

Comparing the two descriptions we find a Norway today really different from Norway around fifty years ago. But this development is not uniquely, we find a similar development in other “developed” countries in the world. And there is a tendency that in spite of many differences, the countries of the world grows more and more alike regionally, but also on global scale. What is special for Norway is that we are a developed country with a lot of oil money. But that does not free us from the problems. We can however for some time postpone problems and get a “smoother” transformation than other countries, but not buy us out of the problems.

In Norway each of us in average dispose an income 13 times higher than 100 years ago, the government income is 75 times higher. But even so, many people feel we have a lot of important problems when it comes to health, schools, communications, jobs etc. and are afraid for the future to come. And the word which often is said to be the reason for all this problems is *globalization.*

As the term globalization says, it gives a description of a phenomenon which we more or less find all over the world. And as in Norway people all over the world is divided in how positive the realities of globalization are. Some people see globalization as an opportunity for economic growth, increased prosperity and a more equal world. Other sees the globalization process as a danger for their jobs and for their culture and national identity. Some have even organized opposition against globalization. This anti-globalization movement grabbed world headlines in 1999 during a major meeting of the World Trade Organization (WTO) in Seattle USA. One of the anti-globalization organizations is ATAC (Association pour une Taxation des Transactions financiers pour l’Aide aux citoyens (Association for the Taxation of financial Transactions for the Aid of Citizens)). ATAC has it origin in France, therefore the name in France language.

Of course have no one whatever, neither the United Nations, “decided” to globalize the world, however, the globalizing process have had their supporters for many years. And we may ask what created this globalization process? The historical process of development has a lot of participants with their own goals, representing individuals, firms, countries, regions, political parties and different movements, organizations of all kind and not less multinational corporations.

It is not easy to define globalization precisely but we can say it is an historical process where the world as a whole comes closer together economically, politically, culturally and communicatively and where it is more and more difficult to make decisions only due to ones own preferences.

This means that globalization has to do with the following tendency:

- The world is steadily reduced in real time. The news of the France revolution in Paris in 1789 reached Oslo first a month later. In 2001 we all over the world could follow the Twin Tower catastrophe in New York live on TV. During some hours we can move all over the world and communicate with anyone everywhere.

- The countries all over the world are mixed steadily closer together when it comes to economy, technology, culture, law and ecology. It is not easy to stand all alone, even the biggest countries do that experience. In the last 15 years a lot of countries has joined international organizations and made these organizations worldwide.
- In many countries we find a tendency that the real power in society shifts from government and labour organizations to "capital", internationally first of all represented by the multinational firms.

Globalization is not a linear process and has never been. We have in the resent years seen how the Bush Administration in USA has denied accepting international environment agreements like the Kyoto Treaty and Protocol because they say it hurt American interest. Such decisions gives the international cooperation for better environment a setback but it is no reason to believe it will stop the process for global administrations of environment problems.

As a background for globalization today, let us take a brief look at the (modern) history of globalization.

2 A BRIEF HISTORY OF GLOBALIZATION

It is not easy to say when the modern process of globalization started. Let us however take the view of Niall Ferguson ("*Empire: The rise and demise of the British world order and lessons for global power*", *Basic Books 2003*) that the globalization process started with the establishment of the British Empire during the 1600. The British did establish themselves in the Caribbean, in North America and in India (the Dutch east of India). In the Caribbean they started production and trade of sugar, tobacco etc. and in India, among other products cotton textiles. An agreement between the Dutch and the British secured the spice marked for the Dutch. Seventeenth-century English merchants had little they could offer Indians that the Indians did not already make themselves. They therefore paid for their purchases in cash, using bullion earned from trade elsewhere rather than exchanging English goods for Indian. In this way the English merchants integrated different part of the world in a single international marked and thus started the globalization process.

The international trade created profit and other Europeans wanted to do exactly the same thing as the English. Asia was about to become the scene of a ruthless battle for marked share and *"this was to be globalization with gunboats"* (Ferguson, page 18). This rivalry created the need for the English government for fresh money and a better organization of the national finances. The agreement with the Dutch (1688) introduced the British to a number of crucial financial institution that the Dutch had pioneered. In 1694 the Bank of England was founded to manage the government's borrowings as well as the national currency, close to the successful Amsterdam Wisselbank founded 1609. England also imported from the Dutch a system of national public debt funded through a Stock Exchange where long term bonds could easily be bought and sold. This allowed the government to borrow at significantly reduced interest rates and so made large-scale projects, like wars, easier to afford.

From about 1500 to the end of the eighteenth century mercantilism had been the dominating economic ideology in Europe. In its way of thinking it was an important point that a powerful state was a rich state and the richness was measured from its amount of gold and silver. By selling items to foreign purchasers for gold and silver but avoiding buying from foreign producers whenever possible, a nation could build up its economic wealth and thus its power.[*] Since one country's

[*] *This way of thinking is still not outdated and should be well known in Norway. You find it when people are talking of how their country should strive for self-sufficiency and avoid becoming dependent of other nations because the others will take our jobs. Consequently import should be restricted and even cut back.*

trade surplus is another countries trade deficit the mercantilist philosophy is an effective way of hindering international trade and create interstate trade rivalry.

In the late 1700 the capitalism was emerging and the new ideology's most famous economist, Adam Smith, provided an answer to the mercantilists and a different version of how to think about the wealth of nation in his famous book "*The Wealth of Nations*" first printed in 1776. Smith's answer to the mercantilists was that the wealth of a nation was not properly measured by gold and silver but by the physical characteristics of a country like ships, food, clothing and weapons. Today we measure these physical products in the Gross Domestic Product (GDP).

Smith argued (Joseph E. Stiglitz: "Economics", Norton 1993) that by using the resources to investment instead of consume would increase a nation's wealth. But Smith also emphasized the advantages of both buying and selling. In his view, foreign trade offered two major advantages. First, if another nation could make a product more efficiently, then people of the first nation benefit from being able to buy that cheaper product. Second, by allowing companies to sell throughout the world, trade allows expanded production, which in turn encourages greater division of labour. Thus, rather than seeing foreign trade as a matter of invasions of goods, Smith argued that foreign trade allowed people to produce more as workers and get the best deal the world could offer them as consumers.

So Adam Smith argued for that the nation as a whole would benefit from increased international division of labour and so specialization of labour and thus increase its international trade. These thoughts have had its ups and downs. In late 1800 for examples they were very popular while they in the period between the first and second world wars were less popular. The long-range tendency seems however obvious: the idea of a liberalized international economy is more widely accepted than ever. And not least is this a fact after the collapse of the communist economies in Eastern Europe and Russia, and China's switch to market economy. The result is that the global market is more and more important for each of us all over the world.

For a better understanding of what is happening today, let us take a closer look of the history the last fifty years, the post second war history.

3 POST SECOND WAR HISTORY

3.1 About 1945 to 1975

There is often said that globalization has to do with expansion of free markets. But in this context we should be aware of two things. First, there are a lot of different markets and second, you do not find any uniformed global market. Different markets do work in different ways, nationally and internationally. A Norwegian market do not function in the same way as similar markets in Russia or China, neither will it be exactly like an Italian market. Therefore “markets solutions” is no unique term. But one side of the globalization process is that more and more markets have to play after the same rules and are based on the same international laws, even if there always will be different opinions of how to interpret the rules and laws.

In the period between the two world wars, 1918 – 1939, we had more or less trade wars between the at that time industrialized countries and governments were competing through devaluating their currencies. These protectionist policies did result in stagnating trade and a steep rise in the number of unemployed. Do we measure merchandise trade as percent of GDP we find that from 1913 to 1950 it decreased with about 43 % in countries like Germany, France and Japan, with about 30 % for USA and about 22 % for Britain. (*“Economics. Making Sense of the Modern Economy”, The Economist 1999.*) So there was a decrease in trade for nearly forty years.

The experience with protectionism and no currency cooperation was not positive in any country and this is important to have in mind when we look at what happened after the last world war. One thing was for sure, none of the western countries wanted a repetition of what was the situation between the wars.

In 1944, before the end of the war but at a time when German’s and Japan’s defeat was for sure, the western countries met in Bretton Woods in USA to discuss what to do with questions like rebuilding Europe, international trade and currencies. Communist Russia was invited to the meeting but refused to participate. After the war Europe was divided in two blocs, the capitalist west (including Western Germany) and a communist east, where the East-European countries were part of the Soviet Empire. It is also important to remember that most of the so-called third world still was colonies or semi-colonies at that time.

Some very important decisions were made at Bretton Woods. An agreement was signed that called for fixed exchange rates between the countries taking part and the International Monetary Fund (IMF) was set up. IMF was to serve as a bank for the various central banks for the participating countries. The central bank could borrow from IMF and this was supposed to protect the country against run on its currency and help it maintain the agreed-upon rate. By selling and buying currency each country should be able to maintain exchange rates within relatively narrow bands.

The post war period was dominated by USA and the American dollar was in practice to be the reserve currency of the world. This of course strengthened the American domination. In many ways the Bretton Woods agreement was a deal between the capitalist countries of the time dominated by USA. All together the Bretton Woods agreement was signed by 39 countries.

As part of the establishment of a new international economic system, also the World Bank was founded at the Bretton Woods conference. The World Bank should by giving loans to help the reconstruction of West-Europe (East-Europe was under Soviet domination). As early as in the beginning of the mid-1950's the World Bank started playing a role in financing investments in infrastructural projects in the agreement countries, including roads, hydroelectric dams, water and sewage facilities, maritime harbours and airports.

In 1947 23 countries signed a set of multilateral trade agreements known as the General Agreement on Tariffs and Trade (GATT). The agreements aimed at the abolition of quotas and reduction of tariff duties among the contracted nations. GATT was a part of the attempt to rebuild the world's economy and a primary instrument for promoting free trade and so avoid the destructive trade battles of the interwar period. GATT began with three guiding principles for reducing trade barriers. The first one was reciprocity, if one country lowered tariffs, it could expect other countries to lowers theirs. The second one was non-discrimination, no member of GATT could offer a special trade deal that favoured only one or a few other countries. The third one was transparency, the idea that import quotas and other non-tariff barriers to trade should be converted into tariffs and then gradually reduced. The GATT agreement provided important rules for the trade between the contracted countries.

What was happening around 1945 was that among the capitalist countries a set of rules and regulations was agreed to when it came to the questions of currency, trade and funding of development projects. Two things have however to be mentioned. First, each national government was still completely controlling the country's economic policy and was able to make all necessary national economic decisions. Second, there was no deregulation of the control with international capital movements because of the risk for capital speculations and less control over each country's monetary policy. So some important changes have taken place the last decades.

