Ministry of education and science of the Republic of Kazakhstan

Ye.A. Buketov Karaganda state university

Faculty of Economy

Chair of Economy and international business

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**ELECTRON LECTURES**

on discipline **«Globalization of the world economy»**

(15 lectures)

**Component (**optionally**)**

**Type of classes (**lecture**)**

6M051300 – «World economy»

Karaganda 2018

**Theme of the lecture №1. The concept of globalization of the world economy**

**Plan of lecture:**

**1. The essence of modern international trade and its role in the system of world economic relations.**

**2. The concept of open economy and economic security.**

**3. The content and stages of the development of international trade.**

**4. Structure and current trends in the development of international trade.**

**1. The essence of modern international trade and its role in the system of world economic relations.**

International trade in goods and services is one of the most important and most dynamic factors in the globalization of the world economy and the participation of national economies in it. Moreover, today no country can count on success without active participation in international trade.

The expansion of international trade in goods stimulates the exchange of services, whose accelerated growth is also influenced by socio-economic changes in countries ("post-industrial development") and scientific and technological progress in the world.

The commodity structure of world trade reflects the shifts taking place in the economies of the participating countries and in the process of globalization of economic life.

Preservation of the leadership of developed countries in international trade is primarily due to the export of high-tech products.

In the globalization of the world economy, the main criterion of national economic security is the degree of dependence of the country's economy on the world community, which is determined by the degree of openness of its economy.

International commodity markets, labour markets, and capital markets make up the economy and define economic globalization.

Beginning as early as 4000 BCE, people were trading livestock, tools, and other items. In Sumer, an early civilization in Mesopotamia, a token system was one of the first forms of commodity money. Labour markets consist of workers, employers, wages, income, supply and demand. Labour markets have been around as long as commodity markets. The first labour markets provided workers to grow crops and tend livestock for later sale in local markets. Capital markets emerged in industries that required resources beyond those of an individual farmer.

By the early 1900s, it was rare to come across a town that was not influenced by foreign markets – whether it be in labour, prices, or any other part of business. With advances in ship and rail transport and electronic communications, trade with other parts of the world became much easier. Towns were no longer limited to what they alone could produce and what nearby towns over could trade with them.

These advances in economic globalization were disrupted by World War I. Most of the global economic powers constructed protectionist economic policies and introduced trade barriers that slowed trade growth to the point of stagnation. This caused a slowing of world-wide trade and even led to other countries introducing immigration caps. Globalization didn’t fully resume until the 1970s, when governments began to emphasize the benefits of trade. Today, follow-on advances in technology have led to the rapid expansion of global trade.

Three suggested factors accelerated economic globalization: advancement of science and technology, market oriented economic reforms, and contributions by multinational corporations.

A reduction of transportation and communication costs were a key part of the growth of globalization. Since the 1930s, ocean shipping costs fell by half, airfreight by 85%, and telecommunications by 99%.

The GATT/WTO framework led participating countries to reduce their tariff and non-tariff barriers to trade. Governments shifted their economies from central planning to markets. These internal reforms allowed enterprises to adapt more quickly and exploit opportunities created by technology shifts.

Multinational corporations reorganized production to take advantage of these opportunities. Labour-intensive production migrated to areas with lower labour costs, later followed by other functions as skill levels increased.

The 1956 invention of containerized shipping, increases in ship sizes were a major part of the reduction in shipping costs.

On 27 October 1986, the London Stock Exchange enacted newly deregulated rules that enabled global interconnection of markets, with an expectation of huge increases in market activity. This event came to be known as the Big Bang.

***What is globalization?***

Globalization is the trend of increasing interaction between people or companies on a worldwide scale due to advances in transportation and communication technology, nominally beginning with the steamship and the telegraph in the early to mid-1800s. With increased interactions between nation-states and individuals came the growth of international trade, ideas, and culture. Globalization is primarily an economic process of integration that has social and cultural aspects, but conflicts and diplomacy are also large parts of the history of globalization.

Economically, globalization involves goods and services, and the economic resources of capital, technology, and data. All of these improvements have been major factors in globalization and have generated further interdependence of economic and cultural activities.

Economic globalization is one of the three main dimensions of globalization with the two other being political globalization and cultural globalization. Economic globalization refers to the free movement of goods, capital, services, technology and information. It is the increasing economic integration and interdependence of national, regional, and local economies across the world through an intensification of cross-border movement of goods, services, technologies and capital. Whereas globalization is a broad set of processes concerning multiple networks of economic, political, and cultural interchange, contemporary economic globalization is propelled by the rapid growing significance of information in all types of productive activities and marketization, and by developments in science and technology.

Economic globalization primarily comprises the globalization of production, finance, markets, technology, organizational regimes, institutions, corporations, and labour. While economic globalization has been expanding since the emergence of trans-national trade, it has grown at an increased rate due to an increase in communication and technological advances under the framework of General Agreement on Tariffs and Trade and World Trade Organization, which made countries gradually cut down trade barriers and open up their current accounts and capital accounts. This recent boom has been largely supported by developed economies integrating with majority world through foreign direct investment and lowering costs of doing business, the reduction of trade barriers, and in many cases cross border migration.

While globalization has radically increased incomes and economic growth in developing countries and lowered consumer prices in developed countries, it also changes the power balance between developing and developed countries and affects the culture of each affected country. And the shifting location of goods production has caused many jobs to cross borders, requiring some workers in developed countries to change careers.

**2. The concept of open economy and economic security.**

Openness of the economy is usually considered in functional and organizational, institutional aspects. The functional approach determines the degree of the country's involvement in the international division of labor or the dependence of national reproduction on foreign economic relations. In practice, functional openness is most often estimated by the size of the export and import quotas, i. ratio of exports and imports to GDP.

World economy is a collection of individual industries historically developed as a result of the social division of labour, linked by a system of international division of labour and international economic relations.

The subjects of international economic relations are:

International economic organizations (the IMF and the World Bank);

Transnational corporations (TNCs) and their long-term alliances;

Multinational banks;

Financial-industrial group - the union of TNB and TNC;

Exchange (especially large ones);

Large businesses;

States, and related areas, as well as administrative units these countries and territories;

Global financial and economic organizations (including major investors and major organizations, associations of companies engaged in the control of certain international markets, associations of countries within the region - CIS).

Globalization – is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. Economic globalization is the increasing economic integration and interdependence of national, regional, and local economies across the world through an intensification of cross-border movement of goods, services, technologies and capital. Whereas globalization is a broad set of processes concerning multiple networks of economic, political, and cultural interchange, contemporary economic globalization is propelled by the rapid growing significance of information in all types of productive activities and marketization, and by developments in science and technology.

Economic globalization primarily comprises the globalization of production and finance, markets and technology, organizational regimes and institutions, corporations and labour.

***Economic growth and poverty reduction***

Economic growth accelerated and poverty declined globally following the acceleration of globalization.

Per capita GDP growth in the post-1980 globalizers accelerated from 1.4 percent a year in the 1960s and 2.9 percent a year in the 1970s to 3.5 percent in the 1980s and 5.0 percent in the 1990s. This acceleration in growth is even more remarkable given that the rich countries saw steady declines in growth from a high of 4.7 percent in the 1960s to 2.2 percent in the 1990s. Also, the non-globalizing developing countries did much worse than the globalizers, with the former's annual growth rates falling from highs of 3.3 percent during the 1970s to only 1.4 percent during the 1990s. This rapid growth among the globalizers is not simply due to the strong performances of China and India in the 1980s and 1990s—18 out of the 24 globalizers experienced increases in growth, many of them quite substantial."

Growth Rate of Real GDP per capita

According to the International Monetary Fund, growth benefits of economic globalization are widely shared. While several globalizers have seen an increase in inequality, most notably China, this increase in inequality is a result of domestic liberalization, restrictions on internal migration, and agricultural policies, rather than a result of international trade.

Poverty has been reduced as evidenced by a 5.4 percent annual growth in income for the poorest fifth of the population of Malaysia. Even in China, where inequality continues to be a problem, the poorest fifth of the population saw a 3.8 percent annual growth in income. In several countries, those living below the dollar-per-day poverty threshold declined. In China, the rate declined from 20 to 15 percent and in Bangladesh the rate dropped from 43 to 36 percent.

Globalizers are narrowing the per capita income gap between the rich and the globalizing nations. China, India, and Bangladesh, once among the poorest countries in the world, have greatly narrowed inequality due to their economicexpansion.

***Global supply chain***

The global supply chain consists of complex interconnected networks that allow companies to produce handle and distribute various goods and services to the public worldwide.

Corporations manage their supply chain to take advantage of cheaper costs of production. A supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer. In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable. Supply chains link value chains. Supply and demand can be very fickle, depending on factors such as the weather, consumer demand, and large orders placed by multinational corporations.

Labor unions

Labor unions were established during industrialization as a solution to poor and unregulated working conditions. Unregulated businesses allowed for low wages, job insecurity and poor working conditions. Trade unions responded by implementing a technique called collective bargaining, where the workers could legally negotiate wages as well as working conditions. As a direct result, labors rights increased as policy and regulation were enforced. Alongside globalization, outsourcing developed which increased corporate power. As a solution, Labor Unions continue to fight for global labor rights standards through trans-national organizations.

Capital flight

Capital flight occurs when assets or money rapidly flow out of a country because of that country's recent increase in unfavorable financial conditions such as taxes, tariffs, labor costs, government debt or capital controls. This is usually accompanied by a sharp drop in the exchange rate of the affected country or a forced devaluation for countries living under fixed exchange rates. Currency declines improve the terms of trade, but reduce the monetary value of financial and other assets in the country. This leads to decreases in the purchasing power of the country's assets.

**3. The content and stages of the development of international trade.**

A retrospective of the development of international trade is most often considered by such criteria as the main events in the world. There are five main stages in the evolution of international trade:

I stage - the initial commercial period (1500-1850);

II stage - the period of the formation of international trade turnover (1850-1914 biennium);

III stage - the period between two world wars (1914-1945);

IV stage - the post-war period (1945 - the first half of the 70-ies);

V stage - the period of globalization of the world economy (the end of the 70s - until our time).

The first stage begins with the time of great geographical discoveries, which caused the active export of goods to the newly discovered land. Export goods were finished products that were made from local raw materials. Trade in colonial goods contributed to the emergence of capitalism in Europe and more than three hundred years determined the development of international trade. The implementation of colonial travel was accompanied by a great risk, but receiving quick and significant revenues, was a strong incentive for attracting new traders.

The second stage is characterized by the final consolidation of the colonial empires against the backdrop of the rapid industrial development of European countries and

USA. Trade is growing at a faster pace than production. Through this, the economy of different countries becomes more open.

The third stage is characterized by such major events:

1. The First World War, which destroyed the economy of European countries.

2. The great economic crisis of 1929-1933, which quite rigidly raised the question of the effectiveness of domestic trade.

3. The Second World War, which destroyed the world economic system and sharply shook the faith of developing countries in trade as a driving force for economic growth.

4. Further redistribution of world markets.

5. The transition in 1944 to a new, more effective Bretton Woods currency system.

6. Formation of two world economic systems.

The fourth stage of development of international trade is characterized by the following main events:

1. The collapse of the world colonial system and the rapid development of former colonial states, which become new players in world markets.

2. Strengthening the development of world economic systems: capitalist and socialist.

3. Export of capital beyond national borders, which ensured an increase in exports of goods, seizure of profitable markets, sources of raw materials.

4. Dissemination of the processes of integration and transnationalization.

5. Creation of global international organizations.

The fifth stage is characterized by such major events:

1. The global financial crisis in 1971 and 1973, which led to the collapse of the Bretton Woods monetary system. Commissioning in 1978 of the Jamaican currency system;

2. The first and second oil crises in 1974 and 1979 were caused by a significant increase in oil prices by the Organization of Petroleum Exporting Countries (OPEC);

3. The banking crisis in the United States in 1979, which led to a general increase in interest rates and put many developing countries on the brink of bankruptcy - the recipients of private bank loans;

4. World debt crisis of 1982, which is connected with the problems of debt servicing by developing countries;

5. Strengthening the existing and the emergence of new integration groupings (in 1989 - APEC, in 1992 - the EU, in 1994 - OIL, COMESA, in 1995 - MERCOSUR and Sh.);

6. The change of political systems in the Eastern European communist countries (1989-1992) and the transition from a centrally planned economy to a market economy. Individual countries in Asia, Latin America are also beginning to move towards democracy and market reforms. Due to such changes, the attractiveness of these countries as export markets has significantly increased;

7. Establishment of the World Trade Organization, which began operating in 1995.

8. Financial crises in Mexico (1994 - 1995), which significantly affected both the conjuncture of foreign exchange and stock markets, as well as the world economic situation: business activity slowed down, world prices for fuel and raw materials decreased.

9. Introduction of the common currency (euro) in 1999 by the EU countries and the implementation of a joint monetary policy. With the introduction of the euro, the euro currency zone emerged.

10. Since the beginning of the 1990s, international competition has increased significantly, new forms have emerged that are based on a growing number of subjects of global economic ties that do not have a certain national identity. As a consequence, the process of globalization in international trade continues, when the economies of individual countries function within the framework of a single, interrelated world economic system.

11. Technological changes in the sphere of communications, information processing, transport, which turn the globalization of markets and production into a material reality.

12. The global financial crisis of 2008-2009, which caused a drop in global demand, which caused a decline in production in Europe, China, Japan, India. This led to a sharp contraction in the world market of goods and services, a decrease in the prices of raw materials, and an increase in unemployment.

13. Signing on December 7, 2013 by the WTO member countries of the Bali package of arrangements, which created the basis for completing the Dossier round of negotiations within the WTO. The conclusion of this agreement will help to increase the world trade turnover by 1 trillion dollars.

**4. Structure and current trends in the development of international trade.**

Globalization of international trade. This trend is manifested in the formation of a global export-import world market of goods and services, in the steady growth in the volumes of international financial, investment and innovative export-import flows, with their increasing interdependence and interdependence.

The main features of the globalization of international trade are:

- integration;

- the growth of international trade and international capital flows;

- Transnationalization and corporatism of world exports;

- further unification of rules and norms of international trade.

Increasing role of scientific and technological progress and electronic technologies. The impact of scientific and technological progress on international trade leads to a change in the structure of world trade and changes in the way foreign trade is conducted. In the XIX century, international trade was dominated by raw materials, food and textiles. In modern conditions, in connection with the deepening of international specialization and cooperation, especially in the sphere of industry, the share of finished industrial goods, especially machinery and equipment, has significantly increased in the commodity structure of international trade.

The dominant role of the information product. The globalization of international trade has led to a natural need for information exchange. This is due, first of all, to the fact that the information society is being formed, when the possession of information determines the company's ability to react to rapid changes in the internal and especially external environment. This trend can be illustrated by examining the structure of services exports of developed countries.

***Global actors***

International governmental organizations

An intergovernmental organization or international governmental organization (IGO) refers to an entity created by treaty, involving two or more nations, to work in good faith, on issues of common interest. IGO’s strive for peace, security and deal with economic and social questions. Examples include: The United Nations, The World Bank and on a regional level The North Atlantic Treaty Organization among others.

International non-governmental organizations (NGOs)

For more information, reference non-governmental organization (NGO)

Despite its activity within one nation, NGOs work towards solutions that can benefit undeveloped countries that face the backlash of economic globalization. Classified as any non-profit, voluntary citizens' group which is organized on a local, national or international level. NGOs perform various services and humanitarian functions, bring citizen concerns to Governments, advocate and monitor policies and encourage political participation through provision of information.

Multinational corporations

One of the many changes they have brought to developing countries is increased automation, which may damage less-automated local firms and require their workers to develop new skills in order to transition into the changing economy, leaving some behind. The necessary education infrastructure is often not present, requiring a redirection of the government’s focus from social services to education.

Corporations have outsourced in recent years. In business, outsourcing involves the contracting out of a business process (e.g. payroll processing, claims processing) and operational, and/or non-core functions (e.g. manufacturing, facility management, call center support) to another party (see also business process outsourcing).

ECLAC states that in order to create better economic relations globally, international lending agencies must work with developing countries to change how and where credit is concentrated as well as work towards accelerating financial development in developing countries. ECLAC further suggests that the United Nations expand its agenda to work more rigorously with international lending agencies and that they become more inclusive of all nations. Key factors in achieving universal competition is the spread of knowledge at the State level through education, training and technological advancements.

Several movements, such as the fair trade movement and the anti-sweatshop movement, claim to promote a more socially just global economy. The fair trade movement works towards improving trade, development and production for disadvantaged producers. The fair trade movement has reached 1.6 billion US dollars in annual sales. The movement works to raise consumer awareness of exploitation of developing countries. Fair trade works under the motto of "trade, not aid", to improve the quality of life for farmers and merchants by participating in direct sales, providing better prices and supporting the community. Meanwhile, the anti-sweatshop movement is to protest the unfair treatment caused by some companies. Some global brands were found to do that before but they took some methods to support the labors soon after. The movement is taken to decrease the wrongdoing and gain the profits for labors.

***World trade organization***

The **World Trade Organization** (**WTO**) is an [intergovernmental organization](https://en.wikipedia.org/wiki/Intergovernmental_organization) that regulates [international trade](https://en.wikipedia.org/wiki/International_trade). The WTO officially commenced on 1 January 1995 under the [Marrakesh Agreement](https://en.wikipedia.org/wiki/Marrakesh_Agreement), signed by 123 nations on 15 April 1994, replacing the [General Agreement on Tariffs and Trade](https://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade) (GATT), which commenced in 1948. It is the largest international economic organization in the world. The WTO deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating [trade agreements](https://en.wikipedia.org/wiki/Trade_agreement) and a [dispute resolution](https://en.wikipedia.org/wiki/Dispute_resolution) process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governmentsand ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the [Uruguay Round](https://en.wikipedia.org/wiki/Uruguay_Round) (1986–1994).

The WTO's current Director-General is [Roberto Azevêdo](https://en.wikipedia.org/wiki/Roberto_Azev%C3%AAdo), who leads a staff of over 600 people in [Geneva](https://en.wikipedia.org/wiki/Geneva), [Switzerland](https://en.wikipedia.org/wiki/Switzerland). A trade facilitation agreement, part of the [Bali Package](https://en.wikipedia.org/wiki/Bali_Package) of decisions, was agreed by all members on 7 December 2013, the first comprehensive agreement in the organization's history.. On 23 January 2017, the amendment to the WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement marks the first time since the organization opened its doors in 1995 that WTO accords have been amended, and this change should secure for developing countries a legal pathway to access affordable remedies under WTO rules.

### Members and observers

The WTO has 164 members and 23 observer governments. Liberia became the 163rd member on 14 July 2016, and Afghanistan became the 164th member on 29 July 2016. In addition to states, the European Union, and each EU Country in its own right, is a member. WTO members do not have to be fully independent states; they need only be a customs territory with full autonomy in the conduct of their external commercial relations. Thus Hong Kong has been a member since 1995 (as "Hong Kong, China" since 1997) predating the People's Republic of China, which joined in 2001 after 15 years of negotiations. The Republic of China (Taiwan) acceded to the WTO in 2002 as "Separate Customs Territory of China: Taiwan, Penghu, Kinmen and Matsu" (Chinese Taipei) despite its disputed status. The WTO Secretariat omits the official titles (such as Counsellor, First Secretary, Second Secretary and Third Secretary) of the members of Chinese Taipei's Permanent Mission to the WTO, except for the titles of the Permanent Representative and the Deputy Permanent Representative.

As of 2007, WTO member states represented 96.4% of global trade and 96.7% of global GDP.  Iran, followed by Algeria, are the economies with the largest GDP and trade outside the WTO, using 2005 data. With the exception of the Holy See, observers must start accession negotiations within five years of becoming observers. A number of international intergovernmental organizations have also been granted observer status to WTO bodies. 12 UN member states have no official affiliation with the WTO.

Globalization has closely intertwined economic, political, cultural and institutional dimensions whose social impact is often not easy to disentangle. Notwithstanding the breadth and complexity of the process, its principal elements are well known. Technological advancements, especially in the field of information and communication technologies, have had the effect of connecting and bringing the world closer together in time and space, making possible new ways of doing business and profoundly altering social interactions. The proportion of trade in goods and services relative to national income and consumption has expanded, and now includes trade in such services as banking, telecommunications and even education and culture. Domestic deregulation and liberalization of external capital controls have propelled a vast increase in the volume and speed of capital flows of all types, ranging from foreign direct investment (FDI) to short-term banking flows, worldwide. Competition has catalysed a reorganization of production networks, and a wave of mergers and acquisitions have fostered the restructuring of corporations on a global scale, giving them unprecedented size and power. At the same time, venture capital-financed "startups" are burgeoning in "high tech" sectors in several developed as well as some developing countries. New mass media, such as satellite television and the Internet, have contributed to globalization and the spread of a culture of consumerism.

Some of these processes are driven by the logic of new technologies or market forces which are difficult to control, while others may be more amenable to management. Policy decisions oriented towards liberalization, deregulation and privatization have been at least as important as market forces and technology in the spread of globalization in both its positive and negative aspects.

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## Theme of the lecture №2. The driving forces and factors of globalization of the world economy

**Plan of lecture:**

1. **Stimulation of globalization from the market competition**
2. **The development of scientific and technical progress**
3. **The international integration of financial markets**
4. **The multinational character of modern production**
5. **Below is the detail for the driver force of globalization**:
6. **Stimulation of globalization from the market competition**

Globalization is driven by various new development and gradual changes in the world economy. Generally, organizations go global for expanding their markets and increasing their sales and profits. One of the major forces of globalization is the expansion of communication systems. In the present era, it has become easy to distribute information to any part of the world through the Internet.

Some of the important forces behind globalization are shown in the figure:

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The different forces (as shown in the figure) are explained as follows:

1) Advancement of Technologies:

Refers to one of the crucial factors of globalization. Since 1990s, enhancement in telecommunications and Information Technology (IT) has marked remarkable improvements in access of information and increase in economic activities. This advancement in technologies has led to the growth of various sectors of economies throughout the world. Apart from this, the advancement in technology and improved communication network has facilitated the exchange of goods and services, resources, and ideas, irrespective of geographical location. In this way, advanced technologies have led to economic globalization.

2) Reduction in Cross-trade Barriers:

Refer to one of the critical forces of globalization. Every country restricts the movement of goods and services across its border. It imposes tariffs and quotas on the goods and services imported in its country. In addition, the random changes in the regulations create a chaos in global business environment. Such practices impose limits on international business activities. However, gradual relief in the cross-border trade restrictions by most governments induces free trade, which, in turn, increases the growth rate of an economy.

3) Increase in Consumer Demand:

Acts as a main driver to facilitate globalization. Over the years, with increase in the level of income and standard of living, the demand of consumers for various products has also increased. Apart from this, nowadays, consumers are well aware about products and services available in other countries, which impel many organizations to work in association with foreign players for catering to the needs of the domestic market.

3) High Competition:

Constitutes an important driver for bringing about globalization. An organization generally strives hard to grain competitive edge in the market. The frequent increase in competition in the domestic market compels organizations to go global. Thus, various organizations enter other countries (for selling goods and services) to expand their market share. They export goods in foreign markets where the price of goods and services are relatively high. Many organizations have achieved larger global market shares through mergers and acquisitions, strategic alliances, and joint ventures. So, these are the major factors that have contributed a lot in globalization and the growth of global economy.

1. **The development of scientific and technical progress**

Developments in ICT, transport and communications have accelerated the pace of globalization over the past 30 years. The internet has enabled fast and 24/7 global communication, and the use of containerization has enabled vast quantities of goods and commodities to be shipped across the world at extremely low cost.

Increasing capital mobility has also acted as a stimulus to globalization. When capital can move freely from country to country, it is relatively straightforward for firms to locate and invest abroad, and repatriate profits.

The development of complex financial products, such as derivatives, has enabled global credit markets to grow rapidly.

Trade has become increasingly free, following the collapse of communism, which has opened up many former communist countries to inward investment and global trade. Over the last 30 years,trade openness*,* which is defined as the ratio of exports and imports to national income, has risen from 25% to around 40% for industrialized economies, and from 15% to 60% for emerging economies.

The growth of multinational companies (MNCs) and the rise in the significance of global brands like Microsoft, Sony, and McDonalds, has been central to the emergence of globalization.There are a number of economic factors in globalization, with the growth and development of international trade being one of the most significant. International trade involves exporting and importing goods and services to and from other countries. In recent years, global trading has escalated owing to globalization making it easier to move goods and capital between countries.

Technological developments in transportation, along with the Internet, have particularly enabled an increase in global trading. Many national governments have also responded to the increasing ease of global trading by adopting a “free trade” system. France, Belgium and Germany are just a few members of the European Union (EU), which enables them to trade more freely with one another and with other member nations. This system means that countries can trade with each other, without having such things as tariffs or quotas imposed. It has been suggested that free-trade benefits both the economy and the standard of living of countries.

Transnational Corporations (TNCs) are a significant factor in globalization, and are rapidly growing in size and wealth to dominate markets worldwide. To put it into perspective, the combined total income of the ten largest TNCs is greater than the income of 100 of the world's poorest countries. An increased number of financial transactions and investments in foreign countries has been a factor in globalization.

Globalization has had an impact on the changing patterns of labour. While highly skilled labour is benefiting from the accessibility of the Internet and travel, the unskilled workforce is not. It is also not uncommon for businesses to manufacture goods in foreign countries where rules are less strict and allow them to employ cheap labour in poor conditions. In recent years, the reputation of a number of large companies has been tainted after they were discovered to be exploiting this type of labour.

1. **The international integration of financial markets**

Financial integration is a phenomenon in which financial markets in neighboring, regional and/or global economies are closely linked together. Various forms of actual financial integration include: Information sharing among financial institutions; sharing of best practices among financial institutions; sharing of cutting edge technologies(through licensing) among financial institutions; firms borrow and raise funds directly in the international capital markets; investors directly invest in the international capital markets; newly engineered financial products are domestically innovated and originated then sold and bought in the international capital markets; rapid adaption/copycat of newly engineered financial products among financial institutions in different economies; cross-border capital flows; and foreign participation in the domestic financial markets.

In integrated financial markets, domestic investors can buy foreign assets and foreign investors can buy domestic assets. Among countries that are fully integrated into world financial markets, assets with identical risk should command the same expected return, regardless of location. Integration of emerging market economies into the world financial markets is generally followed by: a significantly larger and more liquid equity market; stock returns which are more volatile and more correlated with world market returns; a lower cost of capital; improved credit ratings; real exchange rate appreciation; and increased economic growth. They find strong evidence of structural breaks in emerging equity markets, but no evidence of structural breaks in the world equity market. However, these breaks do not always correspond very closely to the dates of official capital market reforms.

***4. The multinational character of modern production***

The rise of globalization has meant that more people with different cultural backgrounds are able to interact, and as a result, people from different parts of the world are increasingly sharing a more unified set of cultural and social values. These cultural factors include anything from language and sport, to movies and food.

Some people perceive this to be a positive impact. They believe that globalization has resulted in the increase of tourism, which has allowed more cultures to be kept alive. An example of this is the way that thousands of tourists travel each year to see the Kayan women of Myanmar (Burma) and Thailand. Tourists buy souvenirs of local handicrafts and pay to see the brass rings coiled around the necks of the women, which results in the striking appearance of a long neck.

Others believe that tourism exploits cultures such as the Kayan people. It has also been suggested that globalization has changed and even destroyed many traditional cultures. In fact, there is a growing belief that cultures are not being shared, but rather that they are being dominated by Western culture (particularly the United States and Europe). Often, TNCs are blamed for this. The dominance of TNCs, particularly in the areas of cultural products, has caused many around the world to fear that distinct national identities and traditional cultures will be lost. Customary meals will be replaced with the food of American TNC giant, McDonald's. Traditional clothing will be abandoned for Western clothes with the brands of Nike and Converse. No longer will people listen to the sounds of traditional music or watch movies spoken in their regional language, but rather turn to new releases by Sony or Twentieth Century Fox.

Global communications are also rapidly developing, allowing the dominant aspects of North American culture to dominate the cultural melting pot. Through the increase of television, films, music and the use of the Internet, English has become the dominant language and has replaced a number of regional languages.

Nowadays, we are live in a highly globalized and international business environment rather than live in a domestic economy. The current business context is more complex and complicated which it had never been in the past. Thus, we need to continuous to changes in the Human Resource Management in how organization employment and managing talent which is require practices and well system to pursue the effectively implementation and high performances to ensure the success in all aspect over the world. Adler and Bartholomew (2002) said that "strategy is internationalizing faster than implementation and much faster than the executives themselves". We will explore the driver force of globalization and the change practices on human resource management as follows.

It is often suggested that the progress of globalization is quickening and will continue to have a growing impact on business organization and management practice. Critically discuss using examples the ways globalization and its driving forces have changed the practices of human resource management?

Yip et al. (1988) identified the driver factors of globalization process; these factors are divided into competitive, economic, market and environmental categories.

For government drivers: trade policies which eliminate all tariff; mutual recognition; subsidies outlawed;

For market drivers: Birth of large "euro mass" segment; Customers and channels increase;

For cost drivers: Economic scale increase; "Favorable logistics"; Sourcing efficiency to improve;

For competitive drivers: Exports and imports within EC to increase; Interdependence of countries to improve; "Pan European" strategy

1. **Below is the detail for the driver force of globalization**:

Advancement communication, information technology and transportation

Technology

Technology is the principal drivers of globalization. Advanced information technology have transformed our economic life as well as in businesses sector since developed new tools to cope new opportunities, including faster and more informed analyses of economic trends around the world and communication with partners. Thomas Friedman has said that today globalization is "farther, faster, cheaper, and deeper."