In Bretton Woods 1944, the well-known English economist John Maynard Keynes was a leading figure. Keynes' theories played a significantly role in macroeconomic planning in several countries after the war, not least in Norway. In many ways the post war international economic system had the sign of Keynes: at home national plan and control, abroad increasing liberalization of trade and exchange rates control. This system lasted and created international stability for nearly 30 years where it had to adapt to new economic realities.

3.2 The time after early 1970s

The end of the system of fixed exchange rates can probably be dated to 1971, when USA, which had been the pillar of the system, found it increasingly difficult to support the value of the dollar. The most important reason for this development was the American's war in Vietnam which more or less was financed by increasing the amount of money in the American marked. The American Central Bank was not able to match the pressure on the dollar which this policy created. Around the same time Britain had to halve the value of the pound sterling due to the post colonial problems.

Different countries did now come up with different solutions. USA switched to a system of flexible exchange rates arguing that it is better to have frequent small changes in response to market forces rather than the large disruptive changes that characterize a fixed exchange rate regime. Norway on the other hand agreed with 12 (later 13) other western European countries of a fixed exchange regime, the so-called "currency snake", while flexible exchange rates against other countries. This agreement did not last many years (Norway left it in 1979). But the time of fixed exchange rates was definitively over. The "free" markets, however, are never quite free. Even with flexible exchange rates there are still heavy doses of government intervention requiring cooperation among the countries of the world.

Even if the fixed exchange regime collapsed the cooperation for liberalizing the international trade continued and so did the regionalizing of the western world. The European Union (EU) (in 1957 EU was called the European Economic Community (EEC)) was founded in Rome, Italy, in 1957 by six West-European countries, the BeNeLux-countries, Italy, Germany and France. The goals of EU was much more than free trade, most important was and maybe still is, EU as a project of peace after two very destructive wars. However, the establishment of EU divided West-Europe in the member states and the non-member states. Britain had another strategy for the development in western Europe than France and Germany and initiated an alternative to EU, the European Free Trade

Association, EFTA, agreed upon in 1959 by Austria, Denmark, Norway, Portugal, Sweden, Switzerland and United Kingdom. EFTA's goal was to develop free trade by tariffs reduction and quota liberalization for industrial goods. Today EFTA has four members, Iceland, Liechtenstein, Norway and Switzerland and still work for removing trade barriers for industrial goods. The other countries are member of EU. The regionalizing process did spread throughout the world. We got for example NAFTA (North Atlantic Free Trade Agreement) in 1993.

In many ways the 1970s marked the end of the post war period and a new area of international liberalization. In the political front for this processes are political leaders as R. Reagan in USA and M. Thatcher in UK. Until the early 1970s the international flow of capital was severely controlled. European investors, for instance, could not easily buy American stocks or bonds. When the fixed exchange rate system broke down the richer economies began dismantling their capital controls. In the early 1980s this process reached Norway and in the late 1980s and the early 1990s developing countries, too, began to open up.

In the 1950s and 1960s it was widely believed that developing countries could create industrial bases only by substituting domestic manufactured goods for imports. From the mid-1960s it became increasingly apparent that there was another possible path to industrialization: via export of manufactured goods, primary to advanced nations. And something "new" was to happen in Asia. Japan had rapid economic growth soon after the World War II and has per capita income comparable to Northern-America and Western-Europe. In the 1960s rapid economic growth began in four smaller Asian economies, "the Asian tigers", Hong Kong, Taiwan, South Korea and Singapore. In the late 1970s and the 1980s rapid growth began in Malaysia, Thailand, Indonesia and most spectacularly, in China.

The countries that developed in this manner are by the World Bank refer to as "the high performance Asian economies" (HPAEs) or simply the "East Asian miracle". All this countries achieved very high growth rates, for instance the growth in real GDP in the "tiger" economies grew at an average of 8-9 percent per year from mid-1960s until 1997 then the Asian crises started, compared with 2-3 percent in USA and Western Europe. ("International Economics – Theory and Policy" by Krugman and Obstfeld, Addison-Wesley, 2003). But also economies in other parts of the third world did follow more or less the East Asian path, however with less success.

The development towards wider global capitalism, more international market solutions and increased international trade got more fuel than the Soviet Empire break down around 1990. "Capitalism" had won the "World Championship in economy" and it look like it is the most effective economically way of organizing the economy for both a nation and among nations.

3.3 The last decade and today

In the decade of the 1960s the world economy grew at a rate of 5.0 percent per year after correcting for inflation. In the 1970s, growth dropped to 3.5 percent per year. In the 1980s there was a further deceleration to 2.8 percent and in the first half of 1990, when the bottom was reached, the growth was down to 2.0 percent per year ("The Future of Capitalism", Lester Thurow, Nicholas Brealey Publishing, London 1996). In the period 1997-2001 the world economy grew at a rate of 3.5 percent per year and anticipated growth for 2004 is 4.1 percent (Stortingsmelding nr.1 2003-2004).

Since 2001 the rich countries are said to be into a depression. In 2001 and 2002 the yearly average economic growth in the world was approximately 3.1 percent. The growth in the developed nations was 1.8 percent while the growth in the rest of the world was 4.8 percent. A reasonable question is why the economic slump hit the rich nations relatively hard? One explanation is the amount of goods sold in markets has a much higher frequency of total GDP in developed nations than in developing nations. Therefore changes in supply and demand affect the total economy much stronger.

The growth in the American economy in the decade 1991-2001 was the strongest ever after the second world war with a yearly rate at 3.4 percent. The growth for 2002 and 2003 is expected to be 2.4 percent and for 2004 3.6 percent. A very expansive economic policy and historical low discount rate (the Federal Reserve banks reduced the discount rate from 6.5 percent in 2001 to 1 percent in early 2004) have hindered a more serious economic depression but have also created a relatively large budget deficit. In 2000 the budget in USA had a surplus of 1 percent of GDP which in 2003 had changed to 4 percent deficit. The unemployment rate was 6 percent in 2003 compared with 4 percent in 2000.

Western Europe (the Euro zone) had an average growth rate at 2.6 percent in the period 1997-2001, significantly lower than in USA. Average growth in 2002 and 2003 is expected to be only 0.7 percent and in 2004 1.9 percent. The unemployment rate increased with 1 percent from the beginning of 2002 to nearly 9 percent late 2003. The economic slowdown obviously has hit Europe harder than America.

Why is it so? One reason maybe is that USA earlier and with more power started to take measures against the slump. Another reason can be the differences in how the economies are organized. In USA there is a federal government in Washington who has the overall economic responsibility for the economic policy while in Europe each government implement more or less its own policy and therefore there is a lack of coordination. A third reason is the argument that the American economy is much more flexible than the European and so the wage level easier will adapt to the state of the economy and this giving the American economy more growth power. In all of Western Europe not one net new job was created from 1973 to 1994. Over the same period the USA generated 38 million net new jobs even though it has one third fewer people (Thurow).

Eastern Europe and specially Russia got a serious recession after the breakdown of the Soviet Union at the beginning of the 1990s. But now it looks better. From 1997 to 2001 the Russian GDP grew at a rate of 3.2 percent, the average growth for 2002 and 2003 is expected to be more than 5 percent and for 2004 5 percent. The background for these positive figures is a weaker Rouble after the financial crisis in 1998, increased oil prices and a series structural reforms decisions in Russian economy which all together increased domestic demand and so increased growth. In the Central and Eastern Europe and the Baltic the economy grew with a rate of 2.8 percent in the period 1997-2001, and anticipated average growth of 3.2 percent in 2002 and 2003 and 4.1 percent in 2004. From the 1 of May 2004 most of these countries are members of the EU and the easier access to the European market will probably help these nations to stronger growth.

Fifty years ago the Asian countries were very poor with little industry and apparently with few economic prospects. Since late 1960s they have had a rapid growth rate bringing them up the developing scale and putting several of them in striking distance of advanced-country status. China's economy grew the last decade with a yearly rate of about 8 percent (Stiglitz) and anticipated average growth rate for 2003 and 2004 is 7 percent. The Indian economy grew with a rate of 5 percent the last decade. Asia (except for Japan) had a yearly growth rate of 5.7 percent from 1997 to 2001 in despite of the so called "Asian crises" in 1997 and the following years. Expected average growth rate for 2002 and 2003 is 6 percent and for 2004 6.2 percent. The USA is still the most important market for Asian commodities. However, the last years the intraregional trade has increased, not least because Chinese economy is more and more integrated in the world economy. The Japanese economy has been stagnating for a decade. From 1997 to 2001 GDP grew with a yearly rate of only 0.8 percent, while expected average growth rate for 2002 and 2003 is 1 percent and for 2004 also 1 percent. The unemployment rate has been increasing and is in 2004 around 5.5 percent of total labour force.

Despite enormous resources much of the Latin-America's population remains mired in poverty and the region has been battered repeatedly by financial crises. Mexico has through its NAFTA membership in 1994 got access to the American market. For the period 1997 to 2001 the Latin-America's GDP grew yearly with 2.4 percent. For 2002 the GDP is expected to be reduced by 0.1 percent, while growing in 2003 by 1.1 percent and by 2003 by 3.6 percent. Many of the countries have sought to avoid the policy mistakes of the past with varying results. Not least Argentina, one of the world's richest countries in the start of the twentieth century, has made serious attempts at economic reforms without success so far. For instance, Argentina's GDP decreased in 2002 with a rate of more than 10 percent as a result of the economic crisis started in 1997.

The African economy grew in average with a rate of 3.1 percent from 1997 to 2001. Anticipated average growth rate in 2002 and 2003 is expected to be 3.4 percent and for 2004 4.8 percent. This relatively positive development is due to high raw material prices and cancellation of international debt in cooperation with the World Bank and IMF, which significantly have bettered the finances in several African countries.

The world economy has grown with a rate of 3-4 percent the last years. However, the growth has not been paralleled in different parts of the world. We find the strongest growth in East and South Asia (except for Japan), while Latin America has had the weakest growth. Generally speaking, the growth has been stronger in the developing countries than in the developed countries. But the growth differs very much inside each of these groups and even inside many of the individual nation.

More and more countries are becoming part of the international capitalist economy linked together in global markets. Therefore international laws are becoming more and more important to give the rules for how this international game should be played. These laws have to be administered by international organizations like WTO, IMF and the World Bank. The international laws therefore must reflect the general interests of all nations.