Communication

Communcation is faster and more convenient due to the Improvement in technology. For example, we can communicate through telephone, e-mail, 3G video conferencing easily, also satellite allows messages send out and receive on the same time.

Advanced communication technology, such as internet allowed customer get information for new goods and services easily. Besides, falling communication costs allow information move quickly and inexpensively, for example: E-bay. This has transformed how we work, communicate, and boost globalization due to the efficiency of communication technology, allowing multi-national corporations to control and monitor their worldwide activities easily.

Transportation

Improvement in transportation technology in air, sea and rail systems to accelerate the globalization activities. Also, decline in transportation costs and less time needed to travel from one place to another. High-tech transport system has reduced the travelling time and increase efficiency of transferring goods, thus boost globalization. For example, 19th century: use steam engine for transport; 20th century: use commercial jet aircraft, large ocean going vessels and containerization.

Globalizing world in the same aspect of increase in mobility of people and goods over the world. For example, a man who has a morning meeting in Hong Kong can arrive Korea in the evening by air.

Political and social reform of countries especially in the south-east Asia, Latin America, mid European countries and Pacific Rim. Due to the growing economic in these countries, boost globalization sharply. Such economic development and emerging market in one country impacts directly on another country. For example, China becomes the main exporter over the world and this increases the global activities rapidly.

Expansion of Multi-National Corporate(MNC)

Rise of major transnational corporation which has more bigger, well-capitalized corporations expand their business to foreign countries and open up national market. They operate in many countries and have production outside their home country, for examples, Toyota Motor Corporations and Microsoft Corporation.

MNC set up operation around the world to source for new markets and raw materials that can lower the production cost. MNC coordinated by the HQ in the home country. Thus, world economies become more integrated and connected, which boosts globalization because of the relations and mutual benefits exist.

Driving forces from NGO

Government or corporate policies which opened economies domestically and internationally are another driver force of globalization. During the past twenty years, many governments adopted free-market economic systems to increasing productive potential and creating new opportunities for international trade activities. Governments also have reductions in barriers for trade and have established international agreements to promote trade in goods and services. Such as cut-back of trade restrictions (e.g. through GATT), falling trade barriers (e.g. Lower tariff and fewer non-tariff trade impediments), pivatization of state-controlled economic enterprises and liberalization of capital market.

Many corporate agreed and set up legally binding trade agreements. The following are organizations involve in globalization: CIA, World Bank, World Trade Organization and UN, etc

Changes practices of Human Resource Management

Due to the driver forces of globalization, Human Resource Management needs to change practices accord to the complex business environment. We need to understand the human resource management systems and the board context in the organization (technology, strategy, culture and leadership) as well as the external environment (laws, unions, country culture and economic conditions) (Jackson et al. 1995).

Because the internal and external environments are dynamic, the process of managing human resources must also be dynamic. Successful requires meet the present needs also expect future needs. The essential elements of HRM are illustrated as below:

Source: S.E. Jackon and R.S. Schuler, Managing Human Resource through Strategic Partnerships, 2003

Accord to the above framework, below is the detail for the change practices of HRM:

The need to manage diversity. Due to the worldwide workforces become more and more diversity, the need to manage diversity effectively has been arisen. Diversity workforce include different language employee, if employees lack of language understanding or cultural references, the day-today communication will become complicated. The trend in management has been to strategically aim for turning these difficulties into competitive advantages. A company with a diverse workforce has the great potential to reach new market, to attract and retain the best prospective employees, across cultural and national boundaries.

Both new opportunities and difficulties can be arisen from the diverse workforce. Now, employees can sometimes work in and work out at different time zones and the diverse workforce often include of different races, genders, economic backgrounds and religions especially human resource management need to be careful to deal with different culture, woman, race minority workforce. Globalization implies accepting that cultural diversity in management composition and management style contributes to the competitive advantage of the MNC.

Below is the example of organizations done successfully in diversity management:

Ford UK, recognized that effective diversity management was needed within the organization at 2000. Ford also realized that this would require a process of cultural change. Thus, the organization developed and introduced a four-stage change programmed aimed at: mainstream diversity, give ownership of the change process to everyone in the organization, ensure efficient communication of the change plans and evaluate their progress. The approach was very successful and Ford is now one of the organizations looked for best practice diversity management in UK. In addition, Ford extensively sponsors culturally diverse events and have organized a best practice diversity management conference. In this way, they have effectively reinforced their internal strategy with external actions.

Provide equal opportunities. Base on the before need to manage diversity in human resource management, the other change practices to HRM are providing equal opportunities over worldwide employment. Equal opportunity is very important in the modern workplace which involves providing the same opportunities to all the employees and prospective employees regardless of their culture, background, sex, age, disabilities, ethnic origins, sexual orientations etc. Equal opportunities allow the employee to have rights therefore the employer is unable to take advantage, discriminate or manipulate staff. Organization will need to ensure that there is no unlawful or unfair discrimination such as the race relations board because in many countries, unequal employment is illegal. As one of the HRM function is to attract and retain the best people in organization, provide equal opportunities can present this function efficiency.

For example, The Equal Employment Opportunity Commission (EEOC) in US, was created by the Civil Rights Act of 1964, is the federal agency that has the responsibility to "promote equal opportunity in employment through administrative and judicial enforcement of the federal civil rights laws and through education and technical assistance." The EEOC handles complaints about workplace discrimination.

Global competitions demand a more competent and dynamic workforce. Globalization brings the organization in a complex environment and contains different background of workforce. The theory of comparative advantage that, David Ricardo expressed in the early 19th century shows why trade works. Each country has relative strengths and weaknesses, if each country does what it is relatively strengths and import the weakness and the world will produce more and the greater productivity can be exchanged globally, making each country better off. Such as tariffs and other trade restrictions thus prevent possible gains from trade.

We can see that the relationship of globalization and human resources management. If we can achieve the competitive advantage through people that is the dynamic workforce, we can increase the effect of globalization. We can do are analyzing the major activities of human resource management and how we can perform effectively.

Beardwell and Holden (1997) support the assertion "Indeed development is achieved through people" by giving an example of Japan's success despite its lacking natural resources. This is important for us if we have to move forward in terms of economic development.

Besides, Armstrong outlines three most important factors in achieving competitive advantage as Innovative, Quality and Cost Leadership, but all these depend on the quality of an organization's human resources management. The most important is the starting point of human resource management in the context of globalization. Hence, gaining the competitive advantage through management people is one of the success factors of organization.

Different demand in HRM functions. A series of changes are being on the IHRM function: recruitment, global staffing, training and development, employee relations and rewards, by the process of globalization highlighting the difference between globally standardized, optimized or localized HR processes. Due to the higher demand on the global human resource management function to illustrate greater adaptability, provide HR managers more exposure to and rotations in global business that they need to be effective internationally. HRM also functioned to link between corporate headquarters and overseas operations.

Other demand for HRM function is talent management which includes nationalities and experience in HR efforts to diversify talent in other functions and other countries. Increase the life involvement, responsibilities and decision-making of employees. The creation of these core competencies can be achieved through human resource management and dealing effectively with macro concerns such as corporate culture and management development.

Staffing which include recruitment, selection and lay off. The increasing globalization of the marketplace combined with an increasing shortage of skilled staff and advances in technology have resulted in large changes to staffing practices throughout the world. Organizations recruiting employee continue to cope with these massive change in fight to be more competitive and profitable. Many organizations have moved to outsourcing all of their non-core activities strong emphasis on delivering a quality service and in ensuring the technical competence of consultants. For example, HSBC (one of the largest bank in Hong Kong), outsource the call centre function to Shenzhen of credit cards services for Asia sector business since a few years ago.

The other main practice of HRM is sending expatriate which is one of the global staffing strategies based on the management of international managers. The international employee populations and the changing structure and role of international HR functions have raised three important questions. The first concern is the study of globalization processes at functional level (staffing) and whether this can provide useful insights for the IHRM literature. The second concern is the indicators that best evidence globalization of staffing at the functional level and whether these might form the basis of useful future research. The third concern is the patterns or strategies within the global HR recruitment activity of organizations across domestic and overseas labor markets and whether these patterns can be explained by existing theory.

All this concerns is the organization-level developments in international recruitment and selection, drawing upon an analysis of four case studies each conducted in four theoretically derived contexts of centralized or decentralized control and co-ordination, and focus on domestic or overseas markets. It examines the disparities between policy and practice through interview of HR actors at corporate level and in country operations.

Conclusion

Today's world is organized by accelerating globalization, 'which is strengthening the dominance of a world capitalist economic system , supplanting the primacy of the nation state with transnational corporations and organizations, and eroding local cultures and traditions through a global culture' (Kellner, 1989).

Globalization today is being driven by market and corporate expansion, opening national borders to trade, advanced information technology and transportation systems. The way forward is not to stop the expansion of global markets but to find rules for stronger the human resource management under this circumstance and need to come up more changes on practices in this complex business environment.

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## Theme of the lecture №3. The globalization of commodity markets

**Plan of lecture:**

1. **Reasons for the globalization of commodity markets**
2. **Change of the sectoral structure of the market in conditions of globalization**
3. **The information revolution**
4. **Channels of distribution of companies in conditions of globalization of product markets, the company's strategy in conditions of globalization of commodity markets**
5. **Marketing in the global commodity markets**
6. **Development of global services market**
7. **How it works (example)**
8. **Reasons for the globalization of commodity markets**

Commodity-based money and commodity markets in a crude early form are believed to have originated in [Sumer](https://en.wikipedia.org/wiki/Sumer) between 4500 BC and 4000 BC. Sumerians first used [clay](https://en.wikipedia.org/wiki/Clay) tokens sealed in a clay vessel, then [clay writing tablets](https://en.wikipedia.org/wiki/Sumer#Mathematics) to represent the amount—for example, the number of goats, to be delivered. These promises of time and date of delivery resemble [futures contract](https://en.wikipedia.org/wiki/Futures_contract).

Early civilizations variously used pigs, rare seashells, or other items as [commodity money](https://en.wikipedia.org/wiki/Commodity_money). Since that time traders have sought ways to simplify and standardize trade contracts.

[Gold](https://en.wikipedia.org/wiki/Gold) and [silver](https://en.wikipedia.org/wiki/Silver) markets evolved in classical civilizations. At first the precious metals were valued for their beauty and intrinsic worth and were associated with royalty. In time, they were used for trading and were exchanged for other goods and commodities, or for payments of labor. Gold, measured out, then became money. Gold's scarcity, its unique density and the way it could be easily melted, shaped, and measured made it a natural trading asset.

Beginning in the late 10th century, commodity markets grew as a mechanism for allocating goods, labor, land and capital across Europe. Between the late 11th and the late 13th century, English urbanization, regional specialization, expanded and improved infrastructure, the increased use of coinage and the proliferation of markets and fairs were evidence of commercialization. The spread of markets is illustrated by the 1466 installation of reliable scales in the villages of Sloten and Osdorp so villagers no longer had to travel to Haarlem or Amsterdam to weigh their locally produced cheese and butter.

The [Amsterdam Stock Exchange](https://en.wikipedia.org/wiki/Amsterdam_Stock_Exchange), often cited as the first stock exchange, originated as a market for the exchange of commodities. Early trading on the Amsterdam Stock Exchange often involved the use of very sophisticated contracts, including short sales, forward contracts, and options. "Trading took place at the Amsterdam Bourse, an open aired venue, which was created as a commodity exchange in 1530 and rebuilt in 1608. Commodity exchanges themselves were a relatively recent invention, existing in only a handful of cities."[[14]](https://en.wikipedia.org/wiki/Commodity_market#cite_note-Stringham-15)

In 1864, in the United States, wheat, corn, cattle, and pigs were widely traded using standard instruments on the [Chicago Board of Trade](https://en.wikipedia.org/wiki/Chicago_Board_of_Trade) (CBOT), the world's oldest futures and options exchange. Other food commodities were added to the [Commodity Exchange Act](https://en.wikipedia.org/wiki/Commodity_Exchange_Act) and traded through CBOT in the 1930s and 1940s, expanding the list from grains to include rice, mill feeds, butter, eggs, Irish potatoes and soybeans. Successful commodity markets require broad consensus on product variations to make each commodity acceptable for trading, such as the purity of gold in bullion. Classical civilizations built complex global markets trading gold or silver for spices, cloth, wood and weapons, most of which had standards of quality and timeliness.

Through the 19th century "the exchanges became effective spokesmen for, and innovators of, improvements in transportation, warehousing, and financing, which paved the way to expanded interstate and international trade."[[17]](https://en.wikipedia.org/wiki/Commodity_market#cite_note-18)

Reputation and clearing became central concerns, and states that could handle them most effectively developed powerful financial centers

Commodities, raw or partially processed, are often the most significant exports of developing countries, and revenues obtained from them have an important effect on the economies and living standards in these countries.

Commodity price fluctuations, along with the globalization of the world economy and increased liberalization of commodity markets have led to profound changes that seriously affect the weaker economies of the developing world. Commodity price instability has a negative impact on economic growth, countries' financial resources, and income distribution, and may lead to increased poverty instead of poverty alleviation. Many countries, especially in Africa, derive more than 90% of their export earnings from commodities.

Over the past couple of decades, and in particular over the past few years, many developing and emerging economies have become steadily more integrated into the world economy. International trade, in both manufactures and commodities, has become substantially more important to most of these economies. At the same time, they have become more open to international capital flows, in particular through foreign direct investment.

1. **Change of the sectoral structure of the market in conditions of globalization**

The sectoral composition of the economy affects employment patterns in a variety of ways:

The structural composition effect. Sectors have different growth rates of production and demand, and different employment intensities. Institutional arrangements, regulations and policies affect in different ways economic activities and their employment prospects. As a result, the specific sectoral composition of national economies may lead a variety of possible employment performances.

The capital intensity effect. Sectors have different investment requirements and employment growth tends to be lower where capital intensity is higher. These sectors also tend to be characterized by a prevalence of labour-saving investments and innovations, leading to worse employment outcomes.

The technology effect. Sectors are characterized by markedly different patterns of technological change. In some manufacturing and service industries innovation is largely produced endogenously, through R&D, design, software and engineering activities. In some traditional industries, as well as in agriculture and most services, innovations are generally supplied by other sectors, and incorporated in new machinery and equipment, or intermediate inputs. Other things being equal (namely demand, capital and skill requirements, etc.) sectors capable of producing their own technology tend to introduce more product innovations which may create new jobs, while sectors acquiring innovations from outside are dominated by process innovations whose employment impact is generally negative.

The productivity effect. The capital and innovation intensity of sectors interact with other factors, such as the skills of the workforce, the learning processes, organizational models, infrastructural conditions, localized external economies, etc, leading to different productivity growth rates. The impact of productivity on employment, however, is a complex issue; depending on the sources of productivity growth and on demand patterns, productivity growth may parallel employment growth, or may be associated to job losses. Sectoral specificities lead to a wide divergence of productivity performances, which affect the aggregate growth pattern of national economies.

The demand effect. The growth of demand is not the same across the economy. The income elasticity and price elasticity of demand for individual sectors affects the growth rates of industries, which is also affected by institutional and policy factors, such as the organization and development of new markets and the role of public demand.

Countries which are more active in the industries with a faster growing demand tend to increase faster production, export and employment, at the expense of countries specialized in slow-growing sectors.

Changes in demand patterns tend also to take place slowly, especially when a technological paradigm shift is under way, as is currently the case with the emergence of ICT-based technologies.

The trade effect. Sectors and markets widely differ in the importance of international trade. In markets more open to international competition, such as most manufacturing industries, the employment outcome of demand growth can be reduced by import penetration, and by foreign outsourcing of domestic firms. Conversely, competitive, export-oriented sectors, and industries with high national self-reliance may expand jobs alongside production. Services generally are less open to international competition and this has strongly contributed to their faster employment growth.

1. **The information revolution**

Information revolution is development of technologies (such as computers, digital communication, microchips) in the second half of the 20th century that has led to dramatic reduction in the cost of obtaining, processing, storing, and transmitting information in all forms (text, graphics, audio, video).

information revolution started around 3000 BC with the Sumerian pictographs. From that moment on the information revolution has accompanied the history of mankind. Among the milestones of the information revolution are Gutenberg’s invention of the printing press in 1455; the work of Augusta, Lady Byron, Countess of Lovelace and Babbage on the Analytic Engine in the early 1830s; the invention of the first telephone during the 1870s; Turing’s work during World War II; the development of ARPANET by the U.S. Department of Defense in the 1960s; the first versions of the UNIX Operative System in the late 1960s; the progressive dissemination of personal computers, laptops and smartphones begun in the late 1970s and continuing until today.

1. **Channels of distribution of companies in conditions of globalization of product markets, the company's strategy in conditions of globalization of commodity markets**

Many companies have become disillusioned with sales in the international marketplace as old markets become saturated and new ones must be found. How can they customize products for the demands of new markets? Which items will consumers want? With wily international competitors breathing down their necks, many organizations think that the game just isn’t worth the effort.

The result is a new commercial reality – the emergence of global markets for standardized consumer products on a previously unimagined scale of magnitude. Corporations geared to this new reality benefit from enormous economies of scale in production, distribution, marketing, and management. By translating these benefits into reduced world prices, they can decimate competitors that still live in the disabling grip of old assumptions about how the world works.

The multinational and the global corporation are not the same thing. The multinational corporation operates in a number of countries, and adjusts its products and practices in each – at high relative costs. The global corporation operates with resolute constancy– at low relative cost – as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere.

Which strategy is better is not a matter of opinion but of necessity. Worldwide communications carry everywhere the constant drumbeat of modern possibilities to lighten and enhance work, raise living standards, divert, and entertain. The same countries that ask the world to recognize and respect the individuality of their cultures insist on the wholesale transfer to them of modern goods, services, and technologies.

1. **Marketing in the global commodity markets**

Marketingis the communication between a company and the consumer audience that aims to increase the value of the company or its merchandise, or to raise the profile of the company and its products in the public mind. The purpose of marketing is to induce behavioral change in the receptive audience.

A commodity market is a market that trades in primary economic sector rather than manufactured products. Soft commodities are agricultural products such as wheat, coffee, cocoa and sugar. Hard commodities are mined, such as gold and oil.Investors access about 50 major commodity markets worldwide with purely financial transactions increasingly outnumbering physical trades in which goods are delivered. Futures contracts are the oldest way of investing in commodities. Futures are secured by physical assets. Commodity markets can include physical trading and derivatives trading using spot prices, forwards, futures, and options on futures.

Commodity prices are currently both high and volatile relative to the past few decades, consistent with the physical supply and demand fundamentals that underpin these markets. However, the increase in prices and volatility is not unprecedented, having occurred during other large global supply and demand shocks throughout the past century. There is a lack of convincing evidence (at least to date) that financial markets have had a materially adverse effect on commodity markets over time periods of relevance to the economy. It is possible that speculators have had some effect on commodity price volatility, but their contribution would appear to be relatively small – particularly when compared with the contribution from fundamental factors – and short term in nature

1. **Development of global services market**

The global market of services is an important phenomenon of modern international economic relations, despite the fact that it is still in the stage of active formation, which occurs rapidly.

Modern global market of services includes a wide variety of trade services (160 species), which are classified by the UN Statistical Commission in 12 sections:

1. Business services. 2. Communication services. 3. Construction and related engineering services. 4. Distribution services. 5. Educational services. 6. Environmental services. 7. Financial services. 8. Health-related and social services. 9. Tourism and travel-related services. 10. Recreational, cultural, and sporting services. 11. Transport services. 12. Other services not included elsewhere.

**7. How it works (example)**

Buyers and sellers can trade a [commodity](http://www.investinganswers.com/node/1035) either in the [spot market](http://www.investinganswers.com/node/2172) (sometimes called the cash market), whereby the buyer and seller immediately complete their transaction based on current prices, or in the [futures market](http://www.investinganswers.com/node/4895).

The Commodity Futures Trading Commission (CFTC) regulates commodities futures trading through its enforcement of the Commodity Exchange Act of 1974 and the Commodity Futures Modernization Act of 2000. The CFTC works to ensure the competitiveness, efficiency and integrity of the commodities futures markets and protects against manipulation, abusive trading and fraud.

There are six major commodity exchanges in the U.S.: The New York Mercantile Exchange, the Chicago Board of Trade, the Chicago Mercantile Exchange, the Chicago Board of Options Exchange, the Kansas City Board of Trade, and the Minneapolis Grain Exchange. The New York Mercantile Exchange Inc. is the world's largest physical commodity [futures](http://www.investinganswers.com/node/1002) exchange. When the hours for [open outcry](http://www.investinganswers.com/node/2472) and electronic trading are combined, some exchanges are [open](http://www.investinganswers.com/node/5848) for nearly 22 hours a day.

Commodities exchanges do not set the prices of the traded commodities. Rather, supply and demand determines commodities prices. Exchange members, who act on behalf of their customers or themselves, engage in open-outcry auctions in pits on the exchange floors. During an open-outcry auction, buyers and sellers announce their bids and offers. When two parties agree on a price, the trade is recorded both manually and electronically. The exchange then disseminates the price information to news services and other reporting agencies around the world.

Commodities exchanges [guarantee](http://www.investinganswers.com/node/993) each trade using clearing members who are responsible for managing the payments between buyer and seller. Clearing members, which are usually large banks and financial services companies, require traders to make good-faith [deposits](http://www.investinganswers.com/node/5251) (called margins) in order to ensure they have sufficient [funds](http://www.investinganswers.com/node/5054) to handle potential losses and will not [default](http://www.investinganswers.com/node/5956) on the trade. The risk borne by clearing members lends further [support](http://www.investinganswers.com/node/5569) to the strict quality, quantity and delivery specifications of commodities futures contracts.

**Why it matters:**

Commodities are the raw materials used by virtually everyone. The orange juice on your breakfast table, the gas in your car, the meat on your dinner plate and the cotton in your shirt all probably interacted with a commodities exchange at one point. Commodities-exchange prices set or at least influence the prices of many goods used by companies and individuals around the globe. Changes in commodity prices can affect entire segments of an economy, and these changes can in turn spur political action (in the form of subsidies, tax changes or other policy shifts) and social action (in the form of substitution, innovation or other supply-and-demand activity).

Most buyers and sellers trade commodities on the futures markets because many commodity producers, especially those of traditional commodities like grain, bear the risk of potentially negative price changes when their products are finally ready for the market. Futures contracts, whereby the buyer purchases the [obligation](http://www.investinganswers.com/node/3919) to receive a specific quantity of the commodity at a specific date, therefore offer some price stability to commodity producers and commodity users.

In general, however, the [liquidity](http://www.investinganswers.com/node/5295) and stability of the commodities markets helps producers, manufacturers, other companies and even entire economies operate more efficiently and more competitively.

**Complexity and interconnectedness of global market**

The robust growth of [emerging market economies](https://en.wikipedia.org/wiki/Emerging_markets) (EMEs, such as Brazil, Russia, India, and China), beginning in the 1990s, "propelled commodity markets into a supercycle". The size and diversity of commodity markets expanded internationally, and [pension funds](https://en.wikipedia.org/wiki/Pension_fund) and [sovereign wealth funds](https://en.wikipedia.org/wiki/Sovereign_wealth_fund) started allocating more capital to commodities, in order to [diversify](https://en.wikipedia.org/wiki/Diversification_%28finance%29) into an asset class with less exposure to currency depreciation.

In 2012, as emerging-market economies slowed down, commodity prices peaked and started to decline. From 2005 through 2013, energy and metals' [real prices](https://en.wikipedia.org/wiki/Real_prices_and_ideal_prices)remained well above their long-term averages. In 2012, real food prices were their highest since 1982.

The price of gold bullion fell dramatically on 12 April 2013 and analysts frantically sought explanations. Rumors spread that the [European Central Bank](https://en.wikipedia.org/wiki/European_Central_Bank) (ECB) would force [Cyprus](https://en.wikipedia.org/wiki/Cyprus) to sell its gold reserves in response to its [financial crisis](https://en.wikipedia.org/wiki/2012%E2%80%932013_Cypriot_financial_crisis). Major banks such as [Goldman Sachs](https://en.wikipedia.org/wiki/Goldman_Sachs) began immediately to short gold bullion. Investors scrambled to liquidate their [exchange-traded funds](https://en.wikipedia.org/wiki/Exchange-traded_fund) (ETFs)[[](https://en.wikipedia.org/wiki/Commodity_market#cite_note-29) and [margin call selling](https://en.wikipedia.org/wiki/Margin_%28finance%29) accelerated. George Gero, precious metals commodities expert at the [Royal Bank of Canada](https://en.wikipedia.org/wiki/Royal_Bank_of_Canada) (RBC) Wealth Management section reported that he had not seen selling of gold bullion as panicked as this in his forty years in commodity markets.

The earliest commodity exchange-traded fund (ETFs), such as [SPDR Gold Shares](https://en.wikipedia.org/wiki/SPDR_Gold_Shares) [NYSE Arca](https://en.wikipedia.org/wiki/NYSE_Arca): [GLD](https://www.nyse.com/quote/ARCX%3AGLD) and [iShares](https://en.wikipedia.org/wiki/IShares) Silver Trust [NYSE Arca](https://en.wikipedia.org/wiki/NYSE_Arca): [SLV](https://www.nyse.com/quote/ARCX%3ASLV), actually owned the physical commodities. Similar to these are [NYSE Arca](https://en.wikipedia.org/wiki/NYSE_Arca): [PALL](https://www.nyse.com/quote/ARCX%3APALL) ([palladium](https://en.wikipedia.org/wiki/Palladium)) and [NYSE Arca](https://en.wikipedia.org/wiki/NYSE_Arca): [PPLT](https://www.nyse.com/quote/ARCX%3APPLT) ([platinum](https://en.wikipedia.org/wiki/Platinum)). However, most Exchange Traded Commodities (ETCs) implement a [futures trading](https://en.wikipedia.org/wiki/Futures_trading) strategy. At the time Russian Prime Minister [Dmitry Medvedev](https://en.wikipedia.org/wiki/Dmitry_Medvedev) warned that Russia could sink into recession. He argued that "We live in a dynamic, fast-developing world. It is so global and so complex that we sometimes cannot keep up with the changes". Analysts have claimed that Russia's economy is overly dependent on commodities.

**Exchange-traded commodities (ETCs)**

Exchange-traded commodity is a term used for commodity [exchange-traded funds](https://en.wikipedia.org/wiki/Exchange-traded_fund) (which are funds) or commodity [exchange-traded notes](https://en.wikipedia.org/wiki/Exchange-traded_note) (which are notes). These track the performance of an underlying commodity index including total return indices based on a single commodity. They are similar to ETFs and tradedand settled exactly like stock funds. ETCs have [market maker](https://en.wikipedia.org/wiki/Market_maker) support with guaranteed liquidity, enabling investors to easily invest in commodities.

They were introduced in 2003.

At first only professional institutional investors had access, but online exchanges opened some ETC markets to almost anyone. ETCs were introduced partly in response to the tight supply of commodities in 2000, combined with record low inventories and increasing demand from emerging markets such as China and India.

Prior to the introduction of ETCs, by the 1990s ETFs pioneered by [Barclays Global Investors](https://en.wikipedia.org/wiki/Barclays_Global_Investors) (BGI) revolutionized the mutual funds industry. By the end of December 2009 BGI assets hit an all-time high of $1 trillion.

Gold was the first commodity to be securitised through an [Exchange Traded Fund](https://en.wikipedia.org/wiki/Exchange-traded_fund) (ETF) in the early 1990s, but it was not available for trade until 2003.[[34]](https://en.wikipedia.org/wiki/Commodity_market#cite_note-ETC-37) The idea of a Gold ETF was first officially conceptualised by [Benchmark Asset Management Company Private Ltd](https://en.wikipedia.org/wiki/Benchmark_Asset_Management_Company_Private_Ltd) in India, when they filed a proposal with the [Securities and Exchange Board of India](https://en.wikipedia.org/wiki/Securities_and_Exchange_Board_of_India) in May 2002. The first gold exchange-traded fund was [Gold Bullion Securities](https://en.wikipedia.org/wiki/Gold_Bullion_Securities) launched on the ASX in 2003, and the first [silver exchange-traded fund](https://en.wikipedia.org/wiki/Silver_exchange-traded_fund) was iShares Silver Trust launched on the NYSE in 2006. As of November 2010 a commodity ETF, namely [SPDR Gold Shares](https://en.wikipedia.org/wiki/SPDR_Gold_Shares), was the second-largest ETF by market capitalization.

Generally, commodity ETFs are index funds tracking non-security [indices](https://en.wikipedia.org/wiki/Index_%28economics%29). Because they do not invest in securities, commodity ETFs are not regulated as investment companies under the [Investment Company Act of 1940](https://en.wikipedia.org/wiki/Investment_Company_Act_of_1940) in the United States, although their public offering is subject to SEC review and they need an SEC [no-action letter](https://en.wikipedia.org/wiki/No-action_letter) under the [Securities Exchange Act of 1934](https://en.wikipedia.org/wiki/Securities_Exchange_Act_of_1934). They may, however, be subject to regulation by the [Commodity Futures Trading Commission](https://en.wikipedia.org/wiki/Commodity_Futures_Trading_Commission).

The earliest commodity ETFs, such as [SPDR Gold Shares](https://en.wikipedia.org/wiki/SPDR_Gold_Shares) [NYSE Arca](https://en.wikipedia.org/wiki/NYSE_Arca): [GLD](https://www.nyse.com/quote/ARCX%3AGLD) and [iShares](https://en.wikipedia.org/wiki/IShares) Silver Trust [NYSE Arca](https://en.wikipedia.org/wiki/NYSE_Arca): [SLV](https://www.nyse.com/quote/ARCX%3ASLV), actually owned the physical commodity (e.g., gold and silver bars). Similar to these are [NYSE Arca](https://en.wikipedia.org/wiki/NYSE_Arca): [PALL](https://www.nyse.com/quote/ARCX%3APALL) (palladium) and [NYSE Arca](https://en.wikipedia.org/wiki/NYSE_Arca): [PPLT](https://www.nyse.com/quote/ARCX%3APPLT) (platinum). However, most ETCs implement a [futures trading](https://en.wikipedia.org/wiki/Futures_trading)strategy, which may produce quite different results from owning the commodity.

Commodity ETFs trade provide exposure to an increasing range of commodities and commodity indices, including energy, metals, [softs](https://en.wikipedia.org/wiki/Soft_commodity) and agriculture. Many commodity funds, such as oil roll so-called front-month futures contracts from month to month. This provides exposure to the commodity, but subjects the investor to risks involved in different prices along the *term structure*, such as a high cost to roll.

ETCs in China and India gained in importance due to those countries' emergence as commodities consumers and producers. China accounted for more than 60% of exchange-traded commodities in 2009, up from 40% the previous year. The global volume of ETCs increased by a 20% in 2010, and 50% since 2008, to around 2.5 billion million contracts.

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## Theme of the lecture №4. Global financial markets

**Plan of lecture:**

1. **The globalization of the world economy and the development of global financial markets: interconnection and interdependence**
2. **Global financial flows**
3. **The functions and of the global structure financial markets in conditions of globalization**
4. **Global financial centers in a globalizing world economy**
5. **The results of the globalization of world financial markets**
6. **The globalization of the world economy and the development of global financial markets: interconnection and interdependence**

Globalization affects markets of three kinds: commodities - goods and services of all varieties; labour - workers who produce goods and services; assets and debts - securities, bank loans and deposits, titles to land and physical capital. Trades of financial assets are the easiest to globalize. Nothing is involved beyond exchanging pieces of paper or making entries in electronic ledgers. The communications revolution makes transactions easy, fast, and cheap. No movements of physical goods or of people are involved. No frontiers have to be crossed. The only barriers are national regulations. As these have been liberalized in country after country, international financial flows have flooded into national securities markets and banking systems all over the world.

Global financial system is vast and varied; it consists of many different types of financial institutions, as well as financial markets in stocks, bonds, commodities, and derivatives. The global capital market involves 46,000 traded stocks worth over $54 trillion.

Abstract

The current global political economy present the world where no country can live in isolation. Thus this paper sort to highlight some thematic areas where global interdependence is perceived to have vibrantly engaged within the international system. These thematic areas include Economic interdependence; Environmental interdependence, Political interdependence, and Socio-Cultural interdependence. The paper saw that, inasmuch as there are some benefits associated with the robust global interdependence in the world, the platform is uneven and this allows some countries (the rich and strong countries) to benefit greatly at the expense of others (poor and weak countries).

Introduction

Globalization is inextricably linked with interdependence since the available resources are unequally distributed across the world and for that matter, no country can claim to be fully served with regard to all the resources it needs to be totally self-sufficient. The need for countries to rely on each other for these resources creates a global interdependence. Hence, the drive of globalization creates a robust interconnection of world network through borderless operations of countries, making it easier to interact, trade and build a co-operative world. Unarguably, the current global economy which commenced after World War II through the Instrumentality of the United Nations and the Breton wood institutions (World Bank, International Monitory Fund and the General Agreement on Tariffs and Trade-GATT) cannot be ignored in the analysis of global interdependence.

The central focus of this paper, however, is to discuss “how is globalization increasing interdependence in the international community”. To do this, it is prudent to adopt and operational definition of globalization to lay a solid ground for the discussion on how globalization is increasing global interdependence.

The term globalization in this paper, denotes to the “gradual but fierce” process of increasing social and cultural interconnections, political interdependence, and economic, financial and market integrations that are driven by advances in communication and transportation technologies, and trade liberalization where virtually, everyone is affected by this process in a way that leads to a border-less world (Eden & Lenway, 2001; Ohmae, 1989a).

It must be noted that interdependence among nations is one of the major cardinal effects of globalization, ever to have hit the shores of the world politics. Curry (2000) & Peter and Pierre (2006) have observed that technological, economic, political, and cultural exchanges between and among countries of the world have increased tremendously over time. Clearly, almost all countries, firms, and private individuals are undoubtedly affected be powers of globalization, where trade liberalization is the necessary condition for the recognition of the full bearings of globalization (Human Development Report, 2004).

Economic interdependence; Environmental interdependence; Political interdependence; and Socio-Cultural interdependence

The first point to be discussed pertains to “Economic Interdependence”. Free market economy or trade liberalization is a common feature in the world today. Current happenings in international trade and finance have been convoyed by the internationalization of production of goods and services (the fragmentation of production and/or intra-product specialization). Hence in most developing countries where technology is low, they tend to rely on developed countries for durable and sophisticated goods such as cars, cell phones, refrigerators, computers and other important gadgets (Asare, 2011: 185).

In a like manner, activities of multinational corporations (MNCs) provides revenues to the government through their investment in the economy. By so doing, MNCs promote free trade by lobbying intergovernmental organizations like IMF, World Bank and WTO to require countries to adopt policies that promote free movement of goods (Asare, 2011: 166-167).  Greider cited in Paehlke (2009: 4) observed that “sales of the 500 largest multinational firms grew more than seven folds between 1971 and 1991, from $721 billion to $5.2 trillion”. This was made possible by higher levels of inter-dependency in the international political economy since these firms are increasingly global in origin and in structure.

Secondly, Environmental concerns in the current international system have led to an increase in world interdependence to address such problems. Environmental problems such as climate change, global warming, and the spread communicable disease (Ebola, Bird flu, HIV/AIDS, Black dead, Smallpox, Tuberculosis etc.) brings the world together address such concerns irrespective of the origin of the disease or problem.

For example, the Kyoto Protocol of 1997 was instituted to address the problem of carbon mono oxide emission into the atmosphere by highly industrialized countries with the sole aim of reducing global warming. For example, it is estimated that as of Dec. 01, 2015, the World Bank Group has mobilized US$1.62 billion in financing for Ebola response and recovery efforts to support the countries hardest hit by Ebola. This includes US$260 million for Guinea; US$385 million for Liberia and US$318 million for Sierra Leone[1].

Thirdly, “Political Interdependence” in the international community is created through political change, redistribution of power from states to interstate bodies and the growth of global civil society. In fact, the coming together of countries under the umbrella of intergovernmental organizations makes it possible for countries to seek help from others. For instance, the World Bank, the United Nations, ECOWAS, the African Union and the European Union, plays critical role in assisting member countries in profound ways, being it domestic or international issues such as “…democratic governance, freedom of the media, independent judiciary, conflict resolution and peacekeeping and ‘peace building’.”  (Asare, 2011: 178). The AU and UN mission to Somalia and other states through the contribution of troupe by various countries in the world depict how globalization has increased interdependence on the political front.

Fourthly, globalization has also increased “Socio-cultural interdependence”. Spatial and temporal components, such as international trade, global levels of political representation, global communication, the increased speed of transactions, travel, political change, resource depletion, social mobilization and impacts of increased cultural exchange has undoubtedly increased the level of global interdependence. As noted by Paehlke (2009), “global cultural integration is associated with American television, Hollywood, world music and commercial advertising”. For example, most of the Ghanaian and Nigerian films are carved around American movies. This is no different from south Africa where seven out of ten popular television programs have U S  origin (Paehlke, 2009: 5 ). Barber (1996: 62) in support of this argue that films now accrue greater export revenue for the US economy far more than automobiles companies.

Against this background of creating world interdependence, globalization has rendered most of the developing countries stagnant in terms of development and the sovereignty of the state. Wolf (2001), has argued that globalization “is merely the extension of markets across frontiers and as it is true of any market process, what one obtains from the international market depends on the value of what one can offer. It is not a question of a desert or intrinsic worth. It is a question, rather, of opportunities and incentives. If a country is unsuccessful in obtaining as much as it desires from its integration with the world economy, it is because its people are either unable to offer what those elsewhere desire or are prevented from doing so by barriers, at home or abroad”.

This presupposes that the wealthy countries within the international political arena tend to benefit more at the expense of the poor countries that operate within the same international system. Globalization, therefore, becomes a tool that is used to somehow exploit the weaker countries in the struggle for resources and influential recognition the in world politics.

In conclusion, the paper has demonstrated clearly that, globalization has made the world an integrated network of countries. It is often said, that no country in this era can live in isolation because countries need each other to survive (quid pro quo manner). This interdependence is obvious in the following dimensions: political interdependence, environmental interdependence, socio-cultural interdependence and economic interdependence. This notwithstanding, the impact of globalization still remains a “double-edged sword” in this over-speeding drive to world integration.

**2. Global financial flows**

Global financial flows are cash flow of capital from one country to another. They serve the movement of goods, services, currencies, their movement is carried out through banks, specialized financial and credit institutions, stock exchanges. The movement of global financial flows takes place through the main markets: of currency, credit and gold. Global markets are characterized by the absence of borders and the huge scale, round the clock carrying out operations using the world's leading currencies. Their participants are highly reliable and solvent credit institutions, corporations, credit and financial institutions. Operations are carried out in markets with a high level standard, mainly in electronic form.

International financial flows take a variety of forms, one of the most important categories being that of foreign direct investment.

Against a background of subdued financial market volatility, and building on the trend from recent quarters, global credit conditions as measured by the BIS global liquidity indicators (GLIs) eased in early 2017.2 International bank credit (cross-border claims plus local claims in foreign currency)3 continued to grow in late 2016 and early 2017, top panel). With a year-on-year growth rate of 1.7% in the first quarter of 2017, the stock of international bank claims stood at $32.0 trillion at end-March. As in recent quarters, the growth in international bank claims was led by credit to non-banks, which reached three consecutive years of positive growth in Q1 2017. Interbank claims, in turn, posted positive year-on-year growth for the first time since the first quarter of 2015.

The stock of international grew in the first half of 2017, bottom debt securities4 also panel). Net issuance of $277 billion and $283 billion in the first and second quarters of 2017, respectively, took the outstanding stock to $22.7 trillion as of end-June 2017, a 4.1% increase compared with a year earlier. The stock of banks' debt securities grew further (2.2% year on year in Q2 2017), reaching rates last seen at the beginning of 2011. Outstanding international debt securities of non-banks, however, grew even faster in the year to end-June 2017 (4.9%).

In parallel with the broad increase in international bank claims and debt securities, foreign currency credit to non-residents continued to expand in Q4 2016 and Q1 2017. US dollar-denominated debt securities and euro-denominated bank loans led the way.

Total outstanding US dollar credit (bank loans plus debt securities issuance) to the non-financial sector outside the United States rose from $8 trillion at end-September 2016 to $8.2 trillion at end-March 2017, top panels); or from $10.5 trillion to $10.7 trillion if non-bank financial borrowers are included. The stock of US dollar-denominated debt securities issued by non-financials outside the US grew by 8.6% year on year through Q1 2017 (top right-hand panel). Growth in bank loans picked up slightly, to 2.9% in Q1 2017, compared with a year earlier.

At end-March 2017, outstanding euro-denominated credit to borrowers outside the euro area reached €2.3 trillion ($2.4 trillion) to non-financial borrowers, centre panels), or €2.8 trillion ($3.0 trillion) if non-bank financials are included. The growth in net issuance of euro-denominated debt securities by non-financials outside the euro area remained high, but came down slightly in the beginning of 2017. Year-on-year growth in outstanding debt securities decreased somewhat to 9.3% in the first quarter of 2017. Growth in euro-denominated bank claims, on the other hand, picked up considerably to 12.3% in Q1 2017, the highest year-on-year growth rate since Q3 2008.

Yen-denominated credit to the non-financial sector outside Japan, for which overall amounts are significantly smaller (¥30.4 trillion or $271 billion at end-March 2017), halted its year-on-year decline in the first quarter, bottom panels). Bank claims recovered noticeably, growing 3.7% year on year in the first quarter of 2017. At the same time, the year-on-year growth in net international debt securities issuance in yen by issuers outside Japan reached positive territory for the first time since Q3 2011, as the outstanding stock rose by 0.6% in the first quarter of 2017 compared with a year earlier.

US dollar credit to EME borrowers continued to grow, rising to $3.4 trillion at end-March 2017.5 The expansion was entirely driven by increased debt securities issuance, as outstanding bank claims fell during the same period, left-hand panel). The bulk of the increase came from US dollar borrowing by residents of Africa and the Middle East ($59 billion), especially through net bond issuance by governments in oil-exporting countries. This was followed by emerging Asia ($39 billion) and Latin America ($19 billion). US dollar credit to borrowers of emerging Europe, however, declined by $25 billion between end-September 2016 and end-March 2017.

Early warning indicators for stress in domestic banking systems - which by their nature change little from quarter to quarter - continue to signal vulnerabilities in some jurisdictions, with data up to Q1 2017). According to the BIS early warning indicators,6 credit-to-GDP gaps (the difference between current credit-to-GDP ratios and their recent trend levels) stand above critical thresholds in Canada, China and Hong Kong SAR (first column). Relative to prior readings, the credit-to-GDP gaps have narrowed somewhat.7 In most cases, the warning signal given by credit-to-GDP gaps coincided with property price gaps also above critical thresholds

Debt service ratios, which aim to capture aggregate principal and interest payments in relation to income for the total private non-financial sector, remain below critical thresholds, with the exception of Hong Kong SAR (second column). Assuming a 250 basis point increase in interest rates (with 100% pass-through), the debt service ratio indicator points to potential risks in Canada, China and Hong Kong SAR (third column). However, these numbers are meant to be only broadly indicative of the exposure of debt service to higher yields under stress scenarios, and should not be treated as a formal stress test. Moreover, in contrast to what is assumed for simplicity and comparability in the indicator, increases in rates usually take time to translate into higher debt service ratios. The speed and extent of the pass-through depend on a variety of factors, including the share of debt at floating rates, maturity profiles and changes in borrower behaviour.

**3. The functions and of the global structure financial markets in conditions of globalization**

At a very basic level, the global financial market links savers to investors across national boundaries by offering investors a vast array of investment products across a dazzling variety of financial markets. We can think of the financial market as consisting of the capital markets, commodities markets, and derivatives markets (Figure 1).

The capital markets consist of the markets for stocks, bonds, mutual funds, and exchange-traded funds. A stock is essentially an equity (or ownership) claim on the cash flows and assets of a company. A bond is a debt security that represents a fixed-income claim on the cash flows and assets of a company. Mutual funds are pools of cash collected from investors and invested in diversified baskets of traded securities. The securities include stocks, bonds, and other money market instruments. Mutual funds provide a very convenient and low-cost way for investors to diversify their portfolios across numerous industries and firm sizes. Exchange-Traded Funds provide many of the same benefits as mutual funds.



Figure 1. Global financial markets is a series of exchanges where successful corporations go to raise large amounts of cash to expand.  are shares of ownership of a public corporation that are sold to investors through broker dealers. The investors profit when the companies increase their earnings, which keeps the U.S. economy growing. It's easy to buy stocks, but takes a lot of knowledge to buy stocks in the right company.

To a lot of people, the Dow is the stock market. The Dow, which is the nickname for the Dow Jones Industrial Average, is just one way of tracking the performance of a group of stocks. There is also the Dow Jones Transportation Average and the Dow Jones Utilities Average. Many investors ignore the Dow, and instead focus on the S&P 500 or other indices to track the progress of the stock market. The stocks that make up these averages are traded on the world's stock exchanges, two of which include the New York Stock Exchange and the NASDAQ.

Find out more about How the Stock Market Works.

Mutual funds give you the ability to buy a lot of stocks at once. In a way, this makes them an easier tool to invest in than individual stocks. By reducing stock market volatility, they have also had a calming effect on the U.S. economy. Despite their benefits, you still need to learn how to select a good mutual fund.

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Find out more about How the Stock Market Works.

**The Bond Market** is where organizations go to obtain very large loans. Generally, when stock prices go up, bond prices go down. There are many different types of bonds, including Treasury Bonds, corporate bonds, and municipal bonds. Bonds also provide some of the liquidity that keeps the U.S. economy functioning smoothly.

It's important to understand the relationship between Treasury bonds and Treasury bond yields. When Treasury bond values go down, the yields go up to compensate. When Treasury yields rise, so do mortgage interest rates. Even worse, when Treasury values decline, so does the value of the dollar. This makes import prices rise, which can trigger inflation. Treasury yields can also predict the future. For example, an inverted yield curve heralds a recession.

**The Commodities Market** is where companies offset their futures risks when buying or selling natural resources. Since the prices of things like oil, corn and gold are so volatile, companies can lock in a known price today. Since these exchanges are public, many investors also trade in commodities for profit only. They have no intention of purchasing large quantities of pork bellies, for example.

Oil is the most important commodity in the U.S. economy.

It is used for transportation, industrial products, plastics, heating and electricity generation. When oil prices rise, you'll see the effect in gas prices about a week later. If oil and gas prices stay high, you'll see the impact on food prices in about six weeks.

The commodities futures market determines the price of oil. What are futures? They are a way to pay for something today that is delivered tomorrow. This removes some of the volatility in the U.S. economy. It allows businesses to control future costs of the critical commodities they use every day.

Futures also increase a trader's leverage by allowing him or her to borrow the money to purchase the commodity. This leverage can create outsize gains, if traders guess right. It also magnifies the losses if traders guess wrong. If enough traders guess wrong, it can have a huge impact on the U.S. economy, actually increasing overall volatility.

 Commodities trading was responsible for record-high oil prices in 2008 and 2011 which resulted in food riots and even the Arab Spring.

Another important commodity is gold. It's bought as a hedge against inflation. Gold prices also go up when there is a lot of economic uncertainty in the world. In the past, every dollar could be traded in for its value in gold. However, once the U.S. went off the gold standard, it lost this relationship to money. Nevertheless, this history means that many people still look at gold as safer alternative to cash or currency.

**Derivatives** are complicated financial products that base their value on underlying assets. Sophisticated investors and hedge funds use them to magnify their potential gains. In 2007, hedge funds increased in popularity due to their supposed higher returns for high-end investors. Since hedge funds invest heavily in futures, some argued they decreased the volatility of the stock market and therefore the U.S. economy. The hedge fund investments in subprime mortgages and other derivatives caused the 2008 global financial crisis.

Even before this, hedge funds had demonstrated their risky nature. In 1997, the world's largest hedge fund at the time, Long Term Capital Management, practically brought down the U.S. economy.

Forex Trading is when currencies are bought and sold. More than $5.3 trillion are traded per day, and 87 percent involves the U.S. dollar. Almost one-fourth of the trades are done by banks for their customers, to reduce the volatility of doing business overseas. Hedge funds are responsible for another 11 percent and some of it is speculative. This market affects exchange rates and therefore the value of the dollar and other currencies. For more, see How Do Exchange Rates Work?

### Functions of Financial Markets

Financial markets create an open and regulated system for companies to get large amounts of capital. This is done through the stock and bond markets. Markets also allow these businesses to offset risk. They do this with commodities, foreign exchange futures contracts and other derivatives.

Since the markets are public, they provide an open and transparent way to set prices on everything traded. They reflect all available knowledge about everything traded. This reduces the cost of getting information, because it's already incorporated into the price.

The sheer size of the financial markets provide liquidity. In other words, sellers can unload assets whenever they need to raise cash. The size also reduces the cost of doing business, since companies don't have to go far to find a buyer, or someone willing to sell. (Source: “Six Basic Functions of Financial Markets”, Iowa State University, March 5, 2012.)

**4. Global financial centers in a globalizing world economy**

A financial centre is a location that is home to a cluster of nationally or internationally significant financial services providers such as banks, investment managers or stock exchanges. A prominent financial centre can be described as aninternational financial centre or a global financial centre and is often also a global city. An offshore financial centre is typically a smaller, low-tax jurisdiction that primarily serves non-residents.

International Financial Centers (IFCs) - such as London, New York, and Tokyo - are large international full-service centers with advanced settlement and payments systems, supporting large domestic economies, with deep and liquid markets where both the sources and uses of funds are diverse, and where legal and regulatory frameworks are adequate to safeguard the integrity of principal-agent relationships and supervisory functions.

As of March 2016, the top ten global financial centres are: London, New York City, Singapore, Hong Kong, Tokyo, Zurich, Washington D.C., San Francisco, Boston, Toronto.

The transformation of global capital markets into a new supranational order is continuing apace despite the current market crisis. Nationally based financial operations are shrinking and internationally oriented operations are taking their place. Globalization usually implies decentralization. But while the international network of financial centers is indeed expanding, a leaner system dominated by a handful of strategic cities is evolving. As financial operations disperse around the world, only a few cities will have the resources to be dominant. First among them are London and New York, with their enormous concentrations of resources and talent. These two will conduct the most critical and complex financial operations of the future. A secondary network of smaller economic capitals will be headed by Frankfurt, boosted by Europe's economic and monetary union. The ultimate status of battered Hong Kong and Tokyo remains murky as markets wait to see what will be left in the wake of the Asian crisis. Although Singapore and Sydney are strengthening their positions, it is difficult to imagine them replacing Tokyo's resources and Hong Kong's expertise.

The emerging financial system will sharply differ from earlier versions, which were strings of closed domestic markets with a few scattered global centers such as the offshore markets and Swiss international banking. Traditionally, each national center duplicated all financial functions for its own economy, and collaboration between national markets was crude and rare. Today, however, cooperation is on the rise. Leading financial services firms are now setting up operations across the globe while traditional national centers are becoming home to foreign firms with global operations. Leading cities like London and New York are executing complex operations for firms and governments from myriad countries, packaging capital in innovative ways while working with secondary cities through affiliates and direct exports of financial services. In contrast, other cities in the global network are playing "gateway" roles, such as monitoring capital flows or issuing bonds. One example is Argentina's $1 billion government bond in November, the largest emerging market bond since the market turmoil last August. Although the bond was issued in Argentina, its lead managers were J. P. Morgan and Germany's Deutsche Bank and most of its buyers were U.S. institutional investors.1

SECRETS OF SUCCESS

What turns an ordinary city into a global financial center? Although many factors can boost a city's status, two elements stand out. The first is national consolidation, which favors cities with major institutional equity holdings. In the past, a nation's financial activity was often scattered among several major cities; today, most countries have one dominant national center of operations. Today, a city lacking a major stock exchange can participate in the global market if it has banks and investment houses holding significant amounts of equity. Second, new financial capitals have appeared in emerging markets that have taken the plunge into market liberalization -- a trend that will continue despite the current financial turmoil.

The importance of national consolidation can be seen around the world. New York's concentration of investment banks and dominance of the U.S. stock market have now left its U.S. rivals far behind. Sydney and Toronto have gained on Melbourne and Montreal,

respectively. S‹o Paulo has overtaken Rio de Janeiro, while Bombay has outstripped New Delhi and Calcutta. Paris today controls more of the financial sector than it did ten years ago, relegating once-important stock markets like Lyon to provincial status. In 1997 Frankfurt's market capitalization was five times greater than all other regional markets in Germany combined; in 1992 it was only twice as large. And Zurich commands the Swiss market, leaving Geneva and Basel behind. In all these cases, this pattern is spurred by rapid growth in the leading cities rather than decay in secondary cities, many of which are also growing.

Internationally, concentration looms large as well. By the end of 1997, 25 cities controlled 83 percent of the world's equities under institutional management and accounted for roughly half of global market capitalization (around $20.9 trillion). Six or seven cities head this league; London, New York, and Tokyo combined hold a third of the world's institutionally managed equities and account for 58 percent of the global foreign exchange market. The distribution of institutional equity holdings is also important, for a financial center is more than just the sum of its exchanges.

Although London and New York still lead, the list of financial leaders also includes several cities without a strong stock market presence, such as Boston, Philadelphia, San Francisco, Geneva, Edinburgh, and Stockholm.

Last, the number of cities joining the global financial club is growing sharply as countries deregulate their economies. S‹o Paulo and Bombay emerged as players in international capital markets only after Brazil and India partially liberalized their own markets. When such cities join the financial major leagues, they become bridges to international business as foreign financial, accounting, and law firms enter their markets to handle the new cross-border operations. Although these newcomers may not budge global leaders from their market dominance, the overall volume of financial activity invariably rises.

LOCATION, LOCATION, LOCATION

Location still matters. Even as digitalization, decentralization, and denationalization radically change the way business is done, one still needs a central base, not just an address, to run financial operations. Both markets and firms need massive resources and highly concentrated advanced technology to function -- two factors that favor a geographical center. The complex nature of information requires highly educated personnel to analyze data and make that analysis available to other market players. In turn, those participants can gauge information and understand risk better when they have immediate contact with one another. Executing deals requires strategic combinations of top talent in law, accounting, and forecasting. For these reasons, cities rather than computers will still coordinate business and finance, and the two world leaders, New York and London, will continue to tower above the rest.

True, powerful trends of decentralization are underway. People, goods, and services move with growing ease; many corporate services and even markets are dispersing operations around the globe. In the 1980s, for example, all basic wholesale foreign exchange operations were in London; today they are scattered in Tokyo, Singapore, Hong Kong, Zurich, Frankfurt, and Paris. Indeed, the entire network of financial centers has grown markedly in the past decade. But even this trend is overshadowed by a more powerful wave of consolidation. The more a firm disperses operations, the more complex and centralized its top-level management operations become. For instance, electronic information networks like Reuters 2000 and Electronic Brokerage Systems (EBS) now handle about 60 percent of London's foreign exchange market. New telecommunications technology also makes central coordination for firms and markets easier. Many markets need a base for their operations and executive decision-making, given the complications of operating a widely decentralized business. Executing such tasks requires top talent and specialized services in technology, accounting, law, and economic forecasting. Even global electronic markets such as NASDAQ and E-Trade rely on traders and banks located in a major city like New York.

Sophisticated information needs also keep location important. There are two basic types of information, the first being simple data: At what level did Wall Street close? Did Argentina complete the public-sector sale of its water utility? Has Japan declared a major bank insolvent? Access to this kind of data is now global and immediate, thanks to the digital revolution. An investor in the Colorado Rockies can get the same kind of straightforward news that a New York trader can. But on another level lies a more complex type of information: analysis and interpretation, or the intelligence that results from concentrating market players and resources all in one city.

In principle, technical infrastructure for global communication, or connectivity, can be reproduced anywhere. But the social infrastructure for global connectivity points to the importance of location. Singapore, for example, has technology on a par with Hong Kong but not as many sophisticated market players in the global information loop. When investors cannot find more complex forms of information for major international deals in their existing databases, they can get it by exchanging data and ideas among talented, informed people. Location also counts for risk management, or how banks assess the potential risk of investments and holdings. Given that many major trading losses over the last decade have involved human error or fraud, the quality of risk management depends heavily on a firm's top people rather than on mere technology, like electronic surveillance. The fall of Barings Bank at the hands of a single trader and the enormous losses from hedge fund speculation at the Union Bank of Switzerland last autumn are two classic examples. Market players now see consolidating risk management operations in one site as more effective than keeping them separate.

HOT FUSION

What other trends are shaping the new financial capitals today? Merger mania -- driven by the growing thirst for greater resources -- is driving firms and markets into cross-border alliances unthinkable just a few years ago. Market concentration among the top 10 of the 50 largest financial services firms has roughly doubled from 1992 to 1997, and new kinds of mergers keep cropping up. Swiss Bank fused with Union Bank of Switzerland in 1997 to form the world's biggest financial institution, holding combined assets of $638 billion. Just four months later, that was topped by the Citibank-Travelers Group merger, valued at $698 billion. But even that record was dashed in November, when Deutsche Bank acquired Bankers Trust, combining assets of around $840 billion. Mid-sized firms could find it difficult to survive in a global market dominated by megagroups such as Merrill Lynch, Morgan Stanley Dean Witter, and Goldman Sachs. Mergers of accounting firms, law practices, and insurance brokers are also on the rise -- all enterprises that can provide global services. Analysts foresee a system dominated by a few international investment banks and about 25 major fund managers, along with a consolidated telecommunications industry offering them services spanning the globe.

Electronic networks too are testing the merger waters. Perhaps most spectacular was the announcement last summer that the London Stock Exchange and Frankfurt's Deutsche Bšrse were tying the knot to attract the top 300 shares from all over Europe and form a blue-chip European exchange. Feeling snubbed, Paris first reacted by proposing that major European exchanges create an alternative alliance. Then Madrid, Milan, Amsterdam, and Helsinki indicated interest in joining London and Frankfurt, and Paris decided its best option would be to jump aboard also rather than try to start up its own network. Elsewhere, the Chicago Board of Trade is now loosely linked to Frankfurt's Eurex, the largest European electronic futures exchange, and the Chicago Mercantile Exchange has hooked up with the Paris futures exchange, the MATIF. The New York Stock Exchange is considering partnerships with exchanges in Canada and Latin America and is already talking with the Paris Bourse. NASDAQ's parent is having similar discussions with Frankfurt and London.