4 DEVELOPED AND DEVELOPING COUNTRIES

The last fifty years the rich countries of the world have been the “Western” countries of the world, the capitalist nations. These countries, briefly the Western Europe countries, USA, Canada, Australia, New Zealand and Japan, founded the Organization for Economic Co-operation and Development (OECD) in 1961 to stimulate economic progress and world trade. Today the some new countries like Poland, Czech Republic, Hungary, Turkey and Mexico have joined OECD. Around 30 countries constitute today the OEDC countries. Often the term the industry countries or developed countries have been used for the rich nations, while the poor nations are called developing countries (earlier even underdeveloped countries) or the “third world”*. The point is, these terms describe some characteristics among the worlds nation, but do not give a particular good insight. We therefore will look closer into some important patterns of rich and poor countries.

Studying international statistics we will find Norway as part of the rich world. However, talking of the rich world as the industry countries has to be given a more precise definition. Norway is very fast getting de-industrialised when it comes to manufacturing industry, so this industry no longer makes Norway rich. You will find the same trend in the other rich countries. In 2002 only 9.6 percent of Norway’s GDP was produced in manufacturing industry and only 12.8 percent of total employee was employed in this industry (Stortingsmelding nr. 1 (2003-2004).

But is it not the oil which makes Norway rich somebody will say and maybe they have a point. However, there is a lot of non-oil producing rich nations, for instance Denmark, which have approximately the same standard of living as Norway. On the other hand, in many “not industrialised countries” you find very rapid industrialisation and increasing standard of living. It seems obvious that industry generates richness. But in the richest countries it is not manufacturing industry which is dominant but production of services. It looks like services create more richness than industry. So it seems to be a kind of competence hierarchy and that high competence is a condition for high standard of living. We therefore can describe the nations of the world in the following categories:

** The term Third World as originally first used in French in 1952 to describe a group of countries that chose to stay out of the cold war rivalry between the USA and its allies (the First World) and the Soviet Empire (the Second World). Most of these Third World countries you did find in Asia, like India and Indonesia, and in Africa, like Egypt and Ghana.*

1 *The Competence Countries,* which are countries dominated by services and where agriculture and industry are less important. Knowledge is central for these countries and they count the richest countries of the world, mostly the OECD countries.

2 *The New Industry Countries*, the countries with the most rapid growth in the economy generally and specially growth in industry. First of all you find these countries in East Asia.

3 *The Agriculture Countries,* the countries which economies are still dominated by agriculture. You find these countries in Sub Sahara Africa, but also in Asia and Latin America.

Categories like this do not tell the whole truth but can give some important information. What we want to do is to correlate a nation's richness with some other important characteristics. All figures are from "CIA – The World Factbook". Five countries are selected to represent each category.

Ad 1: The Competence Countries

We select some of the richest countries in the world, measured by GDP per capita (in parenthesis, the GDP per capita ranking in The World Factbook), USA (2) (Luxembourg is top ranked), Norway (6), Switzerland (7), Ireland (8) and Canada (9). The figures we will present are about GDP per capita in 2002, GDP's composition by sector in percent in 2002 (the sectors are agriculture, industry and services), population growth rate in percent in 2003 and the age structure in percent in 2003 (age structure defined 0-14 years, 15-64 years and 65 years and over).

Except for industry, the terms we look at are reasonable defined. In Appendix 1 you will find the exact description of industry for each individual country. In table 1 you find the countries average figures.

From table 1 we see GDP varying from 37 600 dollar in USA to 29 400 dollar in Canada in 2002. GDP per country was 32 200 dollar.

In average the growth rate was 2.9 percent in 2002. We notice quite a difference between North America and Europe even if Ireland had the highest growth rate this year. The average growth rate for USA and Canada was 2.9 %, while the average growth rate in the European Union was 1.6 %, as for Norway. The consequences of the recession hit altogether harder Europe than North America.

Table 4.1

Competence Countries Characteristics

Country	*GDP per cap. (in 1.000 $) 2002*	*Growth rate GDP 2002*	*Sector GDP 2002 - percent of GDP*			*Pop. growth rate 2003*	*Age structure 2003 in percent*		
			Agri.	*Ind.*	*Serv.*		*1-14*	*15-64*	*65 and more*
USA	*37.6*	*2.45*	*2.0*	*18*	*80.0*	*0.92*	*20.9*	*66.7*	*12.4*
Norway	*31.8*	*1.6*	*1.9*	*30.8*	*67.3*	*0.46*	*19.9*	*65.2*	*14.9*
Switz.l.	*31.7*	*0.0*	*2.0*	*34*	*64.0*	*0.21*	*16.6*	*67.8*	*15.6*
Ireland	*30.8*	*5.2*	*5.0*	*46*	*49.0*	*1.03*	*21.2*	*67.4*	*11.4*
Canada	*29.4*	*3.4*	*2.3*	*26.5*	*71.2*	*0.94*	*18.5*	*68.6*	*12.9*
Average	*32.2*	*2.9*	*2.6*	*31.1*	*66.3*	*0.71*	*19.4*	*67.1*	*13.4*

Source: CIA - The World Factbook

The service sector is relatively most important in USA, where 80 percent of GDP was generated in 2002, compared with 49 % in Ireland. In average for these five countries 66.3 percent of GDP was generated in the service sector. The importance of agriculture for the national economies is limited, while the industry sector still counts. Ireland has a composition of the economy which differs some from the other countries. Maybe this is due to Ireland's rapid change from a relatively poor European country three decades ago. If we suppose USA is in the front, the national economies will continue to be transformed more in the direction of the service sector.

Ireland has the highest population growth rate in 2003 with 1.03. Has this to do with religion, since Ireland is a very catholic society? Otherwise, European countries have a significantly lower growth rate than USA and Canada. In the longer run this may have economic implication. The average growth rate was 0.71. Norway has a growth rate of 0.46, while we need 0.885 (Preben Munthe: Befolkningslære) to reproduce the population in the longer run. Consequently the population growth rate in Norway, and surely in many other European countries, is too low to reproduce the population. A consequence is that the age pyramid moves upward, which mean the population in average is growing older. This trend already has some impact on specially the European countries economies since fewer productive people have to pay for still more unproductive people. The age group 15-64 is the working group. However, very few in Europe start working before twenty, which mean this group overestimate the number of productive people.

Ad 2: The New Industry Countries

Norwegian industry, first of all the manufacturing industry, more and more often closes down forever or moves abroad, today mostly to Eastern Europe countries. This tendency started nearly 50 years ago but has become stronger and stronger. The industry products, not least the manufacturing industry's, is replaced with imported products from many parts of the world but mostly from East Asia and in particular from China. The economic development in East Asia has shown that poor nations during a generation or two are able to more or less close the gap to the rich countries. In 1960 South Korea was a very poor country with a GDP per capita which was only 11 percent of USA's GDP per capita, the same level as Zambia and Madagascar. In 2002 the South Korean GDP per capita was 52 percent of that in USA while Zambia's and Madagascar's rate was 2 percent. In many ways the change in the South Korean economy is sensational.

Let us take a look at some of the economic characteristics of the East Asian nations. We do not look at the most successful economies, that's of Hong Kong and Singapore, because they are to be seen as city economies. We neither look at China because China is more like a continent with very big internal differences. So we have chosen (in parenthesis the GDP per capita ranking in the World Factbook) South Korea (39), Taiwan (48), Malaysia (77), Thailand (99) and the Philippines (133). In table 4.2 you will find figures for these countries similar to those from the competence countries in table 4.1.

Table 4.2

New Industry Countries Characteristics

Country	*GDP per cap. (in 1.000 $) 2002*	*Growth rate GDP 2002*	*Sector GDP 2002 percent of GDP*			*Pop. growth rate 2003*	*Age structure 2003 in percent*		
			Agri.	*Ind.*	*Serv.*		*1-14*	*15-64*	*65 og over*
S.Korea	*19.4*	*6.2*	*4.4*	*41.6*	*54.0*	*0.66*	*20.6*	*71.5*	*7.9*
Taiwan	*18.0*	*3.5*	*2.0*	*31.0*	*67.0*	*0.65*	*20.1*	*70.6*	*9.3*
Malaysia	*9.3*	*4.2*	*12.0*	*40.0*	*48.0*	*1.86*	*33.7*	*61.9*	*4.4*
Thailand	*6.9*	*5.2*	*11.0*	*40.0*	*49.0*	*0.95*	*24.2*	*68.8*	*7.0*
Philippines	*4.2*	*4.6*	*15.0*	*31.0*	*54.0*	*1.92*	*36.2*	*59.9*	*3.9*
Average	*11.6*	*4.7*	*8.9*	*36.7*	*54.4*	*1.20*	*27.0*	*66.5*	*6.5*

Source: CIA - The World Factbook

GDP per capita varies from the Philippines with 4 200 dollar to South Korea's 19 400 dollar. So these countries are not at all homogeneous.

The GDP growth rate in 2002 was in average 4.7 percent in 2002, highest in South Korea with 6.2 percent. It looks like the so called Asian financial crisis started in 1997 more or less was over for these countries.

In average 54.4 percent of GDP was generated in the service sector. And we see the two richest countries, South Korea and Taiwan is less dominated by agriculture than the others. Even if there are some structural differences between South Korea and Taiwan the standard of living is approximately the same.

The population growth rate varies very much. Malaysia and the Philippines have high rates, respectively 1.86 and 1.92, very high compared with South Korea (0.66) and Taiwan (0.65). The background for these differences may be has to do with religion. Malaysia is mostly a Moslem country while the Philippines are dominated by Moslem and Catholic religion. But we also experience that richer countries in average have lower population growth rate than poorer.

It looks like the age structure corresponds with the sector structure. The riches countries have a more aged population and particular fewer young people.

Ad 3: The Agriculture Countries

Statistics shows that the biggest concentration of poor countries we find in Africa. When picking out agricultural countries, the choice was five Sub Sahara African countries (in parenthesis the GDP per capita ranking in the World Factbook): Zambia (210), Ethiopia (219), Malawi (223), Tanzania (224) and Sierra Leone (229). (At the bottom of the World Factbook is East Timor, ranked as number 231.) In table 4.3 you find figures for these countries similar to the figures we presented in table 4.1 and table 4.2 for the competence countries and the new industry countries.

GDP per capita is very alike between these countries, as seen in table 3, even if GDP was 50 % higher in Zambia than in Sierra Leone in 2002. However, the level of GDP is very low.

The growth in GDP in average was 4.2 % in 2002. But we have to be aware that than the initial standard of living is so low even small absolute changes may result in relatively high relative changes.

The agriculture sector is important for all these countries. Except for Zambia this sector dominates the economy.

Table 4.3

Agriculture Countries Characteristics

Country	*GDP per cap. (in 1.000 $) 2002*	*Growth rate GDP 2002*	*Sector GDP 2002 Percent of GDP*			*Pop. growth rate 2003*	*Age structure 2003 in percent*		
			Agri.	*Ind.*	*Serv.*		*1-14*	*15-64*	*65 and more*
Zambia	*0.89*	*4.2*	*22*	*26*	*52*	*1.52*	*46.3*	*50.9*	*2.8*
Ethiopia	*0.75*	*5.5*	*52*	*11*	*37*	*1.96*	*44.8*	*52.4*	*2.8*
Malawi	*0.67*	*1.2*	*37*	*16*	*47*	*2.21*	*46.8*	*50.5*	*2.7*
Tanzania	*0.63*	*5.2*	*48.1*	*15.4*	*36.5*	*1.72*	*44.3*	*53.1*	*2.6*
S Leone	*0.58*	*5.0*	*49*	*31*	*21*	*2.94*	*44.8*	*52*	*3.2*
Average	*0.70*	*4.2*	*41.5*	*19.9*	*38.6*	*2.07*	*45.4*	*51.8*	*2.8*

Source: CIA - The World Factbook

The population growth rate is very high even if AIDS has made a lot of trouble to some of these nations. The population is very young. Almost half the population is less than 15 year. These countries therefore have a formidable problem in creating jobs for new generations.

Why Zambia do differ a little bit from the other countries is not easy to explain, but somehow it maybe has to with colonial history? However, these differences have not so far materialized in any particular higher standard of living.

Comparing the different countries

Let us now compare the different countries by looking at the average figure in each group, as shown in table 4.4.

In 2002 “our” competence countries had a GDP per capita which was nearly 3 times higher than that of the new industry countries and 46 times higher than that of the agriculture countries. Looking at the extremes the USA GDP per capita was 65 times higher than that of Sierra Leone.

The World Factbook has altogether a list of 231 countries of the world. In average the world's GDP per capita is 7 900 dollar which will say *the world* is ranked as number 91. The median country (ranked as 116) is among others Lebanon with 5 400 dollar GDP per capita which tell us that the richest nations of the world, they which have higher GDP per capita than average, contain fewer countries (91) than the poorest nations, with lower GDP per capita, which contain 140 nations. This illustrates the income distribution problem of the world.

Table 4.4

Comparative average figures of Competence countries, New Industry countries and Agriculture countries

Country	*GDP per cap. (i 1.000 $) 2002*	*Growth rate GDP 2002*	*Sector GDP 2002 percent of GDP*			*Pop. growth rate 2003*	*Age structure 2003 in percent*		
			Agri.	*Ind.*	*Serv.*		*1-14*	*15-64*	*65 and more*
Comp.	*32.2*	*2.9*	*2.6*	*31.1*	*66.3*	*0.71*	*19.4*	*67.1*	*13.4*
New In	*11.6*	*4.7*	*8.9*	*36.7*	*54.4*	*1.20*	*27.0*	*66.5*	*6.5*
Agr.	*0.7*	*4.2*	*41.5*	*19.9*	*38.6*	*2.07*	*45.4*	*51.8*	*3.2*
World	*7.9*	*2.7*	*4.0*	*32.0*	*64.0*	*1.17*	*29.2*	*63.7*	*7.1*

Source: CIA - The World Factbook

The average growth rate of the world, 2.7 percent, was in 2002 lower than the average growth rate in the countries we picked out. Our New Industry countries grew fastest at a 4.7 % rate compared with 4.2 percent for the Agriculture countries and 2.9 percent for the Competence countries. Three things can explain these figures. First, in 2002 the rich countries were hit by an economic recession. Second, lower initial figures give easier high percentage growth. And third, the raw material prices were relatively high in 2002 which favoured export incomes in countries with a high degree of raw material export, like the African countries (and Norway).

The richer the country is the more important is the production of services. The poorer the country is the bigger is the agriculture sector. We also notice that the industry sector is relatively more important for the new industry nations than for the competence nations.

The rich countries have the lowest population growth rate. Using the population growth rate in 2003 it will take near 100 years to double the population in the competence countries, near 60 year in the new industry countries and some more than 30 years in the agriculture countries. It is easy to imagine that a rapid growing population can be difficult to absorb for any country and particular difficult for a poor country.

Even if the population is growing fastest in the poor countries, the rate of the population in the working age (15-64) is higher in the rich counties than poor countries. That is may be a surprise. This has to do with the fact that the rich countries have a relatively low part of its population under 15 years due to few children per fertile woman.

4.1 Some further comments

The tables 4.1-4.4 show very big economic sector structural differences between the rich and poor nations. It looks like the key to richness goes through transferring people from the agriculture sector to the industry- and in particular the service sector. The new industry countries have shown that this is possible during a reasonable short time. In table 4.5 we look at GDP per capita over time (Erling Steigum: Moderne makroøkonomi).

Table 4.5

GDP per capita 1960-1990

Country	GDP per employed 1960 (USA=100)	GDP per employed 1990 (USA=100)	Growth rate 1960-1990 in percent per year
USA	100	100	1.4
Norway	58	80	2.4
South Korea	11	43	6.0
Zambia	11	6	-0.8

Source: Steigum: Moderne makroøkonomi

As seen in table 4.5 the GDP per employed was equal in South Korea and Zambia in 1960 compared to USA's 100. I 1990, however, the South Korean level to USA was 43, an annual growth rate of 6.0 percent, while Zambia's was 6 with an annual growth rate of -0.8 percent. This shows the difference between the nations we have called the new industry countries and the agriculture countries. The first countries are closing the gap the rich countries while the others in best maintain status quo.

The question of interest is why is it so? We will return to this question later. May be one answer has to do with the ruling politicians attitude, what one decide to give priority. If the governing politician's ultimate goal is to stay in power they use resources on themselves and not on for instance education which is essential for transforming an agriculture country to modern nation. Industry and service production require competence which it takes years to build up. But has the transformation process started it changes the country's class structure. First of all it creates a middle class which seems to be important for the economic development. The American economist Bill Easterly (Kalle Moene: Dagens Næringsliv 31.1 2004) has done a comparative study which shows that a relatively numerous middle class generates higher growth rate. He also emphasize that a big middle class is positive for education, public services and anticipated living age.

There exists a global income distribution problem, as seen in table 4.1 to 4.5. But it is of importance to say that we also find this problem internal in each country. Biased income distribution many will see as a question of justice, but it can also be looked upon as a question of economic growth. Keynes had the theory that smoother income distribution creates higher economic growth because poor people use a higher quota of there income on consume than the rich. Even if it has not been easy to get empirical backing for this theory in any rich countries we can not completely ignore it in a global scale?

When the standard of living is increasing the population growth rate is decreasing and population's age structure change upwards. A question to rise is: Is higher per capita income an effect of these demographical changes or is it the other way around? One thing is for certain, countries like China and India which have high growth rate in GDP have worked hard to reduce the fertility, though choosing different policy. So after all it looks like a policy for reduced fertility helps the economic development. With close to half the population less than 15 years of age the agriculture countries have a formidable job to do to offer the young generation education and work.

Even using the growth rate for 2002[*], when the growth was weak in the rich countries, it will take almost 57 years before "our" new industry countries do

[*] *Calculated by using the formula for continuing growth,* $GDP_t = GDP_0 \cdot e^{r \cdot t}$ *where* GDP_0 *and* GDP_t *is GDP on time 0 and t, and r is the growth rate, respectively 0.029, 0.047 and 0.042.*

have a GDP per capita equal to that in “our” competence countries, while it for “our” agriculture countries will take close to 300 year. But such average considerations cover up the great differences. For example, the GDP per capita in South Korea in 2002 was 19.400 dollar, more than that in Greek (19.000 dollar) and Portugal (18,000 dollar). However, some will after all say that Greek and Portugal are part of the rich world but South Korea not.

5 INTERNATIONAL TRADE

GATT did have considerable success with global reduction in tariffs on trade. From 1948 to 1998 the total export of commodities and services increased with a yearly rate of 6 percent, while the export of manufactured commodities increased by 7.8 percent. (Ole Gunnar Austvik, Ivar Bredesen og Erling Vårdal: "Internasjonal handel og økonomisk integrasjon".) In the same period the world's GDP increased by 3.9 percent and the world's population by 1.8 percent. The growth in GDP per capita was then 2.2 percent which mean increased growth in trade and standard of living go hand in hand.

However, GATT did not have the same success when it came to removing the non-tariff barriers. Traditionally international trade has been commodity trading and the GATT agreement was initially about this. When the new international liberalization period started in the 1970s also freer trade with services came on the agenda. Another issue to come up was for GATT, is how to manage the globally increasing regionalism. The regions, for instance the European Union (EU), establish common arrangements and laws which concern the countries in the region, while GATT had focus on international agreements for most countries in the world.

The changing of name from GATT to WTO (World Trade Organization) in 1995 did represent more than a changing of name. While GATT was an agreement which a single country could ratify or not, WTO is a permanent organization ratified by each member country. This gives WTO a better juridical base. If there is dispute between nations of how to interpret the agreement a supranational law court do the final decision. While only 23 nations signed the GATT agreement in 1947 more than 140 nations are members of WTO today, including "communist" China who signed the agreement in 2002.

WTO's goal is still, as for GATT, to supervise and liberalize world trade. However, WTO has a wider agenda than GATT. Today environment couples with trade, social rights with labour rights and investment policy with competition policy. One of the difficult issues in WTO negotiations has been free trading with agriculture products. These negotiations have a quite other character after very many "agriculture" or poor countries have joined WTO. An important economic region as EU – and Norway – wishes not to open up for free import of agriculture commodities, which often has a lower price than the domestic commodities. But EU also gives preferences to earlier French and British colonies even if they can get cheaper commodities elsewhere. Well known is the banana example. The cheapest bananas come from several small Central American nations, the original "banana republics". EU however earlier did prefer to buy bananas from past or present West Indian colonies in the

Caribbean. After a dispute with USA, the EU finally in 2001 agreed to a plan to phase out the banana import quotas over time.

5.1 Regionalism

Jumping from national economies to one-world economy has obviously been a leap too big to make. As a result, regional trading blocs are emerging as natural stepping-stones in an evolutionary process toward a truly global economy. These blocs lead to some contradictor trends. First, the blocs open up for freer trade within the bloc but second, create competition between the blocs.