GLOBAL BONDING

Globalization often implies abandoning national ties and embracing supranational alliances. In international finance, this is more than a buzzword; it is a reality. One example is the relationship between the "big three" -- London, New York, and Tokyo. Market participants often paint a picture of ruthless competition, which is only partly correct. In truth, the relationship is more complex. During the wave of deregulation in the 1980s, the big three already had some cooperative division of labor that continues today with increasing specialization. Despite all the talk of bitter competition in the roaring 1980s, a truly global market was emerging that was circulating capital through the leading financial centers before selling it repackaged at home. Since this trend intensified in the 1990s, cross-border strategic alliances have been multiplying between both firms and markets. Competition coexists with strategic collaboration and hierarchy. The eurozone will further reinforce this trend by eliminating the various financial functions, notably the foreign exchange trade, that bolstered the existence of an "international" financial center in each member country. It will also consolidate the government bond market, establish a single currency market with one short-term base interest rate, and eventually create a single equities market. In the future, national stock markets could coexist alongside a blue-chip pan-European stock exchange. In the bond market, meanwhile, the creditworthiness of the borrower will matter, not the national currency.

Major U.S. and European investment banks have set up specialized offices in London to handle their global business. Even French banks have set up some operations in London, inconceivable even a few years ago and still downplayed in national rhetoric. Nationality simply means less than it did even a decade ago. Global financial products are accessible in national markets and national investors can operate in global markets. Investment banks used to split up their analyst teams by country to cover a national market; now they tend to do it by industrial sector across all major countries.

Globalization has helped partly denationalize asset ownership and market regulation in many countries. Some caution is necessary, however, when assessing how far this trend can go. In many ways, it is only a partial step, albeit a necessary one for globalizing business practices. The modern financial system's sophistication stems from this limited approach: many firms and markets are "global" only when it comes to strategic institutional areas. National economies and consumer markets can stay basically unaltered. China is a good example. It adopted international accounting rules in 1993 to engage in global transactions. How much of its domestic economy did it have to change? Not much. When China launched its 100-year bond in 1996, it aimed at selling it not in Shanghai or even Hong Kong, but in New York; rather than going through the U.S. government, it went through J. P. Morgan. At the same time, China left major domestic reforms unaddressed. In a similar vein, Japanese firms operating overseas adopted international standards long before Japan's government considered requiring them to be listed on the New York Stock Exchange -- an example of "strategic denationalization" that I have discussed in my book Losing Control?

Acquisitions of firms and property in crisis-ridden Asia will further intensify denationalization. In the year since the crisis exploded, Lehman Brothers bought Thai residential mortgages worth half a billion dollars at a 53 percent discount, the first auction conducted by the Thai government's Financial Restructuring Authority and a mere fraction of a $21 billion national fire sale of financial-company assets. Lehman Brothers has also acquired the Thai operations of the failed Hong Kong investment bank Peregrine. The Asian financial crisis has thus partially loosened national control over key sectors of economies that had never been open in the past even while absorbing massive inflows of foreign investment.

CAPITAL CAPITALS

London is the preeminent city for global finance today, in good part due to the numerous international firms that have located key operations and resources in the City, London's financial district. It leads the world in institutional equity management, holding over $1.8 trillion in assets at the end of 1997 -- a 48 percent increase from $1.2 trillion in 1996, boosted by the 25 percent stock market rise in the last two years (before the all-time high of July 1998 and the subsequent sharp fall). The mighty capital of the eurozone, Frankfurt, ranks a mere ninth in institutional equity holdings. London's stock market capitalization at November 1998 stood at over $2.1 trillion, topping those of Frankfurt and Paris combined. London, together with another eurozone outsider, Zurich, accounts for over half of all market capitalization in Europe. It is arguably the world's biggest net exporter of financial services, with a surplus of $8.1 billion in 1997. It also leads in international bank lending, consulting on cross-border mergers and acquisitions, and trading and issuing international bonds. Finally, London is the leading global foreign exchange center, with a 40 percent market share, far ahead of New York.

What London lacks is Wall Street's brilliant financial engineering and Frankfurt's location as the capital of the eurozone. It does not hold Japan's enormous savings accounts or Hong Kong's strategic advantage as a link between global capital markets and China. Much of London's prominence is due instead to the leading U.S. and European investment firms that have located key operations there. U.S. firms in London are using the City on expectations that eurozone equity markets will double, if not triple, over the next decade -- an addition of over $10 trillion by 2010. Hence, major U.S. names like Merrill Lynch, Morgan Stanley Dean Witter, Citigroup, and Mellon Bank are slashing their staffs around the world but continuing to build up in London and acquire U.K. investment firms.

London's unique denationalized platform for global operations gives it its competitive advantage. One important factor is its flexible regulation policy, which basically leaves wholesale financial traders alone and concentrates only on retail finance to protect consumers. Its legal and accounting systems are and will remain the international standard. Its regulatory framework is far more flexible for wholesale finance than the codified systems of continental Europe. While European banks arranged over half of all cross-border lending in 1997, London (and to a lesser extent New York, Hong Kong, and Singapore) handled the value-added activities and syndication. Its status as an offshore market has also reinforced its internationalization; the electronic network between the London Stock Exchange and Frankfurt's Deutsche Burse will only reinforce this development, as will the emergence of a pan-European exchange. And London's long tradition of empire has left it with bridges throughout the world. Together, these features will make London the ultimate deregulated international center for finance, business, and non-European dealings in the euro -- and not, as many commentators assert, a loser in the new eurozone.

New York is the only other city poised for that kind of supremacy. New York dominates in another way by offering market innovations and new financial products. Wall Street -- still the Silicon Valley of finance -- has made U.S. investment firms leaders in the global market. The strength of U.S. banks and equity markets, and the size and quality of its domestic capital markets, will also continue to power New York. The United States produces only a fifth of global gross product but almost half the total value of the world's equity markets. Furthermore, New York's top investment banks often operate through branches abroad and thus feed the strength of other centers. The top five firms handling mergers and acquisitions in Europe in 1997 were from the United States. (The first European firm on the list, Lazard Freres, ranked only sixth.) Among the 50 biggest financial services firms in the world in 1997, the top ten handled 72 percent of all transactions; eight of these firms were American.

New York is by far the biggest domestic capital market. The New York Stock Exchange is the world's largest, listing about 3,000 companies, albeit for an overwhelmingly domestic market. Even this is changing, however. The NYSE now has well over 300 foreign firms listed, thanks to the recent rash of international initial public offerings. In contrast, the Tokyo stock exchange is still losing foreign firms, even after the government eased listing requirements and costs. The NYSE will also begin trading in decimals rather than fractions over the next few years to move closer to international standards. Finally, the U.S. Securities Exchange Commission has also lowered some barriers to foreigners and approved new international accounting standards for all issuers regardless of national origin.

DISCREDITED IN ASIA

The Asian crisis has cast a long shadow on the region's preeminent financial centers, Hong Kong and Tokyo. Despite Hong Kong's unique role as a bridge between the world economy and China and its abundance of specialized services, it has yet to overcome the shocks of financial turbulence. In 1997, it lost 23 percent of the value of assets under its management. Stocks and real estate have tumbled by half in the past year and may fall further, even though they recovered a quarter of their value last autumn. This collapse has been led by a recent slump in property prices, since property-linked companies dominate the stock index. To stem these losses, the government placed around $3 billion in foreign reserves in August into stock purchases -- to no avail. This failure made clear that no government can thwart through intervention a sustained attack on its markets. Combined debt has reached 150 percent of gross domestic product, one of Asia's highest debt ratios. Stores all over Hong Kong are going bankrupt, with the best ones bought up by foreign firms at fire-sale prices.

Although the outlook for Tokyo is not much brighter, recent steps toward deregulation could put it back on track as the financial powerhouse in Asia that it was in the 1980s. This time around, deregulation will see more of Japan's assets and business falling under international management. This includes the $10 trillion in bonds, savings, and pension schemes held by Japanese citizens planning for retirement. The global capital market simply cannot bypass such enormous resources. In addition, the collapse in domestic prices and the yen has made Japanese firms and real estate attractive targets for foreign investors. Merrill Lynch has already bought 30 branches of Yamaichi Securities, while Societe Generale is acquiring 80 percent of Yamaichi International Capital Management. Citigroup has become the biggest shareholder of Nikko, Tokyo's third largest brokerage, and Toho Mutual Insurance recently announced a joint venture with G.E. Capital. Foreign investors are also eyeing valuable property in the Ginza, Tokyo's high-priced shopping and business district -- an ironic twist on Mitsubishi's acquisition of New York's Rockefeller Center a decade ago.

Nevertheless, Tokyo still lacks the right combination of resources for producing and exporting sophisticated financial services. In this regard, the city functions as a sort of plantation economy. It produces a raw commodity -- money -- but lets London and New York process it. In the late 1980s, it seemed like Tokyo was ascending toward global financial status. Top investment banks and brokerages set up shop in Japan, and Tokyo looked as if it could surpass Hong Kong as a specialized, state-of-the-art financial center. The bursting of the real estate bubble ended Tokyo's rise, but its role would have been limited even without the crisis. As long as Tokyo refused to accept international accounting and financial reporting norms, its potential was always restricted. Tokyo stayed too Japanese. This is only now changing because the financial crisis is letting foreign firms enter Asian markets on an unprecedented scale, bringing Tokyo the sophisticated denationalized expertise necessary for world status. This trend was already illustrated in December when Japan's largest consumer loan company, Takefuji, listed on the Tokyo stock exchange with Warburg Dillon Reed as a lead underwriter -- the first time a Japanese company ever used a foreign broker to list in Tokyo.

**5. The results of the globalization of world financial markets**

Globalization is a process which is not yet finalized and will lead to a world in which countries and economic areas become more and more interdependent.In some quarters, the unfolding of the process of globalization has given rise to the view that central banks are becoming increasingly "powerless". As I have shown, the challenges posed to monetary policy by the increasing globalization of financial markets are of two orders. First, the reactions to monetary policy decisions can be rapid and widespread. Second, monetary policy needs to take into account structural changes to the economic environment, in the form of more interdependence amongst economies. These challenges require clear and honest communication on the part of central bank and a robust as well as encompassing monetary policy strategy which is able to cope with structural economic change. In conditions of globalized financial markets, it is of the utmost importance that monetary policy pursues as its primary objective the maintenance of price stability. This is the best contribution that monetary policy can make to economic growth over the longer run and will contribute to efficient and stable financial markets.

Although it is difficult to find a simple relationship between financial globalization and growth or consumption volatility, there is some evidence of nonlinearities or threshold effects in the relationship. Financial globalization, in combination with good macroeconomic policies and good domestic governance, appears to be conducive to growth. For example, countries with good human capital and governance tend to do better at attracting foreign direct investment (FDI), which is especially conducive to growth. More specifically, recent research shows that corruption has a strongly negative effect on FDI inflows. Similarly, transparency of government operations, which is another dimension of good governance, has a strong positive effect on investment inflows from international mutual funds.

The vulnerability of a developing country to the risk factors associated with financial globalization is also not independent of the quality of macroeconomic policies and domestic governance. For example, research has demonstrated that an overvalued exchange rate and an overextended domestic lending boom often precede a currency crisis. In addition, lack of transparency has been shown to be associated with more herding behavior by international investors, which can destabilize a developing country's financial markets. Finally, evidence shows that a high degree of corruption may affect the composition of a country's capital inflows, thereby making it more vulnerable to the risks of speculative attacks and contagion effects.

Thus, the ability of a developing country to derive benefits from financial globalization and its relative vulnerability to the volatility of international capital flows can be significantly affected by the quality of both its macroeconomic framework and its institutions

The objective of the paper is not so much to derive new policy propositions as it is to inform the debate on the potential and actual benefit-risk trade-offs associated with financial globalization by reviewing the available empirical evidence and country experiences. The main conclusions are that, so far, it has proven difficult to find robust evidence supporting the proposition that financial integration helps developing countries to improve growth rates and reduce macroeconomic volatility.

Of course, the absence of robust evidence on these dimensions does not necessarily mean that financial globalization has no benefits and carries only great risks. Indeed, most countries that have initiated financial integration have continued along this path despite temporary setbacks. This observation is consistent with the notion that the indirect benefits of financial integration, which may be difficult to pick up in regression analysis, could be quite important. Also, the long-run gains, which in some cases have not yet been realized, may exceed the short-term costs. For instance, although Europe's efforts to achieve monetary integration resulted in its being buffeted by severe and costly crises in the early 1990s, these efforts eventually brought about the transition to the single currency in use throughout much of Europe today.

Although it is difficult to distill new and innovative policy messages from the review of the evidence, there appears to be empirical support for some general propositions. Empirically, good institutions and quality of governance are important not only in their own right but also in helping developing countries derive the benefits of globalization. Similarly, macroeconomic stability appears to be an important prerequisite for ensuring that financial integration is beneficial for developing countries. In this regard, the IMF work in promulgating standards and codes for best practices on transparency and financial supervision, as well as sound macroeconomic frameworks, is crucial. These points may already be generally accepted; the contribution of this paper is to show that there is some systematic empirical evidence to support them. In addition, the analysis suggests that financial globalization should be approached cautiously and with good institutions and macroeconomic frameworks viewed as preconditions.

This paper does not tackle the appropriate choice of an exchange rate regime or of monetary and fiscal policies. It is worth noting, however, that fixed or de facto fixed exchange rate regimes and excessive government borrowing appear to be major factors that have compounded the problems that some developing countries have had in managing capital flows. We leave a systematic examination of these issues for future research.

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**Theme of the lecture №5. The labor market in conditions of globalization of the world economy**

**Plan of lecture:**

1. **Economic globalization, International trade and The Labor Market.**
2. **Foreign investment, international movement of capital and national labor markets**
3. **International labor migration as a factor and a consequence of the globalization of the world economy**
4. **Convergence of the principles of organization and regulation of national labor markets - the role of international organizations and integration associations**

**1. Economic globalization,International trade and The Labor Market.**

Economic globalization, broadly defined as the process of integrating national economies into a world economy or a single marketplace, has elevated the importance of trade for developing and developed economies alike.

***International trade*** is an exchange of goods or services along international borders. This type of trade allows for a greater competition and more competitive pricing in the market. The competition results in more affordable products for the consumer. The exchange of goods also affects the economy of the world as dictated by supply and demand, making goods and services obtainable which may not otherwise be available to consumers globally.

Since the 1970s the world economy has been going through substantial changes through which new patterns of production, new technologies and new labor control systems have been introduced (Standing, 1999). Globalization has brought major transformations in goods, capital and labor. To begin with, in terms of goods, “production has changed from a linear assembly line (Fordist production) to a networked form of production that depends on outsourcing or subcontracting around the world to different manufacturers” (Bayes, 2005: 7), becoming a more flexible form of production, able to adapt itself to varying conditions related to resources and other factors of production. In this sense, the new form of production is capable of creating or abolishing jobs without any time limit (Bayes, 2005).

Second, with the deregulation of capital flow restrictions, international capital flows have been moving easily into both developed and developing countries in the form of foreign direct investment, loans and bonds. While this rose the accessibility to different economic opportunities for international capital, it brought together capital’s ease of entering and exiting any country that served up high profit possibilities. This ease usually left many developing countries with bankruptcies, current account deficits, and financial crises and eventually with more poverty and lost jobs (Standing, 1999).

Third, in terms of labor, companies have been shifting their location of production to cheap-labor abundant parts of the world mostly because of the cost reduction motive that still continues to drive them.

At present, the world is experiencing a complex and contradictory process of globalization of the economy, within which profound transformations are carried out in the entire system of the world economy and in national economies.

Labour market is nominal market in which workers find paying work, employers find willing workers, and wage rates are determined.

Labour markets may be local or national (even international) in their scope and are made up of smaller, interacting labour markets for different qualifications, skills, and geographical locations. They depend on exchange of information between employers and job seekers about wage rates, conditions of employment, level of competition, and job location.

International trade and international capital flows link national economies. Although such links are considered to be beneficial for the most part, they produce an interdependence that occasionally has harmful effects. In particular, shocks that emanate in one country may negatively impact trade partners. On the trade side, links through terms-of-trade movements have been studied extensively, and it is now well understood that, say, capital accumulation or technological change can worsen a trade partner’s terms of trade and reduce its welfare. On the macro side, the transmission of real business cycles has been widely studied, such as the impact of technology shocks in one country on income fluctuations in its trade partners.

Although a large literature addresses the relationship between trade and unemployment, we fall short of understanding how these links depend on labor market rigidities.

Indeed, measures of labor market flexibility developed by Botero et al. (2004) differ greatly across countries.

The rigidity of employment index, which is an average of three other indexes—difficulty of hiring, difficulty of firing, and rigidity of hours—shows wide variation in its range between zero and one hundred (where higher values represent larger rigidities). Importantly, countries with very different development levels may have similar labor market rigidities. For example, Chad, Morocco and Spain have indexes of 60, 63 and 63, respectively, which are about twice the average for the OECD countries (which is 33.3) and higher than the average for sub-Saharan Africa. The United States has the lowest index, equal to zero, while Australia has an index of three and New Zealand has an index of seven, all significantly below the OECD average. Yet some of the much poorer countries also have very flexible labor markets, e.g., both Uganda and Togo have an index of seven.

We develop in this paper a two-country model of international trade in order to study the effects of labor market frictions on trade flows, productivity, welfare and unemployment. We are particularly interested in the impact of a country’s labor market rigidities on its trade partner, and the differential impact of lower trade impediments on countries with different labor market rigidities. Blanchard and Wolfers (2000) emphasize the need to allow for interactions between shocks and differences in labor market characteristics in order to explain the evolution of unemployment in European economies. They show that these interactions are empirically important. On the other side, Nickell et al. (2002) emphasize changes over time in labor market characteristics as important determinants of the evolution of unemployment in OECD countries. We focus the analysis on search and matching frictions in Sections 1.2-1.5, and discuss in Section 1.6 how the results generalizations to economies with firing costs and unemployment benefits.

**2. Foreign investment, international movement of capital and national labor markets.**

***Foreign investment*** is private capital investment by firms of one country into those of another. Capital is one of the factors of production (labor and land are the others) and it is the most mobile of them on international level. Development of international capital movements is based on the existence of an international monetary system and financial infrastructure. That is why the real growth of international capital movements started only in the 19th century when modern financial institutions emerged. ***International capital movement*** is any transfer of capital between countries (with the goal of obtaining extra profit). It can have the form of physical capital or financial capital. The profit can be interest rate, dividend, share on the profit of corporation abroad or rent.

***The labor market*** is the most important subsystem of the economy and serves one of the most reliable indicators of change. It is nominal market in which workers find paying work, employers find willing workers, and wage rates are determined.

The actuality of the study of the world labor market in the context of globalization is defined as importance of the labor market subsystem for a modern market economy, and need to comprehend the changes that have taken place in the last twenty years in the world economy, as well as the impact of ongoing processes on labor relations.

In connection with the globalization of the world economy, the question arises as to the globalization of the labor market. Deep changes in the processes of labor activity, in the organization of labor, in the structure of employment, in labor relations pose to economic science the problem of the evolution of the labor market. Under these conditions, the study of issues of international migration and problems of international regulation of labor relations comes to the forefront. The distribution and use of labor resources acquires a transboundary nature, therefore it is of interest to study the degree of state regulation of the labor market within the national state and supranational association.

The importance in studying the effects of globalization on the labor market lies in the fact that earnings from labor represent the main source of income for the great majority of the inhabitants of developing nations and especially of the poorer groups of workers, who lack ownership of any other material assets.

Labour markets may be local or national (even international) in their scope and are made up of smaller, interacting labour markets for different qualifications, skills, and geographical locations. They depend on exchange of information between employers and job seekers about wage rates, conditions of employment, level of competition, and job location.

International capital flows associated with investments in firms in which a foreign investor acquires a controlling stakeare classified as direct investmentsand those associated with stocksor bonds without a controlling stakeas portfolioor equity investments. Thatcontrol can be exercised in many ways and to varying degreescomplicates measurement of foreign direct investment at the macro level. TheOrganization for Economic Development (OECD)International Monetary Fund(IMF) , United Nations Conference on Trade and Development (UNCTAD), and U.S. Department of Commerce, among others, classify a firm as “foreignowned national investor (the “parent”) holds at least 10 percentof the equity of a local firm(the “affiliate”).

The somewhat arbitrary 10 percent threshold is meant toreflect the notion that large stockholders, even if they do not hold a majority stake, will have a strong say in a company’s decisions and participate in its management.Total FDI is an account in the national balance of payments that sums up, at the country level,the total value of the affiliate equity, reinvested earningsand net inter-company loansattributable to foreign parents.An FDI flowis a change in FDI, yearto-year.Note that FD thus defined obscures some of the interesting variation in the actual activities of foreign firms in a host economy. Specifically, FDI statistics fail to capture the portion of the foreign enterprise financed by local debt or equity.They do,on the other hand, capture components that do not necessarily involve a movement of financial capital across borders in the current period, for example increasesin affiliate reinvested earnings. Increases in inter-company loans will also increase FDI, but there is evidence that MNCs adjust levels of inter-company loans opportunistically on the basis of tax rates (Blouin et al., 2014), in which case such FDI inflows are likely to be driven byfinancial rather than operational considerations. As noted by Hausmann & FernandezArias (2000): “FDI is not the firm and its assets. Instead, it is just one of the sources of financing for the firm.”Therefore, recent research has increasingly analyzed firm-level operationaldata in order to better understand the impact of FDI on host economies. Foreign investment can take place via theconstruction of new production facilities (greenfield investment) or via a merger or acquisition 6anexisting local company (brownfield investment).In 2007,the value of recorded mergers andacquisitions stood at over 50 percent of total FDI flows, but with some interesting variation acrosscountries(Antràs & Yeaple, 2014). Investment activity between developed economies has tended to take the form of mergers and acquisitions (M&As), developed-developing country FDI the form of greenfield investment.Although foreignowned companies can be stand-alonefirms, research has focused on activities of multinational corporations (MNCs), defined as firms that own and control assets in atleast two countries (Caves, 2007). MNCs represent only a small share of all firms, but account for a significant amount of global economic activity including roughly 90 percent of U.S. exports and imports (Bernard et al. 2009). What drivesfirms to transact across borders?Motivationsfor FDI vary, but the economic literature identifies three broad types: horizontal, vertical, and complex. Horizontal FDI,which involves establishing abroadan affiliate in a firm’s primary industry to servecustomersin theforeign market, is observedwhen the cost of doing so islessthan the cost of producing at home and shipping to the end market. Vertical FDI, whichinvolvesestablishinga foreign affiliate that produces inputs to or provides intermediate servicesassociated with a final product,is a response to differences across countries in production costs or availability of specific factors and inputs (e.g.,raw materials).The emergent concept of“complex” FDI reflectsthe increasing sophistication of global production and distribution chains in which firms’positioning can be drivenbby both horizontal and vertical motivations

***How does Globalization affect the labor market?***

**Positive Effects**

* Positive effects can occur as a result of the increased capacity of developing countries to create new opportunities for work and production following the alleviation of price distortions with respect to both labor and capital.
* FDI (Foreign direct investment) has both direct and indirect effects on employment creation in the recipient countries. This depends on the size and type of investment, the type of technology adopted and the ability of the host country to master the imported technology and adapt it to its needs.
* FDI also has indirect effects on employment through the vertical links to the TNCs, and there may also be spillover effects of TNCs on local science, technology, education and training.
* Negative Effects
* Negative effects occur as a result of large-scale technological developments that accompany this phenomenon, which will reduce the demand on unskilled labor
* Even direct foreign investment does not care for cheap workers but only for highly skilled workers.
* The traditional nature of “work” might disappear due the rapid advances in technology, while at the same time creating new and innovative occupations in favor of the highly specialized professions.
* An increase in hidden unemployment, a lack of new job openings, and a deterioration of real wage rates are the consequences of globalization in most developing economies, which were unable to adapt the new technologies.
* Moreover if the labor clause, will be enforced through the WTO, this will have a negative impact on economic growth and employment in many developing countries, where child labor exists and where working conditions are miserable.
* Most trade liberalization benefits will be received by the manufacturing-producing countries, while the smallest share will be going to the agricultural-producing countries (developing countries).
* In addition policies of structural adjustment such as privatization imply an increase in unemployment since privatization is accompanied usually by a reduction in the demand for labor.
* Finally the theoretical predictions about the employment consequences of trade liberalization are based on assumptions of full employment of resources and flexible labor markets. These assumptions might not hold true in developing countries where labor markets are inflexible due to structural factors.

Labor markets may be ***local*** or ***national*** (even international) in their scope and are made up of smaller, interacting labor markets for different qualifications, skills, and geographical locations. They depend on exchange of information between employers and job seekers about wage rates, conditions of employment, level of competition, and job location. ***The local labor market*** is the labor market of the territory, which is a unit of administrative-territorial division. The local labor market - in foreign practice - the labor market of a territory with a radius of 30-35 km. ***National labor market*** covers all social production - through each branch receives its required personnel not only given professional qualification structure, but also certain cultural and ethical labor advantages, adequate requirements of the economy.

This year, the labor market in Kazakhstan recorded positive dynamics. According to Committee on MNE RK statistics the number of economically active population in the 1 quarter 2017, in comparison with an indicator of the similar period of 2016, increased by 57,9 thousand people (or for 0,6%) and made 8 893,4 thousand people, the number of the busy population made 8 454,2 thousand people or increased by 0,8%

**3. International labor migration as a factor and a consequence of the globalization of the world economy**

International labor migration is defined as the movement of people from one country to another for the purpose of employment. Today, an estimated 105 million persons are working in a country other than their country of birth. Labor mobility has become a key feature of globalization and the global economy with migrant workers earning US$ 440 billion in 2011, and the World Bank estimating that more than $350 billion of that total was transferred to developing countries in the form of remittances. However, despite the efforts made to ensure the protection of migrant workers, many remain vulnerable and assume significant risks during the migration process. When properly managed, labor migration has far-reaching potential for the migrants, their communities, the countries of origin and destination, and for employers. While job creation in the home country is the preferred option, demographic, social and economic factors are increasingly the drivers of migration. As a result, a growing number of both sending and receiving countries view international labor migration as an integral part of their national development and employment strategies. On one hand, countries of origin benefit from labor migration because it relieves unemployment pressures and contributes to development through remittances, knowledge transfer, and the creation of business and trade networks. On the other hand, for destination countries facing labor shortages, orderly and well-managed labor migration can lighten labor scarcity and facilitate mobility.

International labor migration at first glance not as large compared to the cross-border movement of capital and goods. However, its long-term effects it can cause geopolitical upheaval, not comparable with financial crises or trade wars. This is graphically illustrated by the example of Western Europe, which is a result of many years of promoting immigration of labor suddenly faced with the ethnic and demographic and religious issues.

International migration of population associated with the departure from the country, affects the population of the value of the migration balance. Net migration is formed by the difference between the number of people who moved from the country concerned (emigrants) and the number of people who moved to this country (immigrants).

In the process of migration involves the donor countries and recipient countries.

Donor countries are economic losses from the loss of qualified professionals, whose training is embedded domestic capital. Reduced intellectual stratum of the nation. In countries with high migration mobility might get an unfavorable demographic situation.

In recipient countries, on the contrary, improves the quality of the workforce, is the harmonization of the labor market and the economy on training. However, there may be negative effects on the labor market and in the social sphere. To isolate the flows of migrants used the concept of emigration and immigration.

Emigration - leaving the citizens of one country to another country for the purpose of employment or a change of residence and citizenship. Emigration is the action of forced resettlement from a country to another. Expatriate living on the border of two worlds.Geographical boundaries of time and transformed into a metaphysical border. Emigrant arrives in a state of incessant "crossing borders", moving from their own cultural space in someone else's back and forth.

Immigration - entry of nationals of another country for the purpose of employment or permanent residence. Traditionally, there are four types of immigration: employment, including seasonal workers, family reunification, refugees and illegal.

One of the forms of labor migration is the "brain drain" - immigration of skilled professionals in highly developed countries mainly from developing countries and Eastern Europe.

Classical country of immigrants are the United States, where for the first 140 years of the history of immigration was smooth. Natural selection and strong-willed people passionary mostly from Europe, who have decided to cross the Atlantic Ocean, contributed not only to reduce the labor shortage in America, but also provided a high rate of economic growth. The flow of immigrants declined sharply during World War II and received 20 years of immigration laws.

However, after the Second World War, immigration restrictions were lifted, and the annual influx of legal immigrants increased from between 50's to 80's from 250 to 500 thousand. In legal immigration in this period marked a large-scale illegal immigration from Mexico, the Caribbean and Latin America, amounting to 500 thousand people a year. In the 90 years of the new wave of immigrants has been associated with the collapse of the Soviet Union and the socialist camp.

The current U.S. immigration laws establish quotas for the entry of individual countries allow family reunification and allow the entry of political exiles. As a result of large-scale liberal immigration policies (until September 11, 2001) The United States has received substantial benefits at the expense of the young, educated and skilled workers and full employment in the economy.

Labor migration has created many social and economic problems in the developed countries, including the criminal business, and the shadow economy.

At the beginning of the third century of almost 3% of the population working outside their own countries, in developed countries the immigrants make up more than 6% of the population.

International labour migration is a multidisciplinary issue that cuts across all major sectors of the Ilo’s work: labour standards, employment, social protec-tion and social dialogue. The Ilois unique in being a tripartite organization con-sisting of the three main partners – governments, employers and workers – with major stakes in employment issues, including labour migration. Governments administer migration and admission policies, employers hire migrant workers, and trade unions are concerned with the working conditions and welfare of both native and foreign workers. The Ilo’s mandate across the entire gamut of labour issues, its focus on vulnerable workers (including migrant workers), its unique tri-partite constituency, its long-standing experience in promoting social justice inments, social partners, and other stakeholders in international labour migration policy and practice.The context of international labour migration has changed substantially since the Ilomigrant worker instruments were developed in the 1940s and 1970s. The Migration for employment convention (revised), 1949 (no. 97), was developed in a context when there was a need for large-scale transfers of labour for post-war reconstruction. The Migrant Workers (Supplementary Provisions) convention, 1975 (no. 143), was adopted in a context of rising irregular migration movements and irregular employment (Ilo, 1999a). These instruments were drafted with state-organized migration in mind, rather than spontaneous migration or market-driven migration. The growth of the large private recruitment industry that exists today was not foreseen. However, the Private employment agencies convention, 1997 (no. 181), addresses the growth in the private recruitment industry and is applicable to all workers including migrant workers. Similarly, at the time the first two conventions were developed, women migrants were mostly found in the context of family reunification. This is no longer the case: “times have changed, and today more and more women migrate not to join their partner, but in search of employment in places where they will be better paid than in their home country” (Ilo, 1999a, p. 244). Whereas the 1949 and 1975 conventions were originally conceived with a view to covering migration for either immediate or gradual settlement, there has since been a proliferation of temporary worker programmes under which individuals migrate for a specific period of time to work and then return home. Since 1975 irregular and clandestine migration and irregular employment have increased to such an extent that many destination countries have chosen to give priority to controlling migration flows. another important change since the two migrant worker conventions were developed is the recent emphasis on the linkages between migration and development, which highlights the positive aspects of international migration for both origin and des tination countries.

**The main causes of international migration of labor:**

- The difference in the levels of remuneration in the donor countries and the countries of receptors,

- Unemployment in developing countries,

- The lack of cheap labor is not exclusive areas of the economy of developed countries.

The main causes of migration in the past had different rates of population growth, economic conditions, war and colonization. This led to a mass migration of Greeks, Jews, Germanic tribes, Scandinavians, Turks, Russian, Chinese and other peoples. Only from 1821 to 1924 55 million Europeans migrated to the New World, 35 million of them - in the United States. At the end of the twentieth century, after the fall of the Berlin Wall, the number of international legal migrants was 100 million, refugees and illegal migrants - 30 million

The United States is the most attractive country for immigrants, although their share in the period 1970 - 2000 years. reduced from 17 to 8% of the national population. A particularly high proportion of immigrants in California (25%) and New York (16%).

The process of globalization of the world sprang from a large-scale migration. In today's world of cross-border movement of productive and financial capital is carried out at a higher rate than the labor force. Socially oriented economy in developed countries provides stability in the labor market by curbing the growth of unemployment, the dynamics of wages paid, health and education, and ethnic politics.

4. **Convergence of the principles of organization and regulation of national labor markets - the role of international organizations and integration associations.**

Another manifestation of the globalization processes in the field of employment can be regarded as the convergence of the principles of organization and regulation of national labor markets, a trend of the establishment of conscious efforts by the international community to recognize all the minimum acceptable labor standards. With the assistance of the International Labor Organization, which began its activity in 1919, most countries ratified ILO Conventions governing the observance of minimum labor standards (prohibition of forced labor, compliance with safety, promotion of employment, equal opportunities in employment and non-discrimination, limitation of working hours, employment of certain categories of the population in certain jobs (women and children), and others.). By ratifying the Convention, the country assumes the obligation to implement the relevant standards. Since the ILO's foundation was made more than 180 such conventions. However, the trend towards unification of labor standards should not be taken literally - as the equalization of wages and conditions in the different countries. The fact that the discussion of this issue in the framework of international organizations (such as the ILO and WTO) face different approaches, developed and presented by the majority of developing countries.

International organizations are currently involved in the development and implementation of migration policies in various countries around the world. Along with the ILO, it is the United Nations Population Commission, which subsidizes national migration programs, the International Organization for Migration (MOM). In Western Europe, there is an Intergovernmental Committee for European Migration.

Another aspect of the development of national labor markets in the modern era is the interaction and interpenetration, including mergers, of similar markets within the framework of integration associations.

***Integration association*** – economic group formed to regulate the integration processes between the participating countries

International economic integration is often considered to be the most mature stage of development of processes of internationalization and globalization of economic life within a specific region. In this context it is important to note that the countries - participants of the integration groups tendency to blur the boundaries between national labor markets can be seen much more visibly than a similar trend in the global economy as a whole. Thus, in the most developed regional organization of the integration type - the European Union - in the 1990s, and at the beginning of the XXI century. along with striking successes in the formation of an economic and monetary union, administrative barriers and formal restrictions for labor migration within the EU were eliminated and a nominally unified labor market uniting the national markets of member countries was created. Since 1968 citizens at that time still EEC have acquired the right to work in any other country of the Community, and since January 1, 1993, the last barriers to free migration to any of the countries of the Union have been removed with the purpose of carrying out labor activity.

For example, in the European Union managed to eliminate administrative barriers and formal restrictions on labor migration within the EU, and was created by a nominally unified labor market, combining the national markets of member countries. Since 1968, the citizens of the then EEC were granted the right to work in any other country of the Community, and on January 1, 1993 have been removed the remaining barriers to the free migration of any of the EU countries to implement the work.

**The main integration associations.**

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| Integration goals (integration stage) | Name (year of establishment) | Member states |
| Free-trade area | NAFTA North American Free Trade Agreement (1994) | 3: Canada, Mexico, and the United States |
|   | APECAsia-Pacific Economic Cooperation(1984) | 21: Australia, Brunei, Vietnam, Hong Kong, Indonesia, Canada, Republic of China, Republic of Korea, Malaysia, Mexico, People's Republic of China, New Zealand, Papua New Guinea, Peru, Russian Federation, Singapore, USA, Thailand, The Philippines, Chile, Japan |
|   | АСЕАН Association of Southeast Asian Nations (1967) | 10: Brunei, Vietnam,Indonesia, Cambodia, Laos, Myanmar, Malaysia, Philippines, Singapore, Thailand |
|   | ЕАСТ European Free Trade Association (1960) | 4: Iceland, Liechtenstein, Norway, Switzerland |
|   | Latin American Integration Association –LAIA (1980) | 13: Argentina, Bolivia, Venezuela, Brazil, Colombia, Cuba, Mexico, Paraguay, Peru, Chile, Uruguay, Ecuador, Panama. |
| Customs union | Southern African Customs Union (SACU) (1969) | 5: Botswana, Lesotho, Namibia, Swaziland, South Africa |
|  | Eurasian Customs Union (EACU) (2010) | 5: Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia |
|  common market | (MERCOSUR) Southern Common Market (1991) | 4:Argentina, Brazil, Paraguay, Uruguay |
|   | Central American Common Market — CACM (1960) | 5: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua |
|   | Andean Community (1969) | 4: Bolivia, Colombia, Peru, Ecuador |
|   | Caribbean Community— CARICOM (1973) | 15: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Montserrat (Brit.), Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Jamaica |
|  | Common Market for Eastern and Southern Africa — COMESA (1993) | 19: Burundi, Democratic Republic of the Congo, Zambia, Zimbabwe, Egypt, Kenya, Comoros, Libya, Mauritius, Madagascar, Malawi, Rwanda, Swaziland, Seychelles, Sudan, Uganda, Eritrea, Ethiopia. |
|  Economic Unions | (EU) European Union (1957) | 28: Belgium, Germany, Italy, Luxembourg, the Netherlands, France (1958); Great Britain, Ireland and Denmark (1973); Greece (1981); Spain and Portugal (1986), Austria, Finland and Sweden (1995); Estonia, Hungary, Poland, Czech Republic, Slovenia, Cyprus, Lithuania, Slovakia, Latvia, Malta (2004), Bulgaria, Romania (2007), Croatia (2013) |
|   | Benelux Union(1958) | 3:Belgium, Netherlands, Luxembourg |
|   | Gulf Cooperation Council — GCC (1981) | 6:Bahrain, Qatar, Kuwait, Oman, United Arab Emirates, Saudi Arabia |
|   | South Asian Association for Regional Cooperation — SAARC (1985) | 7:Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka |
|   | Arab Maghreb Union (AMU) (1989) | 5: Algeria, Libya, Mauritania, Morocco, Tunisia |
|   | Economic Community of West African States — ECOWAS (1975) | 15:Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo |
|   | Economic Community of the Great Lakes Countries — CEPGL (1976 ) | 3:Burundi, Democratic Republic of the Congo, and Rwanda |
|   | Economic and Monetary Community of Central Africa — CEMAC (1964) | 6:Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon |
|   | South Pacific Regional Trade and Economic Cooperation Agreement (Sparteca) (1981) | 15: Cook Island, Australia, Fiji, Marshall Islands, Micronesia, Nauru, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu, Kiribati, and Niue |
|  | Commonwealth of Independent States (CIS) (1991) | 11: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, Ukraine |

Convergence is an elusive concept, as is its counterpart—divergence, or diversity—especially when they are conscripted, as is the case here, to illuminate complex developments affecting a number of countries that exhibit a remarkable range of contrasts and similarities in their industrial relations systems. Ferner and Hyman’s equivocation sums it up well: “There has been convergence of systems in some respects, but increased diversity in others” (1992). Here we want to explore first some onvergence trends in the countries of Western Europe and North America—a group roughly corresponding to the membership of the OECD.In the 1960s the idea of convergence became closely associated with the work of Clark Kerr and his collaborators—John Dunlop, Frederick Harbison, and Charles Myers—in what was at first called the “Inter-University Study of Labor Problems in Economic Development” (Kerr et al., i960). These four labor economists, ini­tially interested chiefly in problems of industrial relations and trade unionism as related to economic development, built on earlier work by Dunlop (1958) and other members of the Inter-University Study (Kerr and Siegel, 1955; Harbison and Myers, 1959) in making the func­tioning of industrial society the principal focus of their concern. Was there, they asked, a certain order, a logic, in a process that seemed al­most everywhere—whether East or West, or even South—to lead to the emergence of an industrial type of society? Which “elites” in in­dustrializing and preindustrializing societies were destined to becomethe initiators of the process leading to new social systems (industrial­ism)? How did they go about it? And irrespective of initial differences in national contexts, leadership, and ideology, did industrial societies tend to grow apart as they became ever more industrialized? Or did they exhibit, in due course, increasing similarities? In other words, did they converge? The answer by Kerr and associates, to which they clung over the years despite much criticism (see for example Gourevitch et al., 1984), was an unqualified affirmative.Eventually the focus of the inquiry shifted from the initial concern with questions of interest principally to labor economists to a much broader quest. It became instead a search for the factors that seemed to account for an apparently ever-closer rapprochement between Western (capitalist) and Eastern (communist) countries, particularly in terms of their overall development pattern. This change to a broader set o f, questions was reflected in the decision to change the title of the project from the 1960s onward to “The Inter-University Study of Human Resources in National Development” (Cochrane, 1979). Fifteen years after publishing their much-noticed work entitled Industrialism and Industrial Man (Kerr et al., i960), the group issued its Final Report(Dunlop et al., 1975). While conceding that several of their earlier themes regarding the formation of industrial societies had not stood the test of time and needed to be eformulated, they in­sisted that their conclusions with regard to the convergence of indus­trial systems merited a renewed statement of support. “Industrializedsystems,” they asserted, “tend toward partial, multiway convergence over a long period of time.” Some years later, Clark Kerr again ex­pressed onfidence in the inevitability of the convergence process when, in the course of a series of lectures, he stressed “the tendency of [industrial] societies to grow more alike, to develop similarities in structures, processes, and performances” (Kerr, 1983).It should be understood that, for the Kerr group, convergence was not required to be a state of perfect identity. Convergence was, in­stead, “concerned with the general direction of movement rather than current status alone” (Kerr, 1983:34). The central issue, thus, was not whether two or more situations were at any given time the same or not, “but whether they are getting closer to each other over time, al­though perhaps still far apart” (Kerr, 1983).

Supporters of the convergence thesis have continued to stress that convergence need not be total, but that partial change may also con­stitute valid evidence. For example, Reinhard Skinner argues that “to deny similarities altogether in the name of differences is to fall into the trap of total historical and cultural relativism. In short, conver­gence need not be ‘total’ and differences as well as similarities need to be taken into account” (Skinner, 1976). And in his most recent assess­ment Kerr was prepared to agree that neither convergence nor diver­sity would ever become the dominant force: “There will be constant adjustments between these eternally conflicting themes, but no per­manent settlement” (Kerr, 1983: 296).How does convergence relate to the area of industrial relations? What is there in industrial relations that may reasonably be expected to converge? There are no “protected” areas, no inherent restrictions. The operation of the labor market, the structuring of the legal frame­work, the role entrusted to government, the rules governing collective bargaining, the policies of the organizations representing employer and employee interests—all are capable of converging. Indeed, in re­cent decades some of the once striking contrasts between Western in­dustrial relations systems—especially between the continental countries of Western Europe and North America—appear to have be­come markedly less clear-cut. Convergence trends become particu­larly noticeable when one examines the role of law and government, the position of trade unions in society, and certain key attributes of collective bargaining.We shall consider, first, the role of law and government. Until the 1930s and into the 1960s, the role of law in the American system of in­dustrial relations was primarily concerned with the resolution of pro­cedural conflicts. The law prescribed procedures for determining the appropriate unit for collective bargaining, the principles for selection of an exclusive bargaining agent to represent the employees in a defined bargaining unit, and the boundaries separating permissible from proscribed conduct by the parties. By contrast, the substantive terms and conditions under which work was performed were left to the outcome of negotiations between the parties, who were to be helped along in their attempts to reach agreement by public or private agencies with special competence in resolving industrial disputes. In any event, the main body of American labor relations law, as promul­gated first in the Wagner Act (1935) and subsequently the Taft-HartleyAct (1947), determined the basic procedural rules governing the rela­tions between the parties, while the substantive terms of the employ­ment relationship were left predominantly to negotiations between the parties. Comparing European with American labor relations law, Derek Bok pointed out that “legislators in the United States have been more concerned with regulating and promoting collective bargaining and less inclined to pass laws that actually fix the terms and condi­tions of employment” (Bok, 1971:1417).To be sure, there were exceptions. The U.S. government did estab­lish some important substantive standards, among them particularly the minimum terms of employment that were contained in the Fair Wages and Hours Act (1938), but that legislation and related items had far more significance for the non-union sectors than for industries and occupations where collective bargaining to set the terms and con­ditions of work was well established or about to become so.In most Western European countries the situation was to a large extent and for a long time almost exactly the reverse. The formulation of procedural rules was more often than not left to be worked out by the parties—for example, regarding the presence of shop stewards in the workplace and the rights they were granted to perform their tasks — while the role of the state centered on the promulgation of substantive employment conditions, usually in the form of legally binding minimum standards. An important exception, one among a few, was the German codetermination legislation which prescribed in considerable detail the rules governing the operation of the works council system. But in Britain, France, and other countries, though not in Germany, such eminently procedural issues as employer recogni­tion of employee organizations for purposes of collective bargaining remained ultimately—that is, in the event of unbridgeable disagree­ments—within the decision-making prerogatives of employers, al­though in Britain union strength was often a match for the employer side. This was, of course, also far removed from practice in the United States, where procedural controversies were usually referred to spe­cialized administrative agencies operating within the framework of public policies and judicial decisions

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**Theme of the lecture № 6. The processes of regionalization in the world economy**

**Plan of lecture:**

1. **Essence, prerequisites and specificity of the modern stage of regionalization**
2. **Forms of international economic integration**
3. **Models of interstate integration: regional aspect**

**1. Essence, prerequisites and specificity of the modern stage of regionalization**

***Regionalization or regionalism*** is interesting and complex phenomenon that has many different aspects. Economic regionalism, institutional arrangements designed to facilitate the free flow of goods and services and to coordinate foreign economic policies between countries in the same geographic region. Economic regionalism can be viewed as a conscious attempt to manage the opportunities and constraints created by the dramatic increase in international economic ties since the end of World War II. Examples of economic regionalism include free-trade areas, customs unions, common markets, and economic unions.

Several schemes for regional economic integration were established in Europe in the decades following World War II, including the European Coal and Steel Community (1952)—which eventually developed into the European Community (1957) and the European Union (EU; 1993)—and the European Free Trade Association (EFTA; 1960). After the Cold War the number of these arrangements increased dramatically throughout the world. The success of organizations and agreements such as the EU, the North American Free Trade Agreement (NAFTA), and the ASEAN (Association of Southeast Asian Nations) Free Trade Area (AFTA) depended not only on geographic proximity but also on increasing economic interdependence, relatively homogenous political structures (e.g., democracy), and shared cultural and political traditions.

Forms of economic regionalism can be distinguished by the level of integration they involve. The most basic form is a free-trade area, such as EFTA, which eliminates or greatly reduces customs duties between its members. A customs union creates a greater degree of integration through a common tariff on nonmembers, and a common market adds to these arrangements by allowing the free movement of capital and labour. An economic and currency union, which requires a high degree of political consensus between member states, aims at full economic integration through a common economic policy, a common currency, and the elimination of all tariff and nontariff barriers.

One way of classifying forms of economic regionalism is by the level of institutional integration they display. So-called “tight” regionalism is characterized by a high level of institutional integration through shared norms, principles, rules, and decision-making procedures that limit the autonomy of individual members. The EU is an example of tight regionalism, having evolved from a limited free-trade area to a customs union, a common market, and finally an economic and currency union. Integration within the EU has produced spillover effects in the political and social arenas, spurring, for example, the creation of the European Parliament and the European Science Council. In contrast, “loose” regionalism is characterized by the lack of formal and binding institutional arrangements and a reliance on informal consultative mechanisms and consensus-building measures. The Asia-Pacific Economic Cooperation (APEC), which was established as a mechanism to foster the creation of a free-trade area, is a good example of loose regionalism, and NAFTA, as a full-fledged free-trade area that falls short of being an economic union, exemplifies a category intermediate between tight and loose regionalism.

 **The main factors of regionalization in the modern world are:**

1) **Global processes**. Currently, the ratio between the global and regional components of the global development changes. Previously, regional issues were in the shadow of global processes, now regionalism have an increasingly significant impact on the system of international economic and political relations;

2) **Geopolitical factors.** These include primarily the geographical position of geopolitical region, spectrum of available natural and environmental resources and their location, infrastructure systems, the history of the region, etc.;

3) **Economic factors.** Cross-border economic co-operation plays an important role in bringing together both countries and regions that lie on both sides of the border;

4) **Cultural and religious factors.** In this sense, of particular importance it is a cultural and religious community of a large region, which is an additional means of its consolidation, or the proximity of the individual country's regions to religious world lying beyond;

5) **Crisis of the traditional institution** - institution of the sovereign national state, which is out of date and does not meet anymore modern realities. If current trends continue the traditional national state will disappear, giving way, on the one hand, to regions, and on the other - to supranational institutions.

In the scientific literature, there are two views about the content of the concept of "international integration" - ***liberalist and dirigiste***.Supporters of the liberalist concept of consider integration primarily as the merger of markets, ensuring the free play of prices and competition in the complementary economies.Dirigisteschool believes that free competition and the market relations are not sufficient for integration, state and supranational intervention in the structure of the economy is necessary.

**2. Forms of international economic integration**

***International economic integration*** - is the highest degree of internationalization of economic life, characterized by close coordination of the internal (including structural, monetary, energy, transport, social, etc.) and foreign economic policy of integrating countries with elements of a supranational regulation, merging of national markets of goods, services, capital and labor, the formation of an integrated socio-economic structure with a unified monetary and legal systems.

***Pros and cons of economic integration.***

As with most things in economics, there are potential benefits and costs of economic integration.

The advantages of economic integration tend to fall into three categories: ***(1) trade benefits, (2) employment, and (3) political cooperation***.

More specifically, economic integration typically leads to a reduction in the cost of trade; improved availability and wider selection of goods and services; and efficiency gains that lead to greater purchasing power. Employment opportunities tend to improve as trade liberalization leads to market expansion, sharing of technology, and cross-border flows of investment. Political cooperation can also improve with stronger economic ties, which can help resolve conflicts peacefully and lead to more stability.

Despite the benefits, however, economic integration can also have a cost. Some of the potential downsides include trade diversion and the erosion of national sovereignty. For example, trade unions could divert trade away from non-members even if it were a more economically efficient outcome. Also, members of economic unions are typically required to adhere to rules on trade, monetary policy and fiscal policy, which are established by an external policymaking body not elected by citizens of a particular country. Sovereignty, in fact, was one of the key debates in the United Kingdom's decision to leave the European Union (EU) in 2016.

***Trading bloc*** - is a group of countries that have agreed to reduce tariff and other barriers to trade for the purpose of encouraging free or freer trade and co-operation between them.

**Advantages of a trading bloc – summary:**

1. Increased competition
2. Expansion into larger markets
3. Lower prices for consumers and greater consumer choice
4. Increased investment
5. Better use of factors of production: improved resource allocation
6. Improved efficiency in production and greater economic growth
7. Political advantages

**Disadvantages of a trading bloc – summary:**

* 1. Trading blocs may not be the best way to achieve trade liberalisation
	2. Trading blocs may create obstacles to the achievement of free trade on a global scale
	3. Unequal distribution of gains andpossible losses

Regional and sub-regional integration processes now take very different forms: free trade area, custom union, common market, single internal market, economic and monetary union, involving the future political union.

***A free trade area (FTA)*** consists of a group of countries that agree to gradually eliminate trade barriers between themselves, and is the most common type of trading bloc. Each member country retains the right to pursue its own trade policy towards other non-member countries (i.e. to impose its own trade barriers). In trade relations between members, there may be free trade in some products, and some protection in other products. One problem that arises in free trade areas is that a product may be imported into the FTA by the country that has the lowest external trade barriers, and then sold to countries within the FTA that have higher external trade barriers. To deal with this problem, FTAs make complicated 'rules of origin' for imports, designed to prevent goods from entering countries with lower external barriers.

***A customs union*** consists of a group of countries that fulfils the requirements of a free trade area (elimination of trade barriers between members) and in addition adopts a common policy towards all non-member countries. Each country in a customs union is no longer free to determine its own trade policy towards non-member countries, but must adopt the policy agreed upon by the customs union. Also, the member countries of the customs union act as a group in all trade negotiations and agreements with non-members. A customs union therefore involves a higher degree of economic integration than a free trade area.

***Effects of a customs union.***Customs unions have the advantage over FTAs in that they avoid having to create complicated 'rules of origin' for imports. However, customs unions must co-ordinate their policies toward non-members. This gives rise to the possibility of disagreements, as they may not all agree on what are appropriate levels of tariff and other barriers for non-members.

***A common market*** is an even higher degree of economic integration, in which countries that have formed a customs union proceed further to eliminate any remaining barriers to trade between them. They continue to have a common external policy (as in a customs union), and in addition, they agree to eliminate all restrictions on movements of any factors of production within the common market. The factors of production of importance are labour and capital, which in a common market are free to cross all borders and move, travel and find employment freely within all member countries.

***Effects of a common market.***Members enjoy free trade and all its advantages (lower prices, greater consumer choice, etc.). Workers are free to move and work in any member country without restrictions, and capital can also flow from country to country without restrictions. This results in a better use of factors of production.Similarly, if the profitability of investing is greater in one country than in another, capital gravitates to the more profitable country, making better use of capital resources. Factor mobility across countries improves the allocation of resources. However, the development of a common market requires even greater policy co-ordination among members than in a customs union, and requires the willingness of member governments to give up some of their policy-making authority to an organisation with powers over all the member governments. Both these requirements can be difficult to accomplish, and need a long time for all countries to make the necessary policy changes to achieve co-ordination. For this reason there are far fewer common markets in the world than free trade areas and customs unions.

***A single market*** is a type of trade bloc in which most trade barriers have been removed (for goods) with some common policies on product regulation, and freedom of movement of the factors of production (capital and labour) and of enterprise and services. The goal is that the movement of capital, labour, goods, and services between the members is as easy as within them. The physical (borders), technical (standards) and fiscal (taxes) barriers among the member states are removed to the maximum extent possible. These barriers obstruct the freedom of movement of the four factors of production.

***An economic and monetary union*** is a type of trade bloc which is composed of an economic union (common market and customs union) with a monetary union. It is to be distinguished from a mere monetary union (e.g. the Latin Monetary Union in the 19th century), which does not involve a common market. This is the sixth stage of economic integration. EMU is established through a currency-related trade pact.

***A political union*** is a type of state which is composed of or created out of smaller states. The process is called unification. Unifications of states that used to be together and are reuniting is referred to as reunification. Unlike a personal union or real union, the individual states share a central government and the union is recognized internationally as a single political entity. A political union may also be called a legislative union or state union.

**A union may be effected in a number of forms, broadly categorized as:**

1. Incorporating union
2. Incorporating annexation
3. Federal (or confederal) union
4. Federative annexation
5. Mixed unions.

**Integration trends in different regions of the world indicate the existence of several attributes, in particular:**

* + diversity of the number of countries - members of integration groupings;
	+ differentiation in the levels of development and scale of economies in an integrated community of nations;
	+ freedom of choice of degree and forms of integration;
	+ diversity of the means of implementation of integration policies;
	+ institutional originality;
	+ the time lag in the liquidation of duties and trade barriers.

 New regional agreements differ significantly from the past. These include more countries, they have a wide range of activities, and they take many forms and, in fact, may be the example of the integration capabilities of countries at different levels of economic development. Such is the experience of the Nordic countries integration, South, East and West.

**3. Models of interstate integration: regional aspect**

International integration is a natural phenomenon, prepared by the whole course of development of the world economy. Being a product of the internationalization of economic, political, cultural and other aspects of the life of society, it has evolved from a simple international division of labour to the complex and multi-layered system of international relations and interdependencies and implemented in a variety of spatial scales from the bilateral to the regional and global levels.

In industrialized countries, integration processes have developed most in Western Europe (the European Union) and in North America (North American Free Trade Association - NAFTA). The EU has advanced most far along the path of the intergovernmental economic association, where the development of integration processes covers the macroeconomic sphere and the means of structural adjustment.

Historically, Western Europe was an ancestress of the most important international and even global socio-economic and political-legal trends and mechanisms. Undoubtedly, the European Union (EU), that proposed the worldwide reference, classical (European) integration model serves as a sample of real effective integration.

The American model of integration is typical for the North American region. A distinctive feature of this form of regionalism is to bring together countries with fundamentally different economic levels and scales of economies.On the one hand, strong US unit - Canada, whose degree of matching in economic terms, has reached a very high level, on the other - Mexico with all the problems related to difficulties in its integration into the economic area of high-developed countries.

Integration processes in North America are different from the West European model. Here the preconditions for the origin and development of a regional complex at the micro level, or integration led by foreign direct investments, have been created for a long time.

It is a free mode of movement across the US-Canada border of capital and labor, unlimited convertibility of currencies. Such an order solved a number of problems of regional economic integration without its contractual and legal registration. Although the customs regulation of mutual trade was far from free trade zone, it left quite a wide scope for intra-regional division of labor. Only in 1988, between the US and Canada, an agreement was signed on the formation of a free trade zone. In 1992, the United States, Canada and Mexico signed an agreement on the establishment of a free trade zone in North America, which provides for the introduction within 15 years of freedom of movement only goods and capital between the three countries.

In the practice of relations between the North American countries there were few bilateral agreements, there were no joint regulatory institutions like the EU bodies. The weakness of the "institutional" beginning in the development of the regional economic complex is not a sign of immaturity of economic integration. It is carried out there in the form of overseas production of American TNCs, which plays a big role in the reproduction process of Canada and Mexico.

There are processes of economic convergence of the developing countries of Asia, Africa and Latin America. There are more than 20 regional groups. The forms and spheres of their cooperation are diverse, and not all factions have an integrative character. At the heart of economic convergence in various regions of developing countries lies the desire of the ruling circles to unite their efforts to overcome economic backwardness. Elimination of tariffs among economic groups in this subsystem of the world economy is considered as one of the means of developing farms through regional substitution of imports by "exchanging" markets for each other commodity.

Among the regional groups that have an integrative nature for their purposes, one can refer to the common market of the Southern Cone (Mercosur) in South America. In South-East Asia, the well-known grouping is the Association of Southeast Asian Nations (ASEAN). A number of trade and economic entities have been established in the Middle East (5) and in Tropical Africa

Models of Asian regionalism in largely shaped by the integration of the demonstration effect. Current models of Asian regionalism characterized by depth and strength occurring within processes of integration groupings, but united by one of incentives associated primarily with the cultural and historical traditions and the desire to recreate the reality of the economic prosperity of the East Asian region.

What is unique about Asian regionalism in a global context is that it has been substantially market-driven. This move started in 1985, following the Plaza Agreement to revalue the yen, when many Japanese companies began offshoring labor-intensive manufacturing activities to lower-cost destinations, such as the ASEAN countries of Southeast Asia and China.

Soon after, Hong Kong, Korea, Singapore and Taiwan followed suit in offshoring production. The region’s value chains for electronics, automobiles, clothing and footwear and other products were thus gradually established.