Thus, selling one's products is very difficult if a country is not part of the bloc. And of course this development makes it particular difficult for developing countries. Marked access to the rich nations trade blocs will be a privilege. (In appendix 2 you find a list over some of today's regional economic blocs.) No nation has gotten much richer the last fifty years without easy access to the markets of the rich countries of the world. In practice this mean the American markets since the European markets and in particular the Japan markets more or less have been closed for third world's manufactured and agricultural products. Therefore regionalization both pushes globalization forward since economic integration increases and brake the globalization process since regions shut out other (first of all poor) counties.

The post-World war II Europe was divided in a capitalist West and a communist East. In 1957 we got the establishment of the European Economic Community (EEC) between six countries (Germany, France, Italy, Belgium, the Netherlands and Luxembourg). Ultimately EEC was a peace project, a try to prevent future wars between European nations but got to have wide ranged economic implications. Today most of the European nations are members of the European Union (EU).

The different regional blocs have different aims. Some, like NAFTA, is just a free trade arrangement while others, like EU, has a vision of a greater European union and some even want EU to be the united states of Europe. So the different blocs play different roles on the international arena.

A global economy creates disconnect between the international economic forces and the single nation's ability politically to control these forces. With internationalization national governments lose many of their traditional means of economic control. Regionalism makes it easier to control the national economies but is un-sufficient in the global economy.

Most of the world's countries today play more or less the global capitalist game. The global economy is both bigger and more of a reality than it ever has been and it is changing faster and faster. However, the system of rules and the international institutions which are managing the rules are in many way outdated as they function today. The existing trading system is still in main the Bretton Woods system which was designed for a world where one nation, the USA, was totally dominant. The world today is much more economically multi-polar and the third world interests have to count more when the rules are changing. We do have the global institutions but their policies have in some degree to be changed.

The Bretton Woods system has the so called most favoured nation system which means that every country will give to all countries whatever the best deal is that it gives to its most favoured trading partner – it's most favoured nations. By the appearance of the regions this system often is practiced the quite opposite way. Germany does not give the USA the deal it gives France because France is member of EU and the USA is not. The USA does not give Brazil the deal that it gives Mexico because Mexico is in NAFTA, Brazil is not. The consequence is that the regions make international trade more difficult.

After all, there is strong growth in global trade, and even additional after China joined the WTO. The USA big trade deficit in 2002 and 2003 (and probably in 2004) was partly due to trade with China and other East Asian countries. On the other hand, the Chinese partly financed this deficit by buying American government bonds.

5.2 *Trade with services*

The production of services has become more and more important for the economic development. The history of trade is mostly the history of trade with commodity goods. This is, however, changing.

The lever used to make forward progress is the process known as a trade round, in which the GATT/WTO-countries come together to negotiate a set of tariff reductions and other measures to liberalize trade. Eight trade rounds have occurred since 1947. The last one was the "Uruguay Round" lasted from 1986 to 1994 (the meeting started at the coastal resort of Punta del Este, Uruguay, hence the name Uruguay Round). An agreement was reached in 1994 and among others the departing countries agreed to establish GATS (General Agreement on Trade in Services). And since 2000 services has been included in the negotiation for further liberalization of international trade.

The GATS agreement gives new opportunities for export and on longer sight great consequences on global production of service goods. We have already noticed that service production move from Europe (including Norway) to low-cost countries, for instance India, a country which also has had a strong economic growth the last years and with an increasing well educated middle class (like China). Services like programming and accounting are moving out. In the Oslo newspaper Aftenposten, Per Egil Hegge wrote 2. Mars 2004 the following (translated to English): "Only a few weeks ago the airline SAS announced the loss of 150 places of work at Kastrup Airport in Copenhagen because an Indian firm in Mumbay (earlier Bombay) is to take over the accounting". Using new technology distance matters lesser than ever. And not only the production of services move, so do even people. A Norwegian girl told on radio that she moved to India to work for a computer company.

Trade with services is of course not new. World wide trade with shipping services is well known in Norway. But we also know some of the consequences, many shipping companies have moved out of Norway and today you do not find many Norwegian sailors. So we do not need to guess when looking at what to come in the future. The new technology creates new global opportunities, but at the same time globalization creates more competition.

In Norway, we have seen this in higher education. The market for higher education is growing worldwide and the number of students going abroad has increased significantly.

6 EXCHANGE RATES AND THE INTERNATIONAL EXCHANGE MARKET

More than 180 countries of the world states are members of the International Monetary Fund (IMF). It is not so that IMF's prime goal is to help developing countries. The IMF's principal activity still is to stabilize currency exchange rates, finance short term balance of payments deficits of member countries and provide advice and technical assistance to borrowing countries. IMF put forward proposals for the member states for how to stimuli economic growth and international trade and how to control international exchange rates system. IMF lends the member countries with balance of payment money, often with restrictions of how to use the money for solving the problems.

Since the break down of the fixed exchange rates system in the beginning of the 1970s most of IMF lending money has gone to developing countries balance of payment deficit (balance of payment is the difference between a country's export and import value). This is probably why some people have come to the conclusion that IMF first of all is an organization for helping developing countries. IMF gets its money from the member states which contribute with a "quota-subscription" which extent depend on how big the country's economy is.

There has also been a change in the policy of the World Bank, Today the main activity is to finance the developing countries need for long term loans for stimulating the economic growth. The bank lends money for infrastructure improvements, structural changes in agriculture and manufacturing production and to training and education projects. Mostly of the funding come from the rich countries or from borrowing in the international capital market.

In the late 1970s a process for liberalization of national and international capital movements started, first in USA and Britain, later in other developed countries. In the beginning of 1980s, this wave reached Norway. The changes of greatest impotance were (Gabriela Mundaca and Jon Strand: "Norsk økonomisk politikk og økt åpenhet I internasjonale kapitalmarkeder" in "Mot et globalisert Norge?" (Bent Sofus Tranøy and Øyvin Østerud (red.))):

First, nationally and internationally the capital markets became more integrated with fewer hindrances. New technology did all kind of transactions easier and cheaper. The stock markets became more integrated and the bond and currency markets liberalized.

Second, the international capital markets have increased in size and so in importance. Financial transactions compared to GDP have increased very strongly in both short (currency trade and short time capital investments) and long time (bond trade, long term loans and direct investments). In 1989 about 190 billion US dollar passed through the hands of currency traders in New York, London and Tokyo every day. By 1995 daily turnover had reached almost 1.2 trillion US dollar (The Economist: "Economics – making sense of the modern economy").

Third, financial companies have grown, are more international and offer more homogeneous products. For instance there are no longer big differences between banking and insurance activity. The integration of international companies, also experienced in Norway, do increase the risk for problem in one market infect other markets (as seen in the crisis in Asia, Russia and Brazil).

Forth, the use of new financial instruments has increased dramatically, in special the use of terminal contracts like futures, options, swaps and derivatives.[*]

Fifth, the saving pattern is changing in the OECD countries as a result of more investment opportunities. Therefore institutional investor's activities have grown strongly in the international financial markets.

The global financial liberalization the last thirty years has had significant impact on the economy. Let us mention some of them:

- The expectation of future development of the exchange rate more and more decide the level of the interest rate. This makes it more difficult for national governments to control the interest rate level, even for countries with their own currency like Norway.
- The finance liberalization also has impact on a country's fiscal policy. It is more difficult to stabilize the national activity level and thus the unemployment level by fiscal policy.
- Capital movements motivated by speculation is not so easy any longer for a country to be protected against.
- The need for economic efficiency is not so easy for the politicians to avoid since it is easy for the owners of the firms to move capital and production to other countries. This has impact on how the wage formation process function and do it more difficult for subsidizing for example

[*] *Futures: Contracts involving delivery of real or finance objects on a given future date where price is agreed in advance.*

Options: The right which gives the owner of an object the possibility to buy or sell the object at a specified price at any time up to a specified expiration date.

Swaps: A spot sale of an object combined with a forward repurchase of the object.

Derivatives: Transactions of real or finance objects where future sale price may depend on the object's value today or in future and/or of other variables. This allows the firms to insulate themselves from changes in interest rate.

remote areas. It is more difficult for a single nation to carry out one's own welfare and income distribution policy.

- Power is transferred from national markets and institutions to international markets and institutions. Everyone who has to pay for globalization and increasing competitiveness try to defend themselves. In Europe for instance, trade unions, peasant organizations and others fight against a more open international economy. It is becoming more and more difficult to do this fight.

It must however be emphasized that a more liberalized finance and capital market gives the opportunity for better use of scarce resources and more effective allocation of labour internationally. So increasing openness maybe is a must for the world to get richer and more equal. As seen, trade liberalization has been an important key for growth in emerging economies (as South Korea and China). Very few economists recommend today a reverse of this policy. Global trade and finance markets have come to stay so we must expect a lot of changes in our lives in the future.

7 INCENTIVES FOR GLOBALIZATION

In average a country become richer the higher rate of GDP is produced in the industry sector compared with agriculture sector and even richer the higher rate of GDP is produced in the service sector. Why is it so? The answer has to do with productivity. Average productivity tells us how much income a single worker generates during an hour's work. An hour's work gives in average higher income in services than in industry and in industry than in agriculture. In short, the average productivity of a country explains how rich the country is. (Even if it is so simple there can of course be other explanations, for example incomes coming from natural resources like oil which can be looked upon as selling our fortune instead of income from production.)

So the growth process in main is a process for moving workers from low productive branches and sectors to high productive branches and sectors. Norway for instance has increased the national income by transfer of small peasants from agriculture to oil industry.

7.1 Trade between countries

Higher productivity can be generated by trading. Increasing international trade creates higher specialization between countries and thus all trading countries benefit from it.

It is obvious that if a country has absolute advantages to another, trade gains both countries. A traditional example is Norway exporting clipfish (dried cod) to Portugal and importing wine back).

But even if a country has relative advantages compared with another country trade gives both countries benefits. Comparative advantage says that countries benefit from specializing in producing and exporting the goods they are specially effective in producing. Comparative advantages reflect initial differences in relative production costs, arising from differences in technology or in relative factor abundance.

Different relative factor abundance explains why OPEC (Organization of Petroleum Exporting Countries) exports oil and China exports labour intensive goods from toys to trainers. (David Begg, Stanley Fischer, Rudiger Dornbusch: Foundations of Economics.) But it do not explain why Sweden exports cars (Volvo, SAAB) to Germany but also imports cars (Mercedes, BMW, VW) from Germany. Sweden can not simultaneously be scarce and abundant in the inputs used to make cars.

This intra-industry trade is two-way trade in goods by the same industry due to consumers' wish to have a wide choice of brands that are similar but not identical, consumers like variety. We also need economies of scale to prevent the cars for being to expensive, therefore they are made in a few countries and then we swap them around through international trade to everyone's benefit. Of course geographical distance will increase transport cost on many goods and thereby slow down trade. That is one of the reasons for why the trade between Norway and Sweden is much higher than the trade between Norway and Japan.

Trade gains the country but not necessarily everyone in the country. In most countries some group of producers will always be losers when freer international trade develops since structural changes follows the trade liberalization. In Norway for instance, free trade with agricultural products will benefit the country, however, the Norwegian peasants will in average be losers.

The value of international trade as rate of GDP is often used as a measure on how dependent a nation is of the international society. In 2002 the Norwegian export was nearly 42 percent of GDP (Stortingsmelding nr. 1 2003-2004). So we have to say that international trade is very important for Norway. World export in 2002 was to compare 20 percent of world GDP and has grown by 7.5 percent a year since 1950 (David Begg, Stanley Fisher and Rudiger Dornbusher: Foundation of Economics). In 2000 nearly half the global trade was trade between the rich countries. Manufactured commodities dominated the trade.

7.2 Productivity and Wages

During the last fifty years there has been a continuous liberalization of trade. Protection against free trade you mostly will find when it comes to fishing and agriculture product. In EU there is free trade with these products and a strong protectionist policy against other countries and regions. Norway has a protectionist policy against all other countries.

In the free market a firm's competition strength depends of its cost structure. The cost structure reflects factor prices like wage and interest level, productivity which reflects technology, knowledge, organization ability and cultural attitudes. Richer countries will pay more in wage per hour than poorer countries. So competing in the same market rich country firms must compensate for higher wages with higher productivity. It seems like wages reflects productivity. "In short, the evidence strongly supports the view, based on economic models, that productivity increases are reflected in wage increases" (Paul R. Krugman and Maurice Obstfeld: International Economics, page 25).

The risk for closing down firms in rich countries is highest for work intensive firms where technology means lesser. Several East Asian countries have achieved much higher growth rates of productivity than Western nations through the last decades of the twentieth century. For example, output per worker in South Korea was only 20 percent of the USA level in 1975 but had risen to more than 50 percent by 1998. Closing the productivity gap thus mean closing the income gap and South Korean firms so have to compete internationally on more equal terms.

Low wages in some countries does not mean that high cost nations will lose the production of goods. The theory of trade says that gains from trade depend on relative rather than absolute advantages. So countries will specialize in producing goods they are relatively clever to do. Low wage countries are never a threat to high wage counties and arguments like this are irrelevant to the question of trade benefits. However, increasing international trade and new trade patterns creates structural changes in all countries and some firms which have had more or less protection from foreign competition will of course fight for their privileges or give in.

In a global context (but also internal in a country) the standard of living in main reflects the countries productivity. If the Norwegian GDP per hour (main land GDP) was 100 in 1998 it was 74 in 1980 and 9 in 1913. Productivity in 1913 was so about 1/10-th of the productivity in 1998. The difference in productivity between China and USA was quite like this in 1994. Therefore, the difference in the standard of living in Norway in 1913 and 1998 was equal to the difference in the standard of living between China and USA in 1994.

What is one nation's surplus in the balance of trade is another nation's deficit. The last years USA has had a considerable deficit in the foreign trade, for instance in the trade with China. Increased Chinese export surplus will rise Chinese income, but also the Chinese import. This should strengthen the value of Chinese money. Since Chinese exchange has fixed value this is not obvious in short time, but will happen in the longer run.

There have been arguments saying that rich countries exploit poor countries through trade because workers in developing countries receive much lower wages. The problem with such arguments is that they do not ask what alternative workers in these countries have to their low wage payment. If the alternative is lower income and no trade they are worse off and their opportunity to close the gap to the rich made very difficult.

7.3 The Global Capital Market

The market in which residents of different countries trade assets, is called the international capital market. This market is not a single market. It is a group of closely interconnected markets. An important part of the international capital market is the foreign exchange market where international currency trades take place. The main actors in the international capital market are commercial banks, large corporations, insurance corporations and national central banks. The market's activities take place in a network of world financial centres, like New York, London, Frankfurt, Tokyo, Hong Kong, linked by sophisticated communication systems. Besides currencies trading, the assets traded include different countries' stocks and bonds.

On any measure, the scale of transactions in international capital market has grown more quickly than world GDP since the early 1970s. More and more countries have dismantled barriers to private capital flow across their borders. When Western countries gave up fixed exchange rates they chose a system that allowed them to combine international capital mobility with a domestic oriented monetary policy which gave them a greater freedom of international asset trade.

A major change in international financial relations in the 1990s has been the rapidly growing importance of new emerging markets as source and destinations for private capital flows. Emerging markets are the capital markets of poorer developing countries that have liberalized their financial systems to allow private asset trade with foreigners. For example, countries such as Brazil, Mexico, Indonesia and Thailand were all major recipients of private capital inflow from the industrial world in the early and mid-1990s.

Most countries are of need for capital for their development. Several regional financial crisis have shown that it is difficult to get an accurate picture of global financial flows and not easy to regulate it for preventing those crises. As a result, the need for authorities to collect and pool data and in better way govern the capital flows on the internationally level has become acute.

7.4 Multinational Companies

Many firms have established themselves globally, for them "the sun never goes down". So when is a corporation international? In USA statistics a US company is considered multinational if 10 percent or more of the stock is held by a foreign company (Paul Krugman and Maurice Obstfeld: International Economics). The idea is that 10 percent is enough to convey effective control. Usually even multinational companies have a clear national home base.

Economic theory of multinational enterprise explains multinational companies in two ways. First it has to do with the question of location. This is just the theory of trade. The location is determined by where you find the most important factors of production, for instance aluminium production near cheap electricity and skill intensive firms close to excellent universities. The factors that determine a multinational company's decision about where to produce are probably much like how all other firms do their decisions.

Second, the theory of internalization, why tie firms in many countries together with a lot of internal transactions instead of letting independent national companies do the job? The answer is very simple, multinational corporations exist because it is more profitable to carry out these transactions within a firm rather than between firms. And therefore the term "internalization" is used. However, it is not easy to explain why it turns out this way.

One explanation is that buying and selling technology, defined as any kind of economically useful knowledge, is more expensive for one firm trading with another company in an other country than it is to get the returns from the technology by setting up subsidiary companies in those countries.

An other view stresses the importance of vertical integration, that it is cheaper to own a foreign firm if this firm produces a good which is used as input to one's own production than to buy it from an independent foreign firm.

Multinational firms play an important part in world trade and investment. Their part of global sale is enormous and their sales outside their home countries are growing 20-30 percent faster than exports (The Economist: Economics). Worldwide, foreign direct investment has been growing three times as fast as total investment, although it still accounts for only 6 percent of the annual investment of rich economies. The average multinational company produces more than two-third of its output and locates two thirds of its employees in its home country. Although both operate worldwide, the culture of General Motors is distinctively American and that of Volkswagen German. Multinational firms for several years have been the main force behind global flows of capital, goods and services.

For many years roughly three fifths of all foreign direct investment goes into rich countries and two fifths into developing countries. Earlier a large share of direct investment in developing countries went into the extraction of natural resources, especially oil. Today this share is lesser as a lot of developing countries have become richer and there is a market for cars, computers and other consumer products. So the international firms put more money into other things than natural resources, for example car makers establish plants in Brazil and China.

Therefore, capital flows to developing countries are going directly to regions with the highest growths prospects. Most of the investments go to regions in Asia and Latin America, while Africa, despite its rich natural resources receives almost no foreign direct investment, because few in the region can afford rich-world consumer products.

International competition is changing very rapidly and becoming more and more dynamic. Who owned the factors of production was earlier a very important question. Today it is important to have the ability to manufacture and design commodities and services and cut costs. Advantages in know how, management, favourable clusters etc. have short lifetime and financial strength is needed to do continuing changes and bear poor investment. They often get the power to exclude new-comers' establishment in the market or marginalize them. For instant, Scandinavian Airline managed to prevent a new airline from establishing themselves in the Norwegian aviation market.

The international liberalization means a transfer of decisions from politicians and bureaucrats to the market's actors. If free competition no single actor has much power. But in a market where a few very big global companies dominate, each actor has a considerable power. In main labour organizations and political organs lose while multinational companies wins. If in addition there are personal relations between leading politicians and leading business men you got a team which is really powerful. As seen in Iraq after 2003, the American Vice President had earlier worked for the company which got one of the best contracts for the rebuilding of Iraq.

We should add that it is a myth that firms want competition. They do want the opposite, monopoly. The reason is simple. There is more profit in a monopoly position than in a competition position. So if a market is unregulated, a few companies after a while will dominate the market. Globally one of the problems is the lack of strong market regulation, which gives the opportunity for global companies to have so much power. We do have the institutions which could implement stronger regulations but their mandate is too weak.

7.5 The Global Labour Market

Trade and capital movements have been liberalized in global scale for years. What about the labour market, are we also going to have a free international labour market?

Some regions, like EU, have a common labour market (even if there are some national adaptations to the 2004 enlargement of EU). However, it looks like it is very difficult to establish a real integrated common labour market in Europe. In reality, the development against a common labour market goes very slow. In 1972 (a year before Demark became a member of EU) only 1 percent of the Danish population had its origin in other EU countries (Stein Reegård: Økonomi uten grenser). In 1997, after 24 years of EU membership, the share of the Danish population with origin from other EU states had grown to 2 percent, a very modest increase. Even from Belgium to the Netherlands, where many have quite the same language in a near geographical area and where job opportunities is better and payment higher, we see little migration.

On the other hand, if you come from a developing country and want a job in EU, it is not easy to get necessary immigration papers and for most people illegal immigration is the only opportunity. With all the restriction for moving labour around the world it is difficult to talk about a global labour market.

During the 19th century in many ways there was a global market for labour. Otherwise, the USA could not have expanded at anything like the rate it did. Nowadays all countries and regions have a lot of restriction to regulate migration. The interplay of these rules gives rise to complicated migratory patterns. Receiving countries have often a migration practice which is linked to their history. Earlier generation of migrants form network that helps new ones to overcome legal obstacles. Tighter rules tend to confine immigration to family of earlier "primary" migrants.

In global scale net migration goes from poor countries to rich. Despite the tightening of rules in many rich countries during the 1970s, immigration did increase somewhat during the 1980s, had a peak around 1990. New tighter restrictions have reduced the number of immigrants significantly from around 1990 (The Economist: Economics).