***Value chains spread to Asia***

In the first phase, the final products of these value chains were primarily sold to U.S., European and Japanese markets. However, ever since the 2008 Lehman shock and the subsequent financial crisis, there has been an acceleration of regional integration. China, in particular, became a more active trading and investment partner of all Asian countries.

With the rising purchasing power of Asia’s middle class, Asia’s value chains are now increasingly servicing Asian consumers. Today, some 40% of East Asian trade takes place within the region, compared with 30% two decades ago.

In Europe, the percentage of trade that is conducted within the region already amounts to 69%. The goal for East Asia should be to move dynamically into the same percentage range.

Given the current level, that would require at least a 50% increase in the share of regional trade. That seems entirely feasible, given the growth and population dynamics of the wider region. Consider also that this by no means implies any “decoupling” from other global markets, or specifically the U.S. market.

It just foreshadows a trading world where Asia completes the process from initially being an outsourcing destination for multinational corporations to becoming the key growth driver of the global economy. Such a broadening of Asian nations’ trade portfolio would be a win-win situation for Asia.

The European example shows that such an intensification of trade within the region also has important spillover effects into fields other than trade. Doing business with each other ultimately is the best instrument with which to build what most of Asia seems to strive for – better neighborly relations. Trade ultimately is the best confidence-building measure.

Compared to the model Europe pursued, Asia has had the distinct advantage that it did not put the cart before the horse. Its regionalism has been market-led–and thus started out with emphasizing the right path for creating the basis for shared prosperity in the region. Unlike in Europe, Asian governments have arguably followed, rather than led, this process.

That does not mean, however, that governments don’t have an important role to play. One concrete example where they can achieve something transformative is discussions of a possible FTA between China, Japan and Korea that have been underway for some time.

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**Theme of the lecture №7. Global corporations**

**Plan of lecture:**

**1. Transnationalization of production and capital**

**2. Transnational corporations**

**3. Multinational companies**

**4. Types of production integration**

**1. Transnationalization of production and capital**

An important component of the process of internationalization and a major source of globalization is the transnationalization, in which a significant proportion of production, consumption, exports, imports, and the country's income depend on the international centers outside the State.The main characteristic of the present stage of development of the world economy performs the process of trans nationalization and globalization, determined the formation and functioning of the global diversified multinational corporations, banks, funds, integration unions and other structural-territorial formations. The consequence of these processes was the growth of the degree and extent of the interdependence of national economies.Trends transnationalization and globalization of the world economy affects all spheres of economic activity, which manifests itself in the globalization of capital market development, labor utilization, enhance the processes of international economic integration, strengthening the role of the state, etc. World capital markets - a global storage system and the provision of free cash resources business organizations and States, carried out on a competitive basis. In modern conditions because of its scale the world capital market has become a powerful factor in the development process of the internationalization of the world economy, it has become a resource for all countries in the world community.The international movement of capital comes in different forms: non-market public and private loans:Eurocurrency market; International financial market: direct and portfolio investment. Thanks to the combination of these forms, all countries can participate in the global allocation of capital, business structure, regardless of their level of economic development.As a leading force there are the transnational corporations (TNCs), which themselves are both the result and the main driving forces of internationalization.

**2. Transnational corporations**

The prefix trans- in their name means that TNCs produce and sell goods and services across national boundaries; they spread ideas, tastes, standards and technologies throughout the world; they plan their operations on a global scale, but at the same time save its national character. Transnational companies are often understood as companies that control the production assets of more than in one country.

Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake.

 An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets (in some countries, an equity stake other than that of 10 per cent is still used. In the United Kingdom, for example, a stake of 20 per cent or more was a threshold until 1997.).

 A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise).

The parent companies in home countries acquire foreign assets, investing in subsidiaries or affiliates in the host countries.

Transnational corporations (TNCs) - national in capital (i.e. parent company belongs to the same country) and international in sphere of its activities (investments are made in many countries of the world).

Transnational Corporations exert a great deal of power in the globalized world economy. Many corporations are richer and more powerful than the states that seek to regulate them. Through mergers and acquisitions corporations have been growing very rapidly and some of the largest TNCs now have annual profits exceeding the GDPs of many low and medium income countries.

A transnational corporation differs from a traditional multinational corporation in that it does not identify itself with one national home. While traditional multinational corporations are national companies with foreign subsidiaries, transnational corporations spread out their operations in many countries to sustain high levels of local responsiveness.

An example of a transnational corporation is Nestlé who employ senior executives from many countries and tries to make decisions from a global perspective rather than from one centralized headquarters.

Another example is Royal Dutch Shell, whose headquarters are in The Hague, Netherlands, but whose registered office and main executive body are headquartered in London, United Kingdom.

The following characteristics are often associated with a transnational corporation:

1. Transnational corporations may not be loyal to all of the countries they operate in, and look to maintain their own interests. In other words, they're mainly concerned about what's best for them even if it's at the expense of the other country's values or standards.

2. Transnational corporations avoid high tariffs involved in importing when they set up in foreign countries. This allows a corporation to cut costs, but it's not always in the most honest way.

3. They reduce costs by using foreign labor at a cheaper price than they would in their home country.

4. They block competition by acquiring businesses. If they purchase foreign companies, they will not have as much competition.

5. They may have political influence over some governments. This means that they may use their power to convince some governments to support their practices.

6. They can create a loss of jobs in their home country.

7. They can minimize taxes. The IRS has to study transnational companies very thoroughly to make sure they are paying taxes correctly.

**3. Multinational companies**

A multinational corporation or worldwide enterprise is a corporate organization that owns or controls production of goods or services in two or more countries other than their home country.

Multinational corporations (MNCs) – are international both by capital and field of their activities (parent company belongs to the capitals of several countries, investments are also carried out around the world).

A multinational corporation (MNC) is usually a large corporation incorporated in one country which produces or sells goods or services in various countries. The two main characteristics of MNCs are their large size and the fact that their worldwide activities are centrally controlled by the parent companies.

* Importing and exporting goods and services
* Making significant investments in a foreign country
* Buying and selling licenses in foreign markets
* Engaging in contract manufacturing—permitting a local manufacturer in a foreign country to produce their products
* Opening manufacturing facilities or assembly operations in foreign countries

MNCs may gain from their global presence in a variety of ways. First of all, MNCs can benefit from the economy of scale by spreading R&D expenditures and advertising costs over their global sales, pooling global purchasing power over suppliers, and utilizing their technological and managerial know-how globally with minimal additional costs. Furthermore, MNCs can use their global presence to take advantage of underpriced labor services available in certain developing countries, and gain access to special R&D capabilities residing in advanced foreign countries.

MNCs act as modernizers of the world economy. It is reflected as a result of constant promotion of new technologies and introducing innovations across the world. Especially they are active by introducing technologies to relatively remote places. Therefore, some industries are being redesigned so that they could be competitive. The innovations are seen not only in technological realm, but also in medicine, education and social policies. By bringing progress to the poorest economies, MNCs employ people and educate them. Moreover, by minimizing the costs of the productions of many products, multinational companies supply relatively cheap products to the developed markets. Moreover, these services and goods facilitate people’s lives. Additionally, some products contribute to people’s high standard of living. However, there are no guarantees that every single country benefits from MNCs and that technologies reach every single undeveloped country.

Such corporations promote efficiency and growth of the world economy. Multinational corporations are likely to establish interconnection between the domestic economies of some isolated countries and the world’s greatest economies. In addition to that, they promote globalization. By doing this, multinational corporations are viewed very relatively by different people.

MNCs’ activities are very likely to result in profit maximization because one company can provide same service and implement same strategies in several countries. They create competition for other companies. However, Multinational corporations merger with small companies in order to become more influential on a national market very often.

Most multinational corporations are ethnocentric, i.e. they are focused on the country where their headquarters is and from where branches and research units located abroad get instructions. Nevertheless, small but growing part of the MNCs became more geocentric, not tied to any particular state.

**4. Types of production integration**

There are three types of transnational corporations:

* Horizontally integrated: factories in different countries making the same product.Horizontally integrated TNC expands its operations beyond national borders, producing the same product or a product line in their offices abroad. A transnational corporation that is horizontally integrated is McDonald.
* Vertically integrated: TNC produces goods and services that are at different stages of the life cycle, and results of operations of some of its foreign operations are subject to further processing in the other.A transnational corporation that is vertically integrated is Adidas.
* Diversified: factories in different countries making products that are not horizontally nor vertically integrated. A transnational corporation that is diversified is Microsoft.

One way that the transnational corporations reduce their cost and make huge profits is outsourcing which means that they set up factories to produce those goods in developing countries where labor is cheap. Once a transnational corporation opens a company in a country, it provides jobs for the people. Countries like South Korea and India reduced their poverty rate. So governments of varies countries are lowering their trade barriers to attract those corporation and causes those corporation to be even more powerful than the government. Lower trade barriers mean that the wages are lowered cut the cost of education and health care in order to provide money to help the transnational corporations to set-up, and lead to issues like child labor, and environmental issues.

**5. Transnationality index**

To assess the involvement of a company in the production of goods and services abroad transnationality index is used. It allows you to compare the sizes of business within national borders and beyond. It is based on a comparison of the size of economic activity in the homeland and abroad.

The Transnationality Index (TNI) is a means of ranking multinational corporations that is employed by economists and politicians. It is calculated as the arithmetic mean of the following three ratios (where "foreign" means outside of the corporation's home country):

* the ratio of foreign assets to total assets
* the ratio of foreign sales to total sales
* the ratio of foreign employment to total employment

The Transnationality Index was developed by the United Nations Conference on Trade and Development.

Multinational corporations are also ranked by the amount of foreign assets that they own. However, the TNI ranking can differ markedly from this. For example, as of 2000, General Electric was the second largest multinational corporation in terms of foreign asserts ownership. However, it ranked only 73rd by the TNI, with an index of only 40%. Although the company had large investments outside of the United States, most of its sales, employment, and assets were within the U.S. In contrast, Exxon has a TNI of 68% and Vodafone has a TNI of 81%. As of 2001, General Electric ranked 75th, with a TNI of 36.7%. The 14 most transnational corporations originated in small countries (Switzerland, the United Kingdom, The Netherlands, Belgium, and Canada), whereas the largest multinational corporations in terms of foreign asset ownership all had low TNI scores. General Motors, the fourth largest multinational corporation in terms of foreign asset ownership only ranked 83rd (30.7%) on the TNI top 100. IBM ranked 50th (53.7%), Volkswagen ranked 45th (55.7%), and Toyota, the sixth largest multinational corporation in terms of foreign asset ownership, only ranked 82nd (30.9%) on the broader TNI scale.

**6. TNC types**

Analysis of the activities of TNCs identifies several types:

• ethnocentric TNCs create branches abroad to ensure supplies of raw materials or sales markets, but foreign markets are for them primarily a continuation of the internal market, strict headquarters’ control over foreign operations, expects to operate the same way it operates at home.

The prevailing attitude of senior management in this orientation is that the way of doing business, at home, is applicable to the rest of the world. The attitude is probably that national employees and leaders are more capable to maintain international tasks than non-native employees recruited in the host-country. The practices and policies of headquarters are transferred to the international subsidiaries, which need to comply with these standards.

The advantages of this orientation are e.g. that positions will be occupied by qualified nationals, and that it creates a unified organizational culture. Likewise, this orientation helps to transfer core competences to to the subsidiaries of the company.

The disadvantage of this orientation are e.g. that the TNC will potentially not develop foreign and more regional knowledge, and that its organizational culture will reflect only the preferences of the TNC's home country members. Likewise, problems may occur concerning the differentiation of goods and services, where international shortsightedness may hinder an adjustment to differentiated wishes and demands.

• polycentric TNCs are characterized by the fact that the external market is not less, and often more important sector of activity in comparison with the internal market. Most of their products are produced in their foreign affiliates. Polycentric orientation assumes that each country is unique in terms of its target consumer behavior, as well as demos, psychographics, price elasticities, color affinities and associations, etc. Corresponding marketing approaches are intended to be unique and invariably led by in-country managers with a high-degree of autonomy.

The assumption of managers in this orientation is that the "one-size-fits-all" approach is unfeasible. Subsidiaries are managed as autonomous units, who are allowed to manage their operations as they see fit. This leads to a broader organizational culture, where top positions are not as heavily staffed by nationals from headquarter, and potentially to a better understanding of local needs and demands.

The disadvantage of this orientation is however that headquarters can be separated from its subsidiaries, and that the company loses some economic benefits such as economies of scale. Likewise, it may be difficult for the TNC to develop and maintain a unified organizational culture.

• regiocentric TNCs are especially popular in the integration groupings. They focus not on individual country markets and entire regions, such as the whole Western Europe, although the foreign branches andin this case are placed in individual countries;

• geocentric TNC is the most mature type of TNCs, it is typical for the TNCs, which are a kind of a decentralized federation of regional branches.This orientation does not regard nationality as a competitive advantage or disadvantage. The employees are recruited from all over the world, so that the best people are recruited to solve global problems. The TNC tries to develop both global differentiation and global integration between headquarter and foreign subsidiaries. The focus is therefore to gain the potential advantages of an integrated company, and to gain the advantages of differentiation in e.g. product offerings.

**7. Global strategies of TNCs**

The current generation of TNCs applies the global strategies to strengthen its power. According to Kuznetsov, the strategy is global, if the firm at the same time takes into account the number of behavioral requirements on the world markets. In particular, if it has a planetary vision of competitive markets, well aware of their competitors, controls its operations on a global scale, operates in high-tech industries, places its production well in accordance with the principle of comparative costs, coordinates its activities with a flexible information technology and integrated in-house accounting, integrates their factories and offices in a single international network management, included in the network of agreements with other countries.

The choice of a specific strategic model should be made through an evaluation of, which forces pushes the TNC towards global integration, global differentiation or both. The strategic choice should ideally fit the pressures of the environment, where TNCs should try to build the strategic capabilities wanted by e.g. consumers.

TNCs that do not need innovation from its foreign companies or subsidiaries to be competitive, will most likely not be as inclined to allow autonomous decision-making and innovation in its subsidiaries. Innovation will oftentimes solely be developed at home, where this innovation and knowledge is sought dispersed to the subsidiaries and companies around the world.

However, TNCs that require local innovation to remain competitive, will most likely demonstrate a greater deal of autonomous decision-making in its subsidiaries and companies. New ideas, innovation and knowledge are sought developed within each individual subsidiary, or likewise sought dispersed to the entire network of the TNC.

* Multidomestic (Low pressure for integration - high pressure for differentiation)

This strategy is based on responsiveness to local market demands. The structure of the TNC will be a portfolio of rather autonomous national companies containing their entire value chain. The innovation and knowledge developed at these national companies will most likely stay there, and will most likely not be dispersed to other companies within the TNC.

* International (Low pressure for integration - low pressure for differentiation)

This strategy is based on home country expertise. The majority of the value chain will be maintained at the headquarters. The control of technologies used for e.g. production and general management systems will be structured and developed at home. The development of knowledge and innovation will stream from the home organization to the subsidiaries.

* Global (High pressure for integration - low pressure for differentiation)

This strategy is heavily based on scale economies. The subsidiaries of the TNC are rather weak and a full value chain will only exist at home. The subsidiaries are tightly coupled to the home organization, and are heavily dependent on resources and know-how from the home organization. Innovation and development will be created at home, and later diffused to remaining subsidiaries.

* Transnational (High pressure for integration - High pressure for differentiation)

This strategy tries to maximize both responsiveness and integration, where knowledge and innovation is sought developed and dispersed within the entire network. The TNC is regarded as a network, and each subsidiary is given responsibility compared to its capabilities and strategic mission. The TNC is controlled by the movement of people within the TNC that may facilitate the mutual development and dispersion of innovation and knowledge.

Therefore, each TNC should chose the strategic model that fits to the environmental pressures it faces, so that it will remain competitive.

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**Theme of the lecture №8. Global issues of modernity**

**Plan of lecture:**

**1. Factors of development of global issues**

**2. Essence and main manifestations of global issues**

**3. Classification of global issues**

**4. Influence of the global problems on world economy**

**5. Ways of solution of the global issues**

**1. Factors of development of global issues**

The modern period of world economic development is characterized by the development of global issues, strengthening global interdependence and national interests. Underlying these issues is a tendency to deepen the process of internationalization of economic life, the growing influence of foreign trade sphere on economic development.The global economy faces a number of serious challenges in the 21st Century. Globalization has benefitted most participants, but the increasing interconnectedness of the global economy has created a number of problems.

Some global problems are short term, such as the recent recession caused by the credit crunch and related banking crisis. Most global shocks are relatively short term and may be self-correcting. Other apparently short run events can have long lasting effects, such as the oil shocks of the 1970s, which permanently altered the global market for oil.

Other global problems are longer term, and may require a strategic approach to finding solutions. These problems include global inequality and unequal economic development, global poverty, the exhaustion of non-renewable resources, depletion of the environment and global warming, and systemic problems associated with inadequate regulation of financial markets.

Footnote: The impact of Brexit

Much of the impact of Brexit is likely to be relatively short-lived, and will include both positive and negative effects. The net balance between these effects will remain unknown, at least until negotiations begin and the final post-Brexit relationship between the UK and the EU is formalized. Even then, the longer-term impact will be uncertain, as this will depend upon the type of trade deals that can be struck by the UK and the rest of the World in the future.

The global financial crisis revealed significant weaknesses in the financial system and some of the vulnerabilities that can result from having such an interconnected global market.Several years after the crisis, the world economy is still struggling with slow growth, unconventional monetary policy in major economies, and constrained government budgets. It is vital that we find ways of making the financial system more resilient and able to withstand shocks in the market. The crisis also caused a significant drop in levels of public trust and confidence in financial institutions. To function efficiently, the system needs to re-establish that trust.

Providing access to credit and savings is a major challenge in the battle against global poverty – yet 2 billion people do not have access to high-quality, affordable financial services. Additionally, there are 200 million small and medium-sized enterprises worldwide that have no access to formal financial services. The challenge is to create a resilient, accessible financial system that people trust.The push for economic growth in recent decades has led to substantial increases in wealth for large numbers of people across the globe. But despite huge gains in global economic output, there is evidence that our current social, political and economic systems are exacerbating inequalities, rather than reducing them.

A growing body of research also suggests that rising income inequality is the cause of economic and social ills, ranging from low consumption to social and political unrest, and is damaging to our future economic well-being.

In order to boost growth and counter the slowdown in emerging markets, we need to step up efforts around the world to accelerate economic activity and to ensure that its benefits reach everybody in society.

The Earth’s average land temperature has warmed nearly 1°C in the past 50 years as a result of human activity, global greenhouse gas emissions have grown by nearly 80% since 1970, and atmospheric concentrations of the major greenhouse gases are at their highest level in 800,000 years.We're already seeing and feeling the impacts of climate change with weather events such as droughts and storms becoming more frequent and intense, and changing rainfall patterns. Insurers estimate that since the 1980s weather-related economic loss events have tripled. Policy-makers have been advised by the Intergovernmental Panel on Climate Change that there is a high risk of catastrophic climate change if warming is not limited to 2°C.The historic agreement reached in Paris in December 2015 outlines a global commitment to keep warming to 2°C and to strive to limit global temperature rise to 1.5°C.Under the agreement, every country will implement its own climate action plan that will be reviewed in 2018 and then every five years to ratchet up ambition levels. Wealthier countries also committed to deliver significant flows of money and technical support to help poor countries cope with curbing their greenhouse gas emissions and adapt to climate change.The world has agreed what is to be done. Now it is time for implementation.

The internet is changing the way we live, work, produce and consume. With such extensive reach, digital technologies cannot help but disrupt many of our existing models of business and government.

We are entering the age of the Fourth Industrial Revolution, a technological transformation driven by a ubiquitous and mobile internet. The challenge is to manage this seismic change in a way that promotes the long-term health and stability of the internet.Within the next decade, it is expected that more than a trillion sensors will be connected to the internet.By 2025, 10% of people are expected to be wearing clothes connected to the internet and the first implantable mobile phone is expected to be sold.If almost everything is connected, it will transform how we do business and help us manage resources more efficiently and sustainably.But how will this affect our personal privacy, data security and our personal relationships? Today, 43% of the world’s population are connected to the internet, mostly in developed countries. How will we achieve the United Nations’ goal of connecting all the world’s inhabitants to affordable internet by 2020?

Achieving gender equality isn't just a moral issue – it makes economic sense. Equality between men and women in all aspects of life, from access to health and education to political power and earning potential, is fundamental to whether and how societies thrive.Although we are getting closer to gender parity, change isn't happening fast enough. For the past decade, the World Economic Forum been measuring the pace of change through the Global Gender Gap Report, and at current rates, it would take the world another 118 years – or until 2133 – to close the economic gap entirely.There has been a significant increase in awareness of the importance of gender parity and much has been done by international organizations, civil society, governments and business.However, often the work centres on single-issue awareness-raising campaigns. Existing work also frequently involves either cooperation between different public bodies or different private bodies.More needs to be done to bridge the gap and facilitate cooperation between the public and private sectors.

**2. Essence and main manifestations of global issues**

More than at any other time in history, the future of humankind isbeing shaped by issues that are beyond any one nation’s abilityto solve. Climate change, avian flu, financial instability, terrorism, waves ofmigrants and refugees, water scarcities, disappearing fisheries, stark andseemingly intractable poverty—all of these are examples of global issueswhosesolution requires cooperation among nations. Each issue seems at first to belittle connected to the next; the problems appear to come in all shapes andfrom all directions. But if one reflects a moment on these examples, somecommon features soon become apparent:

* Each issue affects a large number of people on different sides ofnational boundaries.
* Each issue is one of significant concern, directly or indirectly, to all ormost of the countries of the world, often as evidenced by a major U.N.declaration or the holding of a global conference on the issue.
* Each issue has implications that require a global regulatory approach;no one government has the power or the authority to impose a solution,and market forces alone will not solve the problem.

Global issues are present in all areas of our lives as citizens of the world. They affect our economies, our environment, our capabilities as humans, and our processes for making decisions regarding cooperation at the global level (which this book will call global governance). These issues often turn out to be interconnected, although they may not seem so at first. For example, energy consumption drives climate change, which in turn threatens marine fisheries through changes in ocean temperature and chemistry, and other food resources through changes in rainfall patterns.

Major global issues include the following: the issues of peace and disarmament, environmental, demographic, energy, raw materials, food, issues of use of ocean resources and space exploration, and others.

Modern classification of global issues was developed in the 1980s. Global issues interact with each other, in particular, energy and raw material issues relate to environmental, ecological - demographic, population - with food.

**3. Classification of global issues**

|  |
| --- |
| Classification of global issues |
| Thematic areas | Global issues |
| Global economy | International trade, financial stability, poverty and inequality, debt relief, international migration, food security, intellectual property rights |
| Human development | Universal education, communicable diseases, humanitarian emergencies, hunger and malnutrition, refugees |
| Environment and natural resources | Climate change, deforestation, access to safe water, loss of biodiversity, land degradation, sustainable energy, depletion of fisheries |
| Peace and security | Arms proliferation, armed conflict, terrorism, removal of land mines, drug trafficking and other crime, disarmament, genocide |
| Global governance | International law, multilateral treaties, conflict prevention, reform of the United Nations system, reform of international financial institutions, transnational corruption, global compacts, human rights |

Global issues may also be classified into the groups such as:

* Political issues (avoidance of global nuclear war and ensuring a stable peace, disarmament solutions for military and regional conflicts).
* Natural environmental problems (the need for effective and comprehensive environmental protection, energy, raw materials, food, disease control).
* Socio-economic issues (sustainable development of the world community, the elimination of backwardness of developing countries, the problem of human development, crime, natural disasters, etc.).
* Scientific issues (space exploration, long-term forecasting, etc.).

**4. Influence of the global problems on world economy**

Aggravation common to all mankind global issues reinforces the need for concerted action to resolve them, the joint development of optimum development options. The international community is able to solve global issues, only by uniting the efforts and resources. Therefore, there is a need to restructure the existing system of international relations.

In the international community the tendency towards integration, the development of a single complex functioning of the world economy, a joint decision of the majority of economic issues, the creation of a single market space. This trend is complemented by the other direction of development -regionalization of the world, its multipolarity, which is manifested in the redistribution of the importance and role of individual countries and groups of countries in the world economy.

National and regional economies around the world are becoming increasingly integrated with each other through trade in goods and services, transfer of technology, and production chains. The interconnectedness of financial markets is also expanding rapidly. Such integration offers greater opportunity forpeople to tap into more and larger markets around the world, and so increase both their incomes and their ability to enjoy all that the world economy has to offer. At the same time, however, economic integration poses serious inherent risks: in a globalized world economy, an adverse event such as a financial crisis in one part of the world can easily spread to other parts, just as a contagious disease spreads from person to person. An example of such contagion was the East Asian financial crisis of 1997–98, in which a financial and currency crisis in Thailand quickly triggered similar upheavals in the Republic of Korea, Indonesia, and elsewhere, prompting international intervention to avert a global crisis. Another example involves the globalization of trade and labor markets: Concerns about the fairness of recent international trade agreements and about the effects of freer trade on jobs and working conditions led to violent protests at the World Trade Organization meeting in Seattle in 1999; these protests helped change the dynamic of the latest round of international trade negotiations. There are also concerns that the world economy is growing in an unbalanced way, with rising inequalities in incomes and opportunities.

For the world’s poorest countries, foreign aid and the ability to take on foreign debt present a valuable opportunity to invest in their own development. But foreign borrowing poses great disadvantages as well as great advantages. On the one hand, when the proceeds of public borrowing are invested wisely, directed at the right policies and programs, they can indeed promote more rapid development. On the other hand, too much borrowing, or any borrowing that is not undertaken prudently, can act as a drag on the economy, as precious funds must then be devoted to debt service rather than to serving the country’s development needs. As Chapter 4 explains, debt that is rising rapidly relative to a country’s output or exports can threaten that country’s very future. This threat became increasingly and painfully evident in the case of a number of low-income countries in the 1980s and 1990s. Their plight sparked an international advocacy campaign, popularly known as the Jubilee movement, to forgive the debts of the poorest countries with huge debt burdens. This campaign led in turn to the launch of the Heavily Indebted Poor Countries (HIPC) Initiative in 1996, to address the excessive debt burdens of the world’s poorest nations. Since then, 38 of these countries, 32 of them in Sub-Saharan Africa, have qualified or potentially qualify for HIPC assistance, and of these, 18 are now receiving irrevocable debt relief and 10 are receiving interim relief. The rest have been beset by persistent social difficulties that make debt relief infeasible for now. However, at their summit in Gleneagles, Scotland, in 2005, the leaders of the Group of Eight major industrial nations pledged to eventually write off 100 percent of the debt of the poorest African countries. In line with this proposal, officially known as the Multilateral Debt Relief Initiative, efforts are under way to provide $37 billion in debt relief to countries that are at the HIPC completion stage.

The world economy of 2035 will be three to four times its present size, thanks largely to rising incomes in developing countries. Even if dramatic improvements in energy efficiency are achieved, this vastly expanded activity will consume much more energy than the world uses today. Pressures to supply enough fossil fuel, biomass, and electricity to meet world demand will therefore only get worse. World economic activity must become radically less carbon intensive, to avoid not only environmental disaster through climate change, but also health disasters on an epic scale, as cities in the developing world choke under a fog of pollution. A shift to renewable energy and low- or no-carbon fuels is essential, as are the development and adoption of energy-efficient technologies.

The consequences of inaction can be grouped into economic, social, security, health, and environmental effects:

*- Economic consequences*. If the world and its leaders fail to address such global economic issues as fairness in international trade, greater equality of income and opportunity, financial stability, sustainable debt, and corruption, the growth and stability of the global economy could be undermined and overall prosperity reduced. These consequences— weaker growth and greater inequality—would grow, feeding frustration and social stress. The insistence of the antiglobalization movement on turning back the clock would grow stronger, for example, and its protests more disruptive.

- *Social consequences*. As populations grow, as communities around the world become more and more interconnected, and as global flows of information accelerate and expand their bandwidth, more and more of the world’s people will know more and more about what is going on outside their local communities and national borders. Those suffering from inequality and deprivation will become increasingly aware of the better lives that others elsewhere lead. The slowing growth of world population and the rise in developing countries’ share of world income provide a great opportunity to address crucial human development issues such as health and education, social issues such as inclusiveness and social cohesiveness, and governance issues such as institutional accountability. Failure to address these issues adequately could have serious implications for civil peace and harmony in societies all around the world.

- *Security consequences*. The widening gap between rich and poor, together with intensifying competition for increasingly scarce natural resources, both nationally and internationally, will fuel conflict and extremism, which will inevitably spill across national borders. Lagging development could also lead to the failure of states, some of which would likely become havens for terrorists or drug cartels. The damage would soon spread to other states, developing and developed, that remain otherwise intact.

- *Health consequences*. Failure to address malnutrition and the spread of preventable and communicable diseases would perpetuate and indeed increase human suffering and mortality wherever these scourges strike. The unchecked spread of disease would also have economic consequences, through reduced productivity and an increased disease burden, and these, too, would spread beyond national borders.

- *Environmental consequences*. Today’s patterns of production and consumption cannot simply be scaled up to a world with $75 trillion or $100 trillion in annual gross product. Something will have to give, and that something is likely to be our shared environment. If today’s developing countries replicate the consumption patterns of today’s rich countries, great damage to the global environment, and to the planet’s ability to sustain life and growth, is in store. The technologies needed to change these consumption patterns and develop alternatives are among the most valuable of global public goods, yet their development is now largely neglected. If present trends in the deterioration of biodiversity continue, the world of tomorrow will be biologically much poorer than that of today, even if the many poor communities dependent on fragile ecosystems can be moved to alternative locations and livelihoods. The financing needed to compensate these communities, so as to preserve biodiversity for the benefit not only of the countries involved but of the world, are huge—well beyond the means of those countries alone.

**5. Ways of solution of the global issues**

It is clear that how today’s global issues are addressed, or not addressed, will have a profound impact on the shape of the future world in which we all will live. Yet, there is no global government to address these global issues, set global public policies and priorities, collect taxes on a worldwide basis, and allocate resources accordingly. Thus progress on most of these issues depends on a deliberate—and deliberative—process of buildinginternational consensus for collective action. This consensus can be expressed in many forms, for example:

- *International agreements signed by both industrial and developing countries.* Programs based on international agreements enjoy strong legitimacy, thanks to their formal authorization, especially when there is strong participation of developing countries in their design and implementation, and when there are equitable governance agreements. Examples include the MDGs and the 1987 Montreal Protocol on the control of ozone-depleting chlorofluorocarbons.

*- International law*. The International Law Commission of the United Nations prepares drafts on various aspects of international law, which can then be incorporated into conventions and submitted for ratification by the member states. Once a nation has ratified a convention, it is legally bound thereto. Thus the ratification constitutes consensus. Some of these conventions form the basis of law governing relations among states, such as conventions on diplomatic relations and the Geneva Conventions.

- *Declarations signed by participants at international conferences.* These declarations represent a less explicit and less binding form of international consensus than formal conventions or treaties and are largely oriented toward advocacy.

- *Actions of the G-8, G-20, G-77, and other such groupings*. The declarations of these intergovernmental groups are similar to international conferences in that they advocate and mobilize their members to take action, whether it is on doubling aid for Africa, debt relief, or any of a number of other issues. Of course, these statements signify consensus only among their members, not a global consensus. The economic and political power of the group (greatest for the G-8, less for the others) largely determines its potential to engage in effective problem solving on global issues. Their choice of issues on which to focus may in turn be driven by the advocacy efforts of civil society and other organizations.

- *Civil society campaigns and associations*. In some instances global action is driven by civil society campaigns such as the Jubilee movement, the Live Aid concerts, the Global Call to Action Against Poverty, and the Make Poverty History campaign. Some well-known annual global forums such as the World Economic Forum and the World Social Forum also frequently focus on global issues and can profoundly influence the debate.

- *Global partnerships*. Often partnerships to address global issues are established by groups of donors, including governments, private sector and civil society organizations, and international organizations. Some recent examples in the health field are the Global Alliance for Vaccination and Immunization, Roll Back Malaria, the Global Fund to Fight AIDS, Tuberculosis, and Malaria, and the Partnership for Maternal, Newborn, and Child Health. Many of these partnerships promote ownership among developing countries by focusing on issues of relevance to them and by demonstrating that they can have an impact.

- *Global governance institutions*. Nations of the world have set up many international organizations with mandates to work on a wide array of global issues in the economic, social, cultural, education, health, and other fields. Among these multilateral organizations are the United Nations and its agencies, the International Monetary Fund, the World Trade Organization, the World Bank and the regional development banks, and the International Labour Organization. All of these are involved in managing global issues as mandated by their governance bodies, which consist of representatives of the member nations.

Resolution of global issues requires a feasibility study and the huge costs. According to some estimates, the annual cost of solving global issues should be about 1 trillion dollars.

To find such significant funds is difficult, now humanity has no such means, as in the 1990s. The whole world gross product is estimated at 13 trillion dollars.

Therefore, the possibility of solving the global issues depends on the definition of priority in the allocation of funds. Therefore, these questions require particular attention.

The issues of preserving world peace prevent disasters and military conflict always remains one of the most important for human existence. Military-industrial complex, which have huge armed forces, spend huge amounts of money on the production of weapons and the conduct of scientific research in this field.

Global marketing as a reflection of modern is the global issues.

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**Theme of the lecture №9. The evolution of mechanism and functions of international economicorganizations in conditions of globalization**

**Plan of lecture:**

**1. The reasons for the formation of the system of international economic organization after World War II and the tasks set before these organizations**

**2. The role of international economic organizations today, in the era of globalization**

**3. The main institutions of the Bretton Woods system**

**4. Dissatisfaction of developed countries with activities of world economic organizations**

**1. The reasons for the formation of the system of international economic organization after World War II and the tasks set before these organizations**

After the Great Depression of the 30s. XX century and the most profound transformations caused by the Second World War, the world economy was completely unbalanced. Another issues of the interwar period was the lack of international institutions capable of ensuring economic stability and openness. Therefore, by the middle of the XX century. there was an understanding of the need to form common to all countries in the coordination and management mechanisms, discussing pressing economic and political issues in the entire world community, coordination of economic and political behavior of countries.

In July 1944, delegates from 44 countries convened the *Bretton Woods Conference*, and within 22 days they endorsed a framework for international economic cooperation after World War II. Two international economic organizations resulted from the Bretton Woods Conference—the *International Monetary Fund (IMF)* and *International Bank for Reconstruction and Development (IBRD)* or *World Bank*—and in 1948 the *General Agreement on Tariffs and Trade (GATT)* became the main global trade organization. These organizations were part of a complex institutional framework to help manage the postwar global economy. Although the Bretton Woods negotiations were “the first successful attempt . . . by a large group of nations to shape and control their economic relations,” only a small number of states had a critical role in the process. The three years of prenegotiations before Bretton Woods and the conference itself were “very much an Anglo-American affair, with Canada playing a useful mediating role,” and the chief conference planners were Harry Dexter White of the U.S. Treasury and John Maynard Keynes of Britain. Although French delegates were at the conference, France was still occupied by Germany; and Germany, Italy, and Japan as enemy states were not represented. Despite some basic differences of outlook, the Western DCs generally agreed on the postwar institutional order. Above all, they wanted to avoid a repetition of the interwar period experiences, when exchange controls and trade protectionism contributed to the 1930s Great Depression and World War II.

It was necessary to create a new international economic order based on cooperation and liberalism, joint steps to take in the interests of individual countries and the world economy as a whole.

This order was based on the functioning of international organizations, the process of creating which has acquired a wide scope exactly after the Second World War. The economic basis for increasing their numbers began to rapid growth of international trade in goods, services and technologies, the export of capital in different forms of labour migration, the development of the international industrial and scientific-technical cooperation and other forms between the countries.

A number of bodies of research have sought to understand the effects of international economic integration on political-economic relations within and across countries. Three of the key areas of research include:

* ·International economic integration and state autonomy. One argument holds that, compared to what may have been true in the 1950s and perhaps the 1960s, when the major industrial countries and most of the developing nations had numerous controls on trade and especially on financial flows, international economic integration during the past thirty years has sharply reduced the economic policy autonomy of all countries linked to the world economy. According to this perspective, a nation that is facing unemployment, which in the past might have sought to increase economic demand and employment by incurring large national budgetary deficits or expanding its monetary supply, must now be worried that doing so might instigate a flight of capital and an overly large decline in the international value of its currency. In the same vein, the concern is sometimes expressed that national governments are being forced by contemporary increases in international economic integration to engage in a “race to the bottom” with respect to national welfare and safety and environmental policies; that is, in seeking to attract and maintain the presence of multinational enterprises within their borders, countries may be finding themselves compelled to reduce government welfare expenditures and to revert to lower policy standards when these affect the costs of business.
* ·International economic integration and world peace. Pursing arguments put forward by such classical writers and Adam Smith and Immanuel Kant and, in 19 more recent times, Norman Angell, it has been suggested that increases in the level of international economic interdependence between countries (measured, for example, by the amount of each country’s exports to a partner nation relative to GDP) reduces the likelihood of military conflict between those two nations. A very different perspective suggests that increases in international economic interdependence, by increasing the points of contact between countries and therefore the risk of potential disagreements between nations, may increase the risk that conflicts might develop between countries. A third argument is that the effects of economic interdependence are contingent on the presence or absence of other conditions. For example, economic interdependence may mitigate conflict between a pair of countries if each believes that its partner will retain economic openness in the future rather than close off its economy, and it is likely to have a depressive effect on conflict if both countries have democratic political systems rather than if both have authoritarian regimes or if one has a democratic and the other has an authoritarian regime.
* ·International economic integration and developing countries. A third area of continuing research concerns developing countries and whether participation by them in the world economy helps or hurts their prospects for sustained national economic growth. In contrast to the 1970s and the early 1980s, during which period there were ongoing academic and policy debates that cast the question in terms of whether developing countries would be wise to de-link from the world economy, very few scholars argue today that such de-linkage is desirable or even realistic. Still, as the scholarship on multinational enterprises and developing 20 countries highlights, there remain significant questions about the relationship between international integration and the long-run growth prospects of developing nations. One contemporary perspective on this subject suggests that developing countries can use linkages with such key international economic actors as multinational enterprises to enhance national economic growth and to upgrade the country’s overall skills and capacity to interact successfully with the world economy. An alternative, less optimistic view is that multinational firms will not make the kinds of large investments that most developing countries need in order to enjoy a substantial improvement in their relative status in the world economy, and, from this viewpoint, the economies of developing countries may grow as a result of international integration, but they are likely to remain relegated to the less-advanced segments of the world economic system. Finally, a third perspective suggests that whether the impact of multinationals on developing countries is positive or negative, as with other linkages between the international economy and these countries, depends upon their social, political, and even cultural characteristics.

**2. The role of international economic organizations today, in the era of globalization**

*Economic globalization* is the growing interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services, free movement of international capital flows, and more rapid and widespread diffusion of technology.

*International organizations* are important actors in the critical episodes of international politics, with power in mediation, dispute resolution, peace keeping, applying sanctions and others. They also help in managing various key areas of international concern, from global health policy to the monetary policies around the world. An international organizations can be defined as ‘an institutional agreement between members of an international system in order to achieve objectives according to systemic conditions, reflecting attributes, aspirations and concerns of its members’. And what gives the basic rule of them is the sovereignty of the nation-state. In terms of the concept of global governance promoted by the international organizations, this was originally based on raw power, but has evolved to legitimacy and customs.

In conditions of globalization colossal increased global regulatory role of the international economic and financial organizations (WTO, IMF, World Bank, OECD and others.), are a kind of locomotive of globalization, developed and implemented in world economic relations universal norms, standards and rules. IMF and World Bank, as the events of the late 1990s., had appeared not ready for the sudden devastating financial crisis.

International organizations provide a common platform wherein representatives from different parts of the world can discuss and evolve solutions for contemporary issues. In common parlance, it is well known as intergovernmental organizations. The World trade Organization, European Union and Council of Europe are international Organizations to name a few.

The participating countries define the function of the International Organizations. The objective of international organization is to study, collect and propagate information, setting up of laws that are internationally accepted. The international organizations also help in cooperation between different countries by setting up negotiation deals between them. The international Organizations also help in technical assistance.

The International Organizations play an important role in collecting statistical information, analyzing the trends in the variables, making a comparative study and disseminate the information to all other countries. There are some intergovernmental organizations that have set international Minimum standards. Such norms are difficult to be set at the state level.

There are some international organizations that perform certain supervisory functions. The supervisory system of the UN is very weak. In contrast, the supervisory mechanism of the ILO is quite strong. The European Union, together with the Commission and the Court of Justice, has a relatively strong supervisory mechanism.

The third function of the international organizations is setting up multilateral or bilateral agreements between countries.

Another function, that has assumed importance in the recent times, is lending out technical cooperation to the member countries. By technical cooperation we mean the provision of intellectual or financial material to the countries, which require them.

Amongst all the roles and activities of the international organizations, the most important is negotiating and setting up multilateral agreements. Minimizing the transaction costs can strengthen the cooperation between different countries. Beside they also provide lucidity and information. For negotiations, forums for bargaining are set up and focal point structures are constructed during negotiations.

The multilateral agreements that are settled by the international organizations occur in sections like environment protection, development trade, crime human rights, etc.

**3. The main institutions of the Bretton Woods system**

The United Nations Monetary and Financial Conference was held in July 1944 at the Mount Washington Hotel in Bretton Woods, New Hampshire, where delegates from forty-four nations created a new international monetary system known as the Bretton Woods system. These countries saw the opportunity for a new international system after World War II that would draw on the lessons of the previous gold standards and the experience of the Great Depression and provide for postwar reconstruction. It was an unprecedented cooperative effort for nations that had been setting up barriers between their economies for more than a decade.

They sought to create a system that would not only avoid the rigidity of previous international monetary systems, but would also address the lack of cooperation among the countries on those systems. The classic [gold standard had been abandoned](https://www.federalreservehistory.org/essays/roosevelts_gold_program) after World War I. In the interwar period, governments not only undertook competitive devaluations but also set up restrictive trade policies that worsened the [Great Depression](https://www.federalreservehistory.org/essays/great_depression).

Those at Bretton Woods envisioned an international monetary system that would ensure exchange rate stability, prevent competitive devaluations, and promote economic growth. Although all participants agreed on the goals of the new system, plans to implement them differed. To reach a collective agreement was an enormous international undertaking. Preparation began more than two years before the conference, and financial experts held countless bilateral and multilateral meetings to arrive at a common approach. While the principal responsibility for international economic policy lies with the Treasury Department in the United States, the Federal Reserve participated by offering advice and counsel on the new system.[1](https://www.federalreservehistory.org/essays/bretton_woods_created#footnote1) The primary designers of the new system were John Maynard Keynes, adviser to the British Treasury, and Harry Dexter White, the chief international economist at the Treasury Department.

Keynes, one of the most influential economists of the time (and arguably still today), called for the creation of a large institution with the resources and authority to step in when imbalances occur. This approach was consistent with his belief that public institutions should be able to intervene in times of crises. The Keynes plan envisioned a global central bank called the Clearing Union. This bank would issue a new international currency, the “bancor,” which would be used to settle international imbalances. Keynes proposed raising funds of $26 million for the Clearing Union. Each country would receive a limited line of credit that would prevent it from running a balance of payments deficit, but each country would also be discouraged from running surpluses by having to remit excess bancor to the Clearing Union. The plan reflected Keynes’s concerns about the global postwar economy. He assumed the United States would experience another depression, causing other countries to run a balance-of-payments deficit and forcing them to choose between domestic stability and exchange rate stability.

White’s plan for a new institution was one of more limited powers and resources. It reflected the concerns that much of the financial resources of the Clearing Union envisioned by Keynes would be used to buy American goods, resulting in the United States holding the majority of bancor. White proposed a new monetary institution called the Stabilization Fund. Rather than issue a new currency, it would be funded with a finite pool of national currencies and gold of $5 million that would effectively limit the supply of reserve credit.

The plan adopted at Bretton Woods resembled the White plan with some concessions in response to Keynes’s concerns. A clause was added in case a country ran a balance of payments surplus and its currency became scarce in world trade. The fund could ration that currency and authorize limited imports from the surplus country. In addition, the total resources for the fund were raised from $5 million to $8.5 million.

 It was shortly before the end of World War II (1944) that the decision was taken to establish the Bretton Woods institutions, namely the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). A few years later (1948), the Universal Declaration of Human Rights was adopted by the UN, according to which education was at last officially established as a human right for the first time throughout human history.

Upon the end of WW II, the creation of International Institutions aiming principally at implementing policies towards economic development came to the fore. Given that collaboration is more effective if it takes place through multilateral institutions, the International Institutions gradually emerged as important regulators of the global scene, setting or influencing international developments at various levels.

At the same time, the content of education, the structure of the educational system and the implemented education policies were regarded as key factors influencing economic growth. In this way, economy was directly related to education while education was in its turn directly linked to development programs.

There are many international institutions intervening in education policy matters. The action taken by some of them is widely known while others’ action is not, since the fields they get involved in are prima facie not related to education issues. The less known institutions include the IMF and, secondarily, the IBRD. The role of the IBRD is more active and visible while the involvement of the IMF is indirect, through its involvement in the financing procedures of the WB.

The present paper will attempt to examine the role played by the IBRD and the IMF in cultivating and diffusing specific education policies and ideas as well as the value bases on which their education programs develop.

The vast majority of the International Institutions dealing with education do not form a specific self-contained policy promoted by the member states themselves since they are not capable of enforcing specific measures.

They usually define specific goals and create an attractive atmosphere around them. These goals are subsequently promoted through the mesh of relationships and partnerships they have been developing.

The particularity of the Bretton Woods Institutions lies in their ability to impose specific measures on the states. While promoting their positions through financial programs, rendering their implementation an integral part of financing, they in fact enforce the implementation of specific education policies. This fact attaches great importance to the role they play with regard to education at a global level since they may be the only International Institutions possessing the ability to directly exert education policies.

 **4. Dissatisfaction of developed countries with activities of world economic organizations**

Developing countries have long been disappointed in the policies of international organizations, and in the 1970s. they were able to strengthen their protest. The turning point was the first oil shock of 1973, when the oil-producing countries.

Countries of Middle East - Members of Petroleum Exporting Countries (OPEC), have established a blockade on oil exports to Western countries that supported Israel's aggression against neighboring Arab countries, and raised the price of oil by 400%. The **1973 oil crisis** began in October 1973 when the members of the [Organization of Arab Petroleum Exporting Countries](https://en.wikipedia.org/wiki/OPEC) proclaimed an oil [embargo](https://en.wikipedia.org/wiki/Embargo). The embargo was targeted at nations perceived as supporting Israel during the [Yom Kippur War](https://en.wikipedia.org/wiki/Yom_Kippur_War). The initial nations targeted were [Canada](https://en.wikipedia.org/wiki/Canada), [Japan](https://en.wikipedia.org/wiki/Japan), the [Netherlands](https://en.wikipedia.org/wiki/Netherlands), the [United Kingdom](https://en.wikipedia.org/wiki/United_Kingdom) and the [United States](https://en.wikipedia.org/wiki/United_States) with the embargo also later extended to [Portugal](https://en.wikipedia.org/wiki/Estado_Novo_%28Portugal%29), [Rhodesia](https://en.wikipedia.org/wiki/Rhodesia) and [South Africa](https://en.wikipedia.org/wiki/South_Africa). By the end of the embargo in March 1974, the [price of oil](https://en.wikipedia.org/wiki/Price_of_oil) had risen from US$3 per [barrel](https://en.wikipedia.org/wiki/Barrel_%28unit%29#Oil_barrel) to nearly $12 globally; US prices were significantly higher. The embargo caused an oil crisis, or "shock", with many short- and long-term effects on global politics and the global economy. It was later called the "first oil shock", followed by the [1979 oil crisis](https://en.wikipedia.org/wiki/1979_oil_crisis), termed the "second oil shock."

Subsequent violations in the world economy have challenged the ability to regulate the economy industrialized countries and key international institutions.


As is evident from Table, the product composition of developing countries' merchandise exports has changed dramatically in the past decade; particularly as regards manufactures (close to a doubling of the share to nearly two-thirds) and mining products (a decline in the share of more than half to less than one-quarter). The strong gains in manufactures brought the share of developing countries in world exports of manufactures to 20 per cent last year, double the 1980 share and nearly triple the 1973 share.

Ten years ago, a new World Trade Organization that put developing country needs at the centre of the international trade negotiation agenda was proposed. The Ministerial Declaration adopted at the start of the Doha Development Round of trade negotiations, on 14 November 2001, was a promising response to the anti-globalization riots of the 1990s.

But the WTO membership has failed to deliver the promised pro-development changes. Finding "development" in the Doha Development Round today is like looking for a needle in a haystack. Developing countries have been completely sidelined by the economic and political interests of global powers.

Here are 10 examples of how the WTO has failed the poor:

**1. Cotton:** the Fairtrade Foundation revealed last year how the $47bn in subsidies paid to rich-country producers in the past 10 years has created barriers for the 15 million cotton farmers across west Africa trying to trade their way out of poverty, and how 5 million of the world's poorest farming families have been forced out of business and into deeper poverty because of those subsidies.

**2. Agricultural subsidies:** beyond cotton, WTO members have failed even to agree how to reduce the huge subsidies paid to rich world farmers, whose overproduction continues to threaten the livelihoods of developing world farmers.

**3. Trade agreements:** the WTO has also failed to clarify the deliberately ambiguous rules on concluding trade agreements that allow the poorest countries to be manipulated by the rich states. In Africa, in negotiations with the EU, countries have been forced to eliminate tariffs on up to 90% of their trade because no clear rules exist to protect them.

**4. Special treatment:** the rules for developing countries, called "special and differential treatment" rules, were meant to be reviewed to make them more precise, effective and operational. But the WTO has failed to work through the 88 proposals that would fill the legal vacuum.

**5. Medicine:** the poorest in developing countries are unable to access affordable medicine because members have failed to clarify ambiguities between the need for governments to protect public health on one hand and on the other to protect the intellectual property rights of pharmaceutical companies.

**6. Legal costs:** the WTO pledged to improve access to its expensive and complex legal system, but has failed. In 15 years of dispute settlement under the WTO, 400 cases have been initiated. No African country has acted as a complainant and only one least developed country has ever filed a claim.

**7. Protectionist economic policies:** one of the WTO's five core functions agreed at its inception in 1995 was to achieve more coherence in global economic policy-making. Yet the WTO failed to curb the speedy increase in the number of protectionist measures applied by G20 countries in response to the global economic crisis over the past two years – despite G20 leaders' repeated affirmations of their "unwavering" commitment to resist all forms of protectionist measures.

**8. Natural disaster:** the WTO fails to alleviate suffering when it has the opportunity to do so. In the case of natural disaster, the membership will have taken almost two years to agree and implement temporary trade concessions for Pakistan, where severe flooding displaced 20 million people in 2010 and caused $10bn of damage. Those measures, according to the International Centre for Trade and Sustainable Development, would have boosted Pakistan's exports to the EU by at least €100m this year.

**9. Decision-making:** the WTO makes most of its decisions by consensus – and achieving consensus between 153 countries is nearly impossible. But this shows another failure of the WTO: to break the link between market size and political weight that would give small and poor countries a voice in the trade negotiations.

**10. Fair trade:** 10 years after the start of the Doha Development Round, governments have failed to make trade fair. As long as small and poor countries remain without a voice, the role of campaigning organisations, such as Traidcraft and Fairtrade Foundation, which are working together to eliminate cotton subsidies, will remain critical.

The WTO has failed to live up to its promises over the past decade, which reveals a wider systemic problem in the global community. True and lasting solutions to global economic problems can only come when the model of global competitiveness between countries becomes one of genuine cooperation.

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**Theme of the lecture №10. The social aspects of globalization**

**Plan of lecture:**

**1. Socio-economic disparities and changes in the stratification of society**

**2. The problem of social control in a market economy and the specificity of the public sector in conditions of globalization**

**3. Perception of globalization in the world community**

**1. Socio-economic disparities and changes in the stratification of society**

Culture is affected by the ecological environment, but at the same time culture also changes the environment in ways that affect both physical and mental health. Population increases in developing nations have created many challenges to ensure adequate nutrition for people and affects infant survival rates. The population of the world is increasing, especially in developing countries, stressing the world’s resources, economic relations between rich and poor countries, and ultimately socio-economic stability. One reason for the larger fertility rate in developing nations is the inability of these societies to provide social security for people reaching old age, and the need of parents to have children provide essential psychological and material support. Cultural values play an important role as women who are socialized with traditional gender values tend to have larger families perpetuating the limited social roles of females in traditional cultures.

Population increases are not benign as they typically are also related to industrialization of society, larger cities and socioeconomic disparity between rich and poor. In terms of physical health the stress caused by industrialization produce hypertension and many associated illnesses including heart disease. Whether the result of industrialization is positive or negative appear directly related to wealth disparity. Where there is a relative equitable distribution of wealth and health related resources the outcome is better overall health and increased longevity of the population (Wilkinson, 1996). The key to better health is not the overall wealth of a nation, but the degree to which the wealth is distributed in egalitarian ways. For example in the U.S. mortality rates vary directly between the states as a function of the inequality of income (Kaplan, Pamuk, Lynch, Cohen, & Balfour, 1996). The resource injustice is also present between nations varying in wealth, and the differences in health related expenditures differ widely between countries with the people needing services the most getting the least help (Aboud, 1998).

The economically disadvantaged whether within or between countries suffer more malnutrition. A major concern is the relationship between malnutrition and psychological functioning (Aboud, 1998). This is an issue of catastrophic impact and likely to get worse with a growing world population. Malnutrition that has very negative consequences on physical and psychological development and in developing countries a full 46 percent of the children suffer from inadequate nutrition (UNICEF, 1996). The causes for malnutrition are complex involving cultural practice, limitations of the environment, and economic and social organization. Nevertheless there is sufficient food in the world as a whole if political will and organization would permit nutrition to reach those that suffer (Barba, Guthrie, & Guthrie, 1982).

Psychologically the greatest impact of malnutrition is on cognitive development especially as the earliest years are of greatest significance for intellectual development (Martrell, 1997). Children suffer a severe decline in intellectual functioning of about 10 IQ points when they need hospitalization to recover from malnutrition or suffer malnutrition that persist over a period of months in the first two years of life (Gorman, 1995). There is some evidence that even milder forms of malnutrition may affect intelligence and increase infant mortality (Bedi, 1987; Pelto, Dickin, & Engle, 1999). Not having sufficient nutrition also causes passivity in children and removes the normal intellectual stimulation that children experience through exploration activities when well nourished. Typically, malnutrition does not occur in isolation, but is present in conjunction with other adverse environmental conditions including exposure to disease, unhygienic surroundings, and substandard housing. These are the negative health-related effects of unjust economic distribution both within and also between cultures. Traditional cultures with many adverse environmental conditions and where resources are inadequate produce additional population stress by the presence of large families. It is clear that the adverse affects of malnutrition goes far beyond mere intellectual functioning as it may for example contribute to an acceptance of the status quo in people who lack the individual and social energy to work for change. Given the critical period of early childhood the general rule is that earlier nutrition intervention is better in the child’s life. International intervention includes emergency food, but also teaching the skills that optimizes child development to the community (Pelto, Dickin, & Engle, 1999).

Social stratification is based on four basic principles: (1) Social stratification is a trait of society, not simply a reflection of individual differences; (2) Social stratification carries over from generation to generation; (3) Social stratification is universal but variable; (4) Social stratification involves not just inequality but beliefs as well.

In modern Western societies, stratification is broadly organized into three main layers: upper class, middle class, and lower class. Each of these classes can be further subdivided into smaller classes (e.g. occupational).

These categories are particular to state-based societies as distinguished from feudal societies composed of nobility-to-peasant relations. Stratification may also be defined by kinship ties or castes. For Max Weber, social class pertaining broadly to material wealth is distinguished from status class which is based on such variables as honor, prestige and religious affiliation. Talcott Parsons argued that the forces of societal differentiation and the following pattern of institutionalized individualization would strongly diminish the role of class (as a major stratification factor) as social evolution went along. It is debatable whether the earliest hunter-gatherer groups may be defined as 'stratified', or if such differentials began with agriculture and broad acts of exchange between groups. One of the ongoing issues in determining social stratification arises from the point that status inequalities between individuals are common, so it becomes a quantitative issue to determine how much inequality qualifies as stratification.

**2. The problem of social control in a market economy and the specificity of the public sector in conditions of globalization**

In the conditions of globalization (and especially in the implementation of the neo-liberal version of the latter), when the global commodity and financial markets are taking shape, they are lost to the control of national institutions of public power based on their origins and functions, and any developed international or supranational institutions of public control have not taken shape (such functions are not yet fully implemented by the UN, international economic organizations, or non-governmental organizations). As a result, there is a certain erosion of the institution of public control over markets. According to the figurative expression of the President of the Athens Club (an organization that is in favor of new forms of world governance), "we must recognize that ... by creating the well-known wording" the world without borders "in the interests of the supporters of free exchanges, we have also spawned a" world without rules " .

It is difficult not to agree with the well-known financier J. Soros, who believes that a global market economy requires a global and responsible open society and that the future of global markets largely depends on institutions that can give them stability. In essence, he proposes to create for the world market a supranational guarantor of internationally recognized games, "just as in the domestic market such a guarantor is a national state.

The concept of "public goods" is closely connected with the problem of market economy control by society. Public goods are such goods, the consumption of which is not exceptional (it is impossible to prevent the individual from using them) and who do not serve as an object of competition (the use of the good by one individual does not reduce the possibility of its consumption by another). As a rule, the category of public goods includes: national defense, maintaining law and order, ensuring property rights, competitive markets, public facilities and infrastructure, most health and education services, etc.

From economic theory it is well known that the market in itself is characterized by so-called failures in certain areas, including the impossibility of providing public goods with market methods. In the absence of market adjustment by the state and civil society institutions, such benefits will simply not be produced. In national economies, the problem of public goods was realized long ago, and the state provides its citizens with such benefits, organizing their production and distribution on non-market principles or with limited use of the latter.

Other known "failures" of the market are the inability to provide the optimal use of common resources for society (these are the benefits that are the object of competition but are not characterized by the principle of exclusivity in their consumption), as well as the presence of negative externalities (externalities) of economic activity. A classic example of negative externalities is the consequences of environmentally "dirty" economic activities for the environment, when costs associated with environmental pollution are shifted to the entire society. The task of the state in this case is to internalize external costs (costs for society) - to turn it into internal costs (costs for the company whose activity is causing pollution). At the national level, there are and function (with greater or less success) institutions of public and state control over the market economy that neutralize these "market failures".