Labour needed for economic development in the rich world has easier to get the permission to work in rich countries, for instance migration of highly skilled workers. As multinational companies expand they develop their own internal markets for skilled workers. Also when it comes to academic work, skill is more important than nationality.

The low population growth in the rich world will create lack of people in some occupations and there will so be a need for migration. In Norway, for example, there has been an import of nurses from, among other countries, South Korea. So the demographic development in the rich countries, expansion of international firms and increasing trade set pressure on strict migration regulations. But even so, there is little international discussion of migration and no organizations working for liberalization of the labour market.

Increasing regions do create migration “problems”? The enlargement of EU with several Central and East European countries from the 1 of Mai 2004 did the old member nations worry about large immigration from East. They therefore made own temporary rules for migration from the new member states. EU has today an unemployment percent which is around 10 and the governments fear it will increase. They also fear increased outlay for common welfare arrangements when people get rights they do not have paid for. The labour organizations fear for their member’s job and for downward pressure on wages.

With so big problems internal in EU a global market for labour seams far away, even if there are some new trends in world migration.

8 GLOBAL ECONOMIC GROWTH

Explaining growth in a global context is complex material. Short term growth is often easy to explain, long term growth very difficult. Which factors do explain why some countries have strong economic growth and others not? Explaining long term growth has to do with all aspects of the country's organization and attitude and therefore has to do with a lot of conditions, historical, political, social and cultural.

Economic theory explains long term growth, measured in GDP, as a result of three factors, the supply of labour and capital and the degree of changes in efficiency in technology and production.

Labour in itself is not sufficient. Comparing developing countries with rich countries the supply of labour is much higher in the poor countries. The problem of the developing countries is lack of skilled labour. To manage modern technology you have to have good training. The country's educational system quality is therefore of great importance. This quality is dependent on the government's priority and political stability. A country like China has given better education very high priority.

Compared with the rich countries lack of capital is a problem for the developing countries. International capital will float where the profit is highest. Since 1990 there has been a rapidly growing importance of new emerging markets as source and destinations for private capital flow. Emerging markets are the capital markets of poorer developing countries that have liberalized their financial systems to allow private asset with foreigners (Krugman and Obstfeld: International Economics). Such countries we first of all find in East Asia and Latin America (Brazil and Mexico). A country's possibility to be a capital recipient of international capital is near connected with the country's capability to generate capital of its own. Therefore specially the Sub Saharan countries in Africa have problems receiving foreign investments, their own savings are very low. In addition of course the economic instability in many of these countries does not better the investment climate.

Since poor countries generate too little savings of their own to take advantage of all their profitable investment opportunities, they have to borrow abroad. If borrowing for investment in profitable project, both the borrowing country and the lender (normally from a rich country) will get a good return. On the other hand, loans that finance unprofitable investment or import of consumption goods may result in debts that the borrowers can not repay. If corruption is widely accepted in the country, as it is in many developing country, this will worsening the situation. Statistical studies also have found that corruption itself tends to have a net negative economic efficiency on growth.

A loan is said to be in default when the borrower fails to repay on schedule according to the loan contract. Because of political instability and weaker financial institution in the developing countries, it's much more risky to lend money to these countries. And last decades have shown a lot of financial crisis and default loan contracts. It is difficult to say if default loans reduce the annual growth rate speed in GDP. However, it should not be a positive factor.

Education is important for economic growth, even if it is not quite clear how the connection is. Education attainment has exploded in the developing counties over the last 40 years. Yet the rate of growth differs very much for the different countries and many of them even have slower growth than the OECD counties. The differences may be due to the quality of the education and the occupation when education is finished. Table 8.1 shows regional growth rates and average school enrolment rates (Castanheira, Esfahani (McMahon, Squire (Ed)), p 182).

Table 8.1 School enrolment rates and economic growth, average for 1980-1999 in percentage

Region	*Primary*	*Secondary*	*Tertiary*	*Per capita GDP growth*
Sub Saharan Africa	78.59	22.64	2.09	-0.91
South Asia	89.98	38.86	5.54	3.42
Middle East & N. Africa	94.18	54.23	12.22	0.08
East Europe & Central Asia	100.64	85.12	33.73	-1.87
Latin Am. & Caribbean	106.61	48.69	15.47	0.34
East Asia & Pacific	117.16	49.72	6.20	5.98
High-income OECD	102.70	96.20	46.86	2.02

Saurce: McMahon & Squire (Ed.)

Table 8.1 shows that there is no obvious connection between regional growth rates and average school enrolment rates over the period 1980 to 1999. As seen, Eastern Europe and Central Asia has among the highest education rates and the lowest growth rate. Latin America has also generated many years of schooling with little output growth to show for it.

Even when it comes to direct investment, there is no simple connection between the level of investment and the rate of growth (McMahon and Squire). A lot of variables may be relevant to explain this. However, trade openness emerges as the most important factor distinguishing countries with high rates of investment from those with low rates. It looks like the countries which have the combination of an open trading regime and rapid growth in labour force has the highest investment rate. Policy variables turn out to give the most important explanation of investment's productivity, the government's ability in providing the enabling environment to enhance the productivity of investment. The combination of rate of investment and productivity of investment explain why some countries with high investment level failed to achieve high growth and why some countries with low levels of investment nevertheless grew rapidly.

McMahon and Squire studied the growth performance in Asian, African and Latin American countries from 1968 and 1998. High- growth performance countries had an average growth rate of 2.1 or more. Medium-growth countries had an average growth rate between 0.2 and 2.0, while low-growth countries had an average growth rate of 0.2 and below. Of all together they studied 83 countries, 26 of them were high-growth performance countries, 29 of them medium-growth performance countries and 28 of them low-growth performance countries. The high-growth performing countries had an average growth rate of 4.0 (China highest with 6.9) and was dominated by Asian countries (69 percent of the countries were Asian). The medium-growth countries had an average growth rate of 1.1 and were dominated by Latin-American countries (48 percent of the countries were Latin American), while the low-growth countries had an average growth rate of -0.8 and was dominated by African countries (51 percent of the countries were African).

Developed countries had in 1960 to 1994 a growth in productivity, measured as growth in GDP per labour, of 2.9 (Soludo and Kim). East Asia had for the same period a growth rate of productivity of 4.2, South Asia 2.3, Middle East 1.6, Latin America 1.5 and Africa 0.3.

The conclusions in the Global Research Project are that you need a lot of variables to explain why some regions have a rapid growth while others are stagnating. And the importance of each variable will vary from country to country. For the developed countries financial sources are important, for developing countries government policy, better institutions and stable macroeconomic environment are important. In fact, every country has to be understood by itself.

How the market and the institutions that govern the market function are essential for economic growth. For generating economic growth in main everyone has to follow the rules of the market, keep to the laws and keep contracts. With experience from the last decade we observe that if not so, the road to financial crisis is very short.

Human capital and the right allocating of it are important elements when generating economic growth. However, it looks like it is no significantly correlation between average school enrolment and regional economic growth rate (Castanheira and Esfahani). Most obviously, Eastern Europe and Central Asia has had among the highest education rates and the lowest growth rate in the period 1980 to 1999, average per capita GDP growth -1.87. Latin America has also generated many years of schooling with little output of growth to show for it, average per capita GDP growth 0.34. The explanation may be has to do with the quality of the education and with the economic incentives which exist in the society and the functioning of the institutions. The contribution of education to economic growth depends not only on the supply of educated labour, but also on an expanding demand for educated labour which depends on the evolution of technology and the dynamism of the private economy.

Another moment has to do with reallocating labour. It is of great importance that the labour market is flexible, so labour easily can be moved between sectors and regions.

Guriev and Salehi-Isfanhani is summing up their analysis in the following way:

1. "Successful development" we find in East Asia, Central and Eastern Europe and Latin America and the Caribbean in recent years. In these regions there is openness and foreign competition which provide large firms with incentives to restructure and invest.
2. "Muddling through" do former Soviet Union, South Asia and Latin America and the Caribbean before recent reforms. These regions have major constraint for small-business development, no developed financial markets and lack of openness and competition.
3. "Lagging behind" is Middle East and North Africa and Sub-Saharan Africa. Poor infrastructure, government predation and financial imperfection. Large firms are virtually absent, and there is almost no chance for a small business to grow beyond the family size and to survive the founder.

9 GLOBAL DISTRIBUTION OF INCOME

The last fifty years the global GDP has been more equally distributed between some regions and more unequally distributed between others. The East Asian countries are for example closing the gap to the OECD countries while the Sub Saharan countries are lacking behind. In 2002 our western "competence countries" had a average yearly GDP per capita of 32 200 US dollar, our East Asian "industry countries" of 11 600 US dollar and our Sub Saharan "agriculture countries" of 700 US dollar. These figures shows enormous globally income distribution differences.

From 1980 to 1999, the GDP in "High-income OECD" grow at a yearly rate of 2.02, "East Asia and the Pacific" at a yearly rate of 5.98 and "Sub Saharan Africa" at a yearly rate of -0.91 (Castanheira and Esfahani). Lacking behind did specially "Middle East and Northern Africa" with a 0.08 growth rate and Sub-Saharan Africa.

Using this numbers we find that in 2012 the competence countries' income will be 39 408 US dollar, the income in the industry countries 21 094 US dollar and the income in the agriculture countries 639 US dollar.

About thirty OECD countries have today around 1/10 of the world population, but more than 50 percent of the world GDP. If we add about twenty countries with emerging economies, together today around fifty countries of around two hundred in the world are tight integrated in the world economy and have an income per capita moving away from the rest of the countries.

The liberalized market generates competition and efficiency distribution of recourses, and thereby increasing productivity which are the basis for our material standard of living. If the value of what an American worker produced some years ago during a year is set to 100, a Russian worker produced 18 and a Chinese worker 10. So an American worker produced more than five times a Russian and ten times more than a Chinese. This fact reflex' the differences in the standard of living in the three countries.

Kambu and Lustig have in their study calculated a variation coefficient per capita GDP for the years since 1980. The calculation includes 61 countries. For the 1980s the coefficient is 0.7789, while it for the 1990s is 0.8210. This is a further documentation that the global distribution of income differences is increasing.

In this period of stagnating economies in most poor countries, the transfer of money from rich countries to poor countries has increased. Why is it so, since the money is meant for creating economic growth? One answer is that money alone is not enough to generate growth, how it is allocated is essential. There will only be growth if the money flow into “good” policy environment – otherwise, it is at best ineffective. It means that increasing differences between countries reflex differences in the internal conditions between the countries. How each government implements its policy is an important part of these internal conditions.

Let us look at some world welfare indicators the last two hundred years as shown in table 9.1 (Begg, Fischer and Dornbush):

Table 9.1

World welfare indicators 1820-1992

	1820	*1910*	*1950*	*1992*
Average income/person (1.000 US 1990 dollar)	0.7	1.5	2.1	5.0
World population (billion)	1.1	1.7	2.5	5.5
Income share: richest 10% of people	43.0	51.0	51.0	53.0
Income share: poorest 10% of people	5.0	4.0	2.0	2.0
Billion people earning less than 1 US dollar a day	0.9	1.1	1.4	1.3

Source: Begg, Fischer and Dornbush

Table 9.1 shows us a big increase in inequality from 1820 to 1910 when the income share of the richest ten percent of the world population rose from 43 percent to 51 percent, while the income share of the poorest ten percent of people fell from five percent to two percent. However, since 1950 it is not true that income share of the poor has kept falling, nor has the income share of the rich rise much. So even we can say inequality in global income is acute and worsening, it is not in average dramatic changes the last fifty years.

Inequality is about relative income distribution. But what is happening to the absolute incomes of the poor? In table 9.1 we see that the number of people earning less than a US dollar a day (inflation adjusted at 1990 prices) has fallen from 1.4 billion people in 1950 to 1.3 billion people in 1992. And this has happen despite more than doubling of world population in the same period. It is also worth noting that average income per capita in 1950 was 2 100 US dollar and increased to 5 000 US dollar in 1992.

10 ANTI GLOBALIZATION

The last decades a made up group of individuals and organizations against globalization has emerged first of all in the rich part of the world. It seems to be several reasons for joining such a movement.

First, even if the globalization process creates a lot of winners, it also creates a lot of losers. Trade liberalization does result in closing down of firms, industries and agriculture units. Some ends up in unemployment, others have to change jobs or start adult education, many have to move away from their homes. Some are against "social dumping", to allow people from poorer nations to work for lower pay than the usual accepted in the country, others want the public to subsidize firms threaten by global competition. But is it a solution to regulate and reduce global trade?

It is of course politically possible to hinder international trade by higher national tariffs and stronger regulations. From history we know something about what then will happen. We had a similar situation between the two world wars (1918 to 1940). International trade will decrease, so will also the growth in national income. As a result unemployment is supposed to rise. Globally it will be an economic setback where you will have some winners, the few who benefit from higher tariffs and stronger regulations, but mostly losers. If the same rivalry between different countries once more will emerge is difficult to say. However, it will not be a policy for moderating conflicts.

Second. Some people make a connection between globalization and poverty and blame capitalism for global exploitation. As seen in table 9.1 the global income per person has increased from 2 100 US dollar in 1950 to 5 000 US dollar nearly fifty years later and the situation for many of the most poor has improved. Previous when communications were not so developed, it was not easy for people in the rich countries to be informed about what was going on in the poor part of the world, and vice versa. Today people all over the world are much better informed about each other. Globalization of information has perhaps increased dissatisfaction about what always existed. Yet, specially some argue (for example some left wing students) the way Lenin did that "imperialism, the highest state of capitalism" (the title of one of Lenin's most famous books), is a global system where capitalist monopolies (from the rich world) exploit the third world, which lead to competition among the rich countries of how to dominate the world. However, is it a fact that "big monopolies" from developed countries intervene and exploit people and nation of the third world? People arguing this way, most of them from the rich world, are the protesters against WTO and other international organizations still dominated by the rich countries and first of all USA.

International corporations invest a lot of money all over the world. In the third world countries the investments earlier was mostly concentrated to natural resources. It is of course not of empathy these investments are done, but of profit. Globally there is lack of capital, so countries compete to attract investment by offering economic advantages such as cheap labour or exploitable natural resources. So the reality is that third world countries are not afraid global corporations, but want them as a locomotive for economic development. In addition, generally speaking the conditions for workers in international corporations often is better than conditions in local owned firms.

The spill over effect of direct investments in natural resources is said to be low (Bhagwati). Today, however, more international capital is floating into manufacturing and even financial and other services and these investments creates much more spill over effects for the countries.

Better control with world trade and capital float seam to be an important argument from the anti-globalization groups. And they have a lot of support from economists. Specially, they want the implementation of the so called Tobin-tax, a small tax on capital flow of transactions. Tobin introduced this idea in 1978. The idea is that governments globally impose a modest tax of, say, 0.5 percent on all foreign exchange transaction. Making speculation more costly claim the proposal's supporters, will sharpen the market's focus on long-term investments instead of short-time capital speculation.

Most economists look like being sceptical to the Tobin tax, however, because they do not believe it will work in practice. First, such a tax will need a worldwide participation in an integrated global financial market. This is probably unrealistic. If for example the OECD countries imposed the tax, trading simply move offshore to places like Hong Kong and Singapore. Second, even if the tax could be enforced it would reduce liquidity in the market and so reduce investments and the total economic activity.

The anti-globalization movement is sceptical to how the global economic organizations, IMF, World Bank and WTO, are functioning. Many economists will agree that globally too little has been done for the world's poor, for global environment, for stabilizing world economy and that the rich countries, and most of all USA, have too much power when the international agenda is set. But to abandon globalization and put the organizations away, most economists do not mean that are the right answers. It is neither feasible nor desirable.

Globalization has in average brought higher standard of living, better health, more democracy in the world and greater social justice. Globalization is not the problem but how to manage the development globally so everybody will get the fruit of economic growth.

11 CONCLUSIONS

The globalizing process has existed for many years, making the world smaller and each bit of it more depended of others. For centuries freer international trade has connected countries and created economic growth. So far the winners are the competence countries, which economies are based on modern science and know how. The losers are the agricultural countries which have dropped behind. However, the last half century shows that is it possible for poor countries to close the gap to the rich countries more or less in a generation.

Each country's development is first of all ones own responsibility. But after which rules the international game is played is also important. Reduced tariffs on trade and easier movements of capital, have initiated stronger growth. The organizations to administer this development, WTO, IMF and the World Bank have, since they were established, been dominated by USA. There is however a tendency for more influence for the developing countries and more interest for their views.

The road forward for higher standard of living and less conflicts has to be built on more globalization, not lesser. Common global markets will benefit the poor countries and tear down the rich countries' fortress. The international organizations must be real global organizations and not organs for the rich world and specially the USA. They therefore need both a much stronger mandate and stronger legitimation throughout the world.

Economic theory is based on simplified economic models. In the real world theoretical efficiency is difficult to maintain because many decisions are compromise between different views. The global development has to be a compromise between markets solutions and political solutions. In this context the most important thing today is to strengthen the world wide regulations regime in order to let everyone take part in economic growth and so start reducing the income gap between the rich and the most poor.

APPENDIX 1

Industries

1
Competence Countries

USA: Leading industrial power in the world, highly diversified and technologically advanced; petroleum, steel, motor vehicles, aerospace, telecommunications, chemicals, electronics, food processing, consumer goods, lumber, mining.

Norway: Petroleum and gas, food processing, shipbuilding, pulp and paper products, metals, chemicals, timber, mining, textiles, fishing.

Switzerland: Machinery, chemicals, watches, textiles, precision instruments.

Ireland: Food products, brewing, textiles, clothing; chemicals, pharmaceuticals, machinery, transportation equipment, glass and crystal; software.

Canada: Transportation equipment, chemicals, processed and unprocessed minerals, food products; wood and paper products; fish products, petroleum and natural gas.

2
New Industry Countries

South Korea: Electronics, automobile production, chemicals, shipbuilding, steel, textiles, clothing, footwear, food processing.

Taiwan: Electronics, Petroleum refining, chemicals, textiles, iron and steel, machinery, cement, food processing.

Malaysia: Peninsular Malaysia – rubber and oil palm processing and manufacturing, light manufacturing, electronics, tin mining and smelting, logging and processing timber; Sabah – logging, petroleum production; Sarawak – agriculture processing, petroleum production and refining, logging.

Thailand: Tourism; textiles and garments, agriculture processing, beverages, tobacco, cement, light manufacturing, such as jewellery; electric appliances and components, computers and parts, integrated circuits, furniture, plastics; world's second-largest tungsten producer and third-largest tin producer.

Philippines: Textiles, pharmaceuticals, chemicals, wood products, food processing, electronics assembly, petroleum refining, fishing.

3
Agriculture Countries

Zambia: Copper mining and processing, construction, foodstuff, beverages, chemicals, textiles, fertilizer, horticulture.

Ethiopia: Food processing, beverages, textiles, chemicals, metals processing, cement.

Malawi: Tobacco, tea, sugar, sawmill products, cement, consumer goods.

Tanzania: Agriculture processing (sugar, beer, cigarettes, sisal twine), diamond and gold mining, oil refining, shoes, cement, textiles, woos products, fertilizer, salt.

Sierra Leone: Mining (diamonds); small-scale manufacturing (beverages, textiles, cigarettes, footwear); petroleum refining.

Appendix 2

Some regional economic blocs in today's world (2004):

APEC (Asian Pacific Economic Cooperation) - free trade area
(USA, Canada, Mexico, Chile, Australia, New Zealand, Russia, Singapore, Thailand, Indonesia, Brunei, Malaysia, Philippine, Vietnam, Kina, Hong Kong, Taiwan, Japan, Sør – Korea, Papua New Guinea)

ASEAN (Association of Southeast Asian Nations) - free trade area
(Singapore, Thailand, Brunei, Indonesia, Malaysia, Philippine, EU)

EU (European Union) - common market
(Belgium, Luxemburg, Netherlands, France, Italy, Great Britain, Ireland, Denmark, Greek, Spain, Portugal, Sweden, Finland, Germany, Austria, Estonia, Latvia, Lithuania, Poland, Czech, Slovakia, Slovenia, Hungary)

EØS (Europeiske økonomiske samarbeidsområdet (European Economic Cooperation Area)) - free trade area
(EU, Norway, Iceland, Liechtenstein)

EFTA (European Free Trade Association) - free trade area
(Norway, Switzerland, Iceland, Liechtenstein)

LAFTA (Latin American Free Trade Association) - free trade area
(Columbia, Ecuador, Mexico, Venezuela, Chile, Bolivia, Mercosur)

Mahgreb Union - free trade area
(Morocco, Algeria, Mauritania, Tunisia, Libya)

Mercosur - free trade area
(Argentina, Brazil, Paraguay, Uruguay)

NAFTA (North American Free Trade Area) - free trade area
(Canada, USA, Mexico)

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