Another kind of "failure" of the market is due to the fact that the modern market economy neither at the national nor global level is, with the possible exception of a number of sectors, the economy of perfect competition. In the modern market, as a rule, oligopoly structures dominate, monopolistic-competitive firms function. This creates an opportunity for them to find additional profits at the expense of consumers if governments do not limit their attempts to establish power over the market by pursuing an antimonopoly economic policy. At the national level, in many countries there is a wealth of experience in implementing such an antimonopoly policy, but at the supranational / international level, there are no relevant market control institutions, with the exception of the European Commission unit in the European Union, which exercises the respective functions for the EU countries. In the absence of such control over the global commodity and financial markets, the implementation of the principles of economic liberalism in the force field of structures seeking to establish power over the market acquires a distorted character of dictate and discrimination.

In the context of the globalization of the world economy, and especially in connection with the implementation of its neo-liberal model, providing the public with public goods, optimizing the use of common resources, internalization (transformation into internal effects) of negative externalities of economic activity, as well as neutralizing the monopolistic behavior of large firms, In addition, many researchers note that the greatest threat even for rich countries is born by globalization, or rather - its neolibe cial option, the risk of anti-social orientation of economic development, reduce the volume of provided public goods in terms of deregulation of global markets. It is often stressed that, in the absence of barriers to international capital migration, one of the motivations for moving capital and transferring economic activities of mobile international companies to other countries, other things being equal, is the lower level of tax payments and deductions to various social funds that serve as a source resources to provide the public with public goods. As a result, a process of peculiar tax competition unfolds between the countries, which is negative in its impact on the state budget.

The answer to this challenge was the emergence of the concept of global public goods, i.e. such benefits, the provision of a population already on the scale of the entire international community can not be realized on market principles. This is primarily a pollution-free environment, a basic set of health services, education for the entire world's population, peacekeeping, security and law and order on a global scale, global information networks, stability in the global financial sphere, and much more.

A number of circumstances form the prerequisites for the transfer to the international and supranational levels of the function of providing the public with public goods.

First, the interdependence and complementarity of national economies growing in the context of globalization bring together the national social sectors of the latter. The development of cooperation between them makes it possible to optimize the structure of production of public goods, implement economies of scale, jointly counteract negative external effects, etc.

Secondly, in the context of the globalization of the world economy, the manifestations of intercountry externalities, both positive and negative, are becoming increasingly numerous and large-scale.

This pushes the countries concerned to formulate a joint policy in the given area, to jointly regulate those sectors of the economic activities of mankind in which inter-country externalities arise.

Thirdly, the experience of world economic development in the 1990s. and in the first decade of the XXI century.showed that the emerging global markets themselves are not spared from defects in functioning ("failures"), especially visibly it was manifested in financial markets as a series of international financial crises.

**3. Perception of globalization in the world community**

From the concept of globalization, as an objective, multifaceted process, the notion of globalism - a system of political views, in which the advantages and benefits of globalization are emphasized for the development of all countries of the world - should be distinguished. And globalization is most often understood in its neoliberal variant, which provides for large-scale deregulation not only of national but now emerging global commodity and financial markets. At the same time, the carriers of these views unconsciously or deliberately abstract from the known risks of globalization processes that can complicate social and economic problems in many of the mostly less developed countries of the world.

The logical antithesis of globalism was the anti-globalization movement, whose representatives focus on possible negative effects of the development of globalization processes, especially its neoliberal model.Therefore, undoubtedly, condemning often antisocial methods of expressing their views (pogroms in cities where various summits are held), it can not be denied that this movement draws attention to the really existing real problems connected with the processes of globalization-the spread in the world poverty, inequality, a huge gap between the rich and poor, the risks of globalization for developing countries and countries with economies in transition, etc.

The rejection of the "dark" aspects of globalization at the local and national levels has been evident from the very beginning, with the emergence of its first signs and trends. In addition, the economic and military potential of the United States keeps the superpower tempted to spread its vision of economic freedoms and civil society to other countries, often disregarding local cultural traditions and social norms. According to analysts, "America is struggling in various ways for an open market economy, but at the same time upholds and imposes its monopoly position in it." 1 And imposing under the slogan

Globalization in its neoliberal version of American standards and lifestyle even in Europe is irritating, and in many developing countries is perceived as an attack on their traditional cultural values, customs and traditions.

The anti-globalization movement is very heterogeneous. Probably, the main part of the movement is not against globalization in general, but against the neoliberal model of its implementation and the negative consequences of these processes.

The social base of antiglobalism includes various associations, trade union, environmental, women's, youth and other social organizations. The intention is often to achieve democratic control over globalization processes, primarily over the emerging global financial markets (including, using the well-known idea of ​​the Tobin tax on international financial transactions). This is also due to the fact that the chaotic process of globalization threatens not only the onset of economic and financial crises, but also deregulation in the social sphere, with a decrease in the level of social protection of the population, access to health care and education for broad sectors of society, and exacerbation of the global environmental problem.

In contrast to the World Economic Forum in Davos, the social forces that are critical of the modern model of globalization processes organized the World Social Forum in Porto Alegre (Brazil). In its work annually participate more than 60 thousand people, representing more than 6 thousand organizations from 150 countries of the world.

Speaking about the need to change the social content (social consequences) of globalization, many domestic and foreign researchers put forward the idea of social and market globalization as opposed to the neoliberal one. This concept means such a development of the processes of globalization, which will focus not on the selfish interests of financial capital and TNC, but on the interests of the bulk of the world's population, now living and future generations.

Today, the influence of the still fragmented global movement in defense of the social and democratic rights of the population is inferior to the political potential of global market.  However, it will obviously gain strength and contribute to making corrections in the course of global economic processes and in solving the problems that arise. Here one can rely on extrapolation to the future of those processes of establishing public control over the markets that occurred during the formation of a market economy within the borders of the countries now existing.

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**Theme of lecture № 11. Globalization in countries with different levels of development**

**Plan of lecture:**

1. **Economic and Trade Processes Field**
2. **Education and Health Systems**
3. **Culture Effects**
4. **Economic and Trade Processes Field**

Globalization helps developing countries to deal with rest of the world increase their economic growth, solving the poverty problems in their country. In the past, developing countries were not able to tap on the world economy due to trade barriers. They cannot share the same economic growth that developed countries had. However, with globalization the World Bank and International Management encourage developing countries to go through market reforms and radical changes through large loans. Many developing nations began to take steps to open their markets by removing tariffs and free up their economies. The developed countries were able to invest in the developing nations, creating job opportunities for the poor people. For example, rapid growth in India and China has caused world poverty to decrease (blogspot.com.2009). It is clear to see that globalization has made the relationships between developed countries and developing nations stronger, it made each country depend on another country. According to Thirlwall (2003:13) " Developing countries depend on developed countries for resource flows and technology, but developed countries depend heavily on developing countries for raw materials, food and oil, and as markets for industrial goods". One the most important advantages of globalization are goods and people are transported easier and faster as a result free trade between countries has increased, and it decreased the possibility of war between countries. Furthermore, the growth in the communication between the individuals and companies in the world helped to raise free trade between countries and this led to growth economy. However, globalization has many economy and trade advantages in the developing countries, we must also note the many disadvantages that globalization has created for the poor countries. One reason globalization increases the inequality between the rich and poor, the benefits globalization is not universal; the richer are getting rich and the poor are becoming poorer. Many developing countries do benefit from globalization but then again, many of such nations do lag behind." In the past two decades, China and India have grown faster than the already rich nations. However, countries like Africa still have the highest poverty rates, in fact, the rural areas of China which do not tap on global markets also suffer greatly from such high poverty (blogspot.com.2009). On the other hand, developed countries set up their companies and industries to the developing nations to take advantages of low wages and this causing pollution in countries with poor regulation of pollution. Furthermore, setting up companies and factories in the developing nations by developed countries affect badly to the economy of the developed countries and increase unemployment.

**2- Education and Health Systems**

Globalization contributed to develop the health and education systems in the developing countries. We can clearly see that education has increased in recent years, because globalization has a catalyst to the jobs that require higher skills set. This demand allowed people to gain higher education. Health and education are basic objectives to improve any nations, and there are strong relationships between economic growth and health and education systems. Through growth in economic, living standards and life expectancy for the developing nations certainly get better. With more fortunes poor nations are able to supply good health care services and sanitation to their people. In addition, the government of developing countries can provide more money for health and education to the poor, which led to decrease the rates of illiteracy. This is seen in many developing countries whose illiteracy rate fell down recently. It is truth that, living standards and life expectancy of developing countries increase through economic gains from globalization. According to the World Bank (2004) " With globalization, more than 85 percent of the world's population can expect to live for at least sixty years and this is actually twice as long as the average life expectancy 100 years ago". In addition, globalization helped doctors and scientists to contribute to discover many diseases, which spread by human, animals and birds, and it helped them to created appropriate medicines to fight these deadly diseases. For example, HIV/ADIS, swine flu and birds' flu whole world know about these diseases and they know how to avoid it. By globalization, there are many international organizations, such as, Non-governmental Organization (NGO), World Health Organization (WHO) and UNESCO, trying to eliminate illiteracy and deadly diseases in the world and save the life. In spite of these positive effects of globalization to the education and health fields in the developing countries. However, globalization could have negative impacts also in these fields; globalization facilitates the spread of new diseases in developing nations by travelers between countries. Due to increased trade and travel, many diseases like HIV/ADIS, Swine Flu, Bird Flu and many plant diseases, are facilitated across borders, from developed nations to the developing ones. This influences badly to the living standards and life expectancy these countries. According to the World Bank (2004) "The AIDS crisis has reduced life expectancy in some parts of Africa to less than 33 years and delay in addressing the problems caused by economic". Another drawback of globalization is, globalized competition has forced many minds skilled workers where highly educated and qualified professionals, such as scientists, doctors, engineers and IT specialists, migrate to developed countries to benefit from the higher wages and greater lifestyle prospects for themselves and their children. This leads to decrease skills labour in the developing countries.

**3- Culture Effects**

Globalization has many benefits and detriment to the culture in the developing countries. Many developing countries cultures has been changed through globalization, and became imitate others cultures such as, America and European countries. Before globalization it would not have been possible to know about other countries and their cultures. Due to important tools of globalization like television, radio, satellite and internet, it is possible today to know what is happening in any countries such as, America, Japan and Australia. Moreover, people worldwide can know each other better through globalization. For example, it is easy to see more and more Hollywood stars shows the cultures different from America. In addition, today we can see clearly a heavily effect that caused by globalization to the young people in the different poor nations, it is very common to see teenagers wearing Nike T-Shirts and Adidas footwear, playing Hip-Hop music, using Apple ipad and iphone and eating at MacDonald, KFC and Domino's Pizza . It is look like you can only distinguish them by their language. One the other hand, many developing countries are concerned about the rise of globalization because it might lead to destroy their own culture, traditional, identity, customs and their language. Many Arab countries such as Iraq, Syria, Lebanon and Jordan, as developing countries have affected negatively in some areas, their cultures, Developing Country Studies www.iiste.org customs and traditional have been changed. They wear and behave like developed nations, a few people are wearing their traditional cloths that the used to. Furthermore, globalization leads to disappearing of many words and expressions from local language because many people use English and French words. In addition, great changes have taken place in the family life, young people trying to leave their families and live alone when they get 18 years old, and the extended family tends to become smaller than before (Kurdishglobe, 2010).

**Conclusion**

In conclusion, as we can see, the process of globalization has involved all the countries around the world. Developing countries such as India, China, Africa, Iraq, Syria, Lebanon and Jordan have been affected by globalization, and whether negatively or positively, the economies of these countries have improved under the influence of globalization. The size of direct foreign investment has increased and a lot of bad habits and traditions erased, but also globalization has brought many drawbacks to these countries as well. Many customs and cultures are disappeared such as traditions clothes and some language and expressions have changed. In addition, the violence and drugs abuse are increased and a lot of deadly diseases have spread under the influence of globalization. However, although globalization has many disadvantages, we believe that globalization has brought the developing countries many more benefits than the detriments. For example, we can see there is more and a biggest opportunity for people in both developed countries and developing countries to sell as many goods to as many people as right now, so we can say this is the golden age for business, commerce and trade.

The phenomenon of globalization began in a primitive form when humans first settled into different areas of the world; however, it has shown a rather steady and rapid progress in recent times and has become an international dynamic which, due to technological advancements, has increased in speed and scale, so that countries in all five continents have been affected and engaged.

What Is Globalization?

Globalization is defined as a process that, based on international strategies, aims to expand business operations on a worldwide level, and was precipitated by the facilitation of global communications due to technological advancements, and socioeconomic, political and environmental developments.

The goal of globalization is to provide organizations a superior competitive position with lower operating costs, to gain greater numbers of products, services and consumers. This approach to competition is gained via diversification of resources, the creation and development of new investment opportunities by opening up additional markets, and accessing new raw materials and resources. Diversification of resources is a business strategy that increases the variety of business products and services within various organizations. Diversification strengthens institutions by lowering organizational risk factors, spreading interests in different areas, taking advantage of market opportunities, and acquiring companies both horizontal and vertical in nature.

Industrialized or developed nations are specific countries with a high level of economic development and meet certain socioeconomic criteria based on economic theory, such as gross domestic product (GDP), industrialization and human development index (HDI) as defined by the International Monetary Fund (IMF), the United Nations (UN) and the World Trade Organization(WTO). Using these definitions, some industrialized countries are: United Kingdom, Belgium, Denmark, Finland, France, Germany, Japan, Luxembourg, Norway, Sweden, Switzerland and the United States.

**Components of Globalization**

The components of globalization include GDP, industrialization and the Human Development Index (HDI). The GDP is the market value of all finished goods and services produced within a country's borders in a year, and serves as a measure of a country's overall economic output. Industrializationis a process which, driven by technological innovation, effectuates social change and economic development by transforming a country into a modernized industrial, or developed nation. The Human Development Index comprises three components: a country's population's life expectancy, knowledge and education measured by the adult literacy, and income.

The degree to which an organization is globalized and diversified has bearing on the strategies that it uses to pursue greater development and investment opportunities.

**The Economic Impact on Developed Nations**

Globalization compels businesses to adapt to different strategies based on new ideological trends that try to balance rights and interests of both the individual and the community as a whole. This change enables businesses to compete worldwide and also signifies a dramatic change for business leaders, labor and management by legitimately accepting the participation of workers and government in developing and implementing company policies and strategies. Risk reduction via diversification can be accomplished through company involvement with international financial institutions and partnering with both local and multinational businesses.

Globalization brings reorganization at the international, national and sub-national levels. Specifically, it brings the reorganization of production, international trade and the integration of financial markets. This affects capitalist economic and social relations, via multilateralism and microeconomic phenomena, such as business competitiveness, at the global level. The transformation of production systems affects the class structure, the labor process, the application of technology and the structure and organization of capital. Globalization is now seen as marginalizing the less educated and low-skilled workers. Business expansion will no longer automatically imply increased employment. Additionally, it can cause high remuneration of capital, due to its higher mobility compared to labor.

The phenomenon seems to be driven by three major forces: globalization of all product and financial markets, technology and deregulation. Globalization of product and financial markets refers to an increased economic integration in specialization and economies of scale, which will result in greater trade in financial services through both capital flows and cross-border entry activity. The technology factor, specifically telecommunication and information availability, has facilitated remote delivery and provided new access and distribution channels, while revamping industrial structures for financial services by allowing entry of non-bank entities, such as telecoms and utilities.

Deregulation pertains to the liberalization of capital account and financial services in products, markets and geographic locations. It integrates banks by offering a broad array of services, allows entry of new providers, and increases multinational presence in many markets and more cross-border activities.

In a global economy, power is the ability of a company to command both tangible and intangible assets that create customer loyalty, regardless of location. Independent of size or geographic location, a company can meet global standards and tap into global networks, thrive and act as a world class thinker, maker and trader, by using its greatest assets: its concepts, competence and connections.

**Beneficial Effects**

Some economists have a positive outlook regarding the net effects of globalization on economic growth. These effects have been analyzed over the years by several studies attempting to measure the impact of globalization on various nations' economies using variables such as trade, capital flows and their openness, GDP per capita, foreign direct investment (FDI) and more. These studies examined the effects of several components of globalization on growth using time series cross sectional data on trade, FDI and portfolio investment. Although they provide an analysis of individual components of globalization on economic growth, some of the results are inconclusive or even contradictory. However, overall, the findings of those studies seem to be supportive of the economists' positive position, instead of the one held by the public and non-economist view.

Trade among nations via the use of comparative advantage promotes growth, which is attributed to a strong correlation between the openness to trade flows and the affect on economic growth and economic performance. Additionally there is a strong positive relation between capital flows and their impact on economic growth.

Foreign Direct Investment's impact on economic growth has had a positive growth effect in wealthy countries and an increase in trade and FDI, resulting in higher growth rates. Empirical research examining the effects of several components of globalization on growth, using time series and cross sectional data on trade, FDI and portfolio investment, found that a country tends to have a lower degree of globalization if it generates higher revenues from trade taxes. Further evidence indicates that there is a positive growth-effect in countries that are sufficiently rich, as are most of the developed nations.

The World Bank reports that integration with global capital markets can lead to disastrous effects, without sound domestic financial systems in place. Furthermore, globalized countries have lower increases in government outlays and taxes, and lower levels of corruption in their governments.

One of the potential benefits of globalization is to provide opportunities for reducing macroeconomic volatility on output and consumption via diversification of risk.

**Harmful Effects**

Non-economists and the wide public expect the costs associated with globalization to outweigh the benefits, especially in the short-run. Less wealthy countries from those among the industrialized nations may not have the same highly-accentuated beneficial effect from globalization as more wealthy countries, measured by GDP per capita etc. Although free trade increases opportunities for international trade, it also increases the risk of failure for smaller companies that cannot compete globally. Additionally, free trade may drive up production and labor costs, including higher wages for more skilled workforce, which again can lead to outsourcing of jobs from countries with higher wages.

Domestic industries in some countries may be endangered due to comparative or absolute advantage of other countries in specific industries. Another possible danger and harmful effect is the overuse and abuse of natural resources to meet new higher demands in the production of goods.

**The Bottom Line**

One of the major potential benefits of globalization is to provide opportunities for reducing macroeconomic volatility on output and consumption via diversification of risk. The overall evidence of the globalization effect on macroeconomic volatility of output indicates that although direct effects are ambiguous in theoretical models, financial integration helps in a nation's production base diversification, and leads to an increase in specialization of production. However, the specialization of production, based on the concept of comparative advantage, can also lead to higher volatility in specific industries within an economy and society of a nation. As time passes, successful companies, independent of size, will be the ones that are part of the global economy.

## Increased Standard of Living

Economic globalization gives governments of developing nations access to foreign lending. When these funds are used on infrastructure including roads, health care, education, and social services, the standard of living in the country increases. If the money is used only selectively, however, not all citizens will participate in the benefits.

## Access to New Markets

Globalization leads to freer trade between countries. This is one of its largest benefits to developing nations. Homegrown industries see trade barriers fall and have access to a much wider international market. The growth this generates allows companies to develop new technologies and produce new products and services.

## Widening Disparity in Incomes

While an influx of foreign companies and foreign capital creates a reduction in overall unemployment and poverty, it can also increase the wage gap between those who are educated and those who are not. Over the longer term, education levels will rise as the financial health of developing countries rise, but in the short term, some of the poor will become poorer. Not everyone will participate in an elevation of living standards.

## Decreased Employment

The influx of foreign companies into developing countries increases employment in many sectors, especially for skilled workers. However, improvements in technology come with the new businesses and that technology spreads to domestic companies. Automation in the manufacturing and agricultural sectors lessens the need for unskilled labor and unemployment rises in those sectors. If there is no infrastructure to help the unemployed train for the globalized economy, social services in the country may become strained trying to care for the new underclass.

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**Theme of lecture № 12. The regulation of the world economy in conditions of globalization and the role of the state**

**Plan of lecture:**

1. **What is globalization?**
2. **New geography of power**
3. **Notes toward mapping a role for the state**

**1. What is globalization?**

Two notions underlie much of the current discussion about globalization. One is the zero-sum game: whatever the global economy gains, the state loses, and vice-versa. The other is that if an event takes place in a national territory it is a national event, whether a business transaction or a judicial decision. These assumptions about zero-sums and geography influence both experts of the global economy and the general public.

One of the roles of the state vis-a-vis today's global economy, as opposed to earlier phases of the world economy, has been to negotiate the intersection of national law and foreign actors, such as firms, markets and supranational organizations. This condition makes the current phase distinctive. We have, on the one hand, the existence of an enormously elaborate body of law that secures the exclusive territoriality of states to an extent not seen in earlier centuries, and on the other, the considerable institutionalizing of the "rights" of non-national firms, and the growing scope of cross-border transactions and supranational organizations. These new legal frameworks set up the conditions for a necessary engagement by states in the process of globalization.

We generally use terms such as "deregulation," "financial and trade liberalization," and "privatization" to describe the outcome of this negotiation. While these terms capture the withdrawal of the state from regulating its economy, they do not register all the ways that the state participates in setting up new frameworks to further globalization; nor do they capture the associated transformations inside the state. I have long argued that many transactions that are a key part of the global economy either do not cross borders, or do not in ways that investment and trade do. Instead, they are located inside national economies. Furthermore, I have tried to show how even the most digitalized global financial market is grounded in a set of very material resources and spaces largely embedded in national territories.

Besides the new functions of the state there is a new set of intermediary strategic agents that contribute to the management and coordination of the global economy. They are largely, though not exclusively, private. And they have absorbed some of the international functions carried out by states in the recent past, as was the case, for instance, during the predominantly protectionist regimes of the post-World War II decades. The role of these strategic agents is dramatically illustrated by a recent case involving China: when the Chinese government in 1996 issued a hundred-year bond to be sold, not in Shanghai but in New York, it did not have to deal with Washington but J.P. Morgan. This example can be repeated over and over for a broad range of countries.

Private firms in international finance, accounting and law, the new private standards for international accounting and financial reporting, and supra-national organizations such as the WTO, all play strategic non-government centered governance functions. They do so, however, largely inside the territory of states. Their participation signals the possibility of a whole series of engagements with various aspects of states and a diversity of outcomes depending on the specifics of each state.

Because global processes materialize to a large extent in national territories, many states have had to become deeply involved in the implementation of the global economic system and thereby have experienced transformations of various aspects of their institutional structure. In this process some components of states, such as ministries of finance and central banks, may well gain power, even as others lose power. My working hypothesis is that while globalization leaves national territory basically unaltered, it is having pronounced effects on the exclusive territoriality of the state - that is, its effects are not on territory as such but on the institutional encasements of that geographic condition.

**2. New geography of power**

Globalization, then, does not have to do only with crossing geographic borders, as in international investment and trade. It also has to do with the relocation of national public governance functions to transnational private arenas and with the development within states - through legislative acts, court rulings, executive orders - of the mechanisms necessary to accommodate the rights of global capital in what are still national territories. One overall effect is what I am calling an incipient de-nationalizing of several highly specialized national institutional orders, or the partial replacement of national legal and regulatory frameworks with "de-nationalized" ones. One concrete version of this change is the way states have shifted away from what are ultimately Keynsian principles toward agendas that ensure the rights of global capital inside their national territories. This is one way in which the state matters under conditions of globalization: its capacity as an administrative and technical apparatus can be used to govern the operations of national as well as of non-national economic actors and institutions.

Economic globalization represents a major transformation in the territorial organization of key economic sectors. To what extent it also represents a possible transformation in the structures of politico-economic power is a difficult question. In my reading, the major dynamics at work in the global economy contain the capacity to undo the intersection of sovereignty and territory embedded in the modern state system. This does not necessarily mean that sovereignty is less of a feature under conditions of globalization. Rather, it may signal the re-location of some components of state sovereignty onto supranational authorities or private corporate systems. In its most extreme form I would argue that we are seeing a partial de-nationalizing of state sovereignty. Similarly, economic globalization does not eliminate the state's exclusive control over its territory, but alters the particular type of institutional encasing of national territory that has developed since World War II.

We can begin to address these questions by examining major aspects of economic globalization that contribute to what I think of as a new geography of power. Three components in this new geography of power are of interest here. The first concerns the actual physical territories where much of globalization materializes in specific institutions and processes. The second concerns the ascendance of a new legal regime to govern cross-border economic transactions, a trend not sufficiently recognized in current social science literature. The third component concerns the fact that a growing number of economic activities are taking place in digital space. The growing digitalization of economic activity, particularly in the leading information industries such as finance and specialized corporate services, may be contributing to a crisis in control that transcends the capacities of both the state and the institutional apparatus of the economy. Adding these three to the footloose quality of global corporate capital reveals that the relationship between the global economy and the state has not been captured by the traditional notion of the state and the global economy as two mutually exclusive realms.

For me, these processes raise questions about the exclusive authority of the state over its territory. One answer is that they point to the partial relocating of a growing number of activities under newly emerging institutional umbrellas that are increasingly not governmental but private. However, insofar as these new institutional umbrellas govern processes that take place at least partly in national territories, they involve explicitly or implicitly the participation of select components of states. Let me briefly elaborate on a few aspects. I will begin with the question of the strategic geography of globalization, or more conceptually, the particular form of territoriality we see taking shape in the global economy today.

The worldwide geographic dispersal of factories and service outlets is actually part of what are highly integrated corporate structures with strong tendencies toward concentration in control and profit appropriation. While conceivably this geographic distribution of factories and offices could have gone along with a wider distribution of control and profits, a democratization of the corporate structure has not happened. Indeed, many of these operations appear as "overseas sales" for large corporations; a very high share (estimates range from 40 to 70 percent) of international trade is actually intra-firm trade.

There are a number of implications here for the question of territoriality and sovereignty in the context of the global economy. First, when there is geographic dispersal of factories, offices and service outlets in an integrated corporate system, particularly one with centralized, top level control, there is also a growth in corporate central functions. The more firms become global, the more their central functions grow in importance, complexity, and number of transactions. Of importance here is the dynamic that connects the dispersal of economic activities with the ongoing weight and often growth of corporate central functions. In terms of the state's authority, globalization's capacity to create an economic space that extends beyond the regulatory capacity of a single state is only half the story. The other half is that these corporate central functions are disproportionately concentrated in the national territories of the highly developed countries.

It is important to analyze the strategic corporate functions of the global against the overall corporate economy of a country. They are not completely overlapping worlds; many components of a country's corporate economy have little to do with globalization. Conversely, many "national" corporate sectors have become deeply global in their orientation and have little resemblance to their erstwhile national-market orientation. For the purposes of many kinds of inquiry this distinction may not matter; for the purposes of understanding the global economy, it does.

Another instance today of this negotiation between transnational process and a national territory is that of the global financial markets. The orders of magnitude in these transactions have risen sharply, as illustrated by the U.S. $75 trillion in turnover (as estimated by *The Economist*) in the global capital market, a major component of the global economy. These transactions are partly embedded in telecommunications systems that make possible the instantaneous transmission of money and information around the globe. A great deal of attention has been given to this issue, but the other half of the story is the extent to which the global financial markets are located in particular cities in the highly developed countries. Indeed, the degrees of concentration are unexpectedly high. The topography of activities in many of the global digitized industries, such as finance, actually weaves in and out of digital space. When it moves out of digital space and hits the ground it does so in massive concentrations of very material resources, from infrastructure to buildings, inevitably located in some or another national territory.

The establishment of a worldwide network of factories, offices, service outlets, and global financial markets has required innovations in national legal systems and the creation of whole new frameworks outside those national systems. This is, in my reading, a second component of the new geography of power confronting states. Social scientists often summarize these legal changes under the rubric of "deregulation." For them, deregulation is only another name for the declining significance of the state. There is, it seems to me, a more specific process contained in these legal changes, one that, along with the reconfiguration of space I address above, signals a fundamental transformation in the matter of sovereignty. This process points to new contents and new locations for that particular systemic feature we call sovereignty.

For instance, over the past 20 years, international commercial arbitration has been transformed and institutionalized as the leading contractual method for the resolution of transnational commercial disputes. According to Dezalay and Garth, international commercial arbitration is a delocalized and decentralized market for administering international commercial disputes, connected by more or less powerful institutions and individuals whose purpose is to avoid national courts[[5]](https://quod.lib.umich.edu/j/jii/4750978.0006.304/--state-and-the-global-economy?rgn=main;view=fulltext;q1=Globalization#N5). A second instance of a private regulatory system is represented by debt security or bond rating agencies, which have come to play an increasingly important role in the global economy[[6]](https://quod.lib.umich.edu/j/jii/4750978.0006.304/--state-and-the-global-economy?rgn=main;view=fulltext;q1=Globalization#N6). In 1980, Moody's and Standard and Poor had no analysts outside the United States; by the early 1990s they each had about 100 in Europe, Japan and Australia.

The predominance of these and other transnational institutions raises questions about the relationship between state sovereignty and the governance of global economic processes. International commercial arbitration is basically a private justice system, while credit rating agencies are private gate-keeping systems. Along with other such institutions they have emerged as important governance mechanisms whose authority is not centered in the state.

The new geography of global economic processes - the strategic territories for economic globalization - had to be produced, both through the practices of corporate actors, the requisite resources (i.e. global cities), and the work of new legal regimes. Insofar as all of these processes take place at least partially in national territories, states have had to play a role. Mapping this engagement is a central part of my current research project[[7]](https://quod.lib.umich.edu/j/jii/4750978.0006.304/--state-and-the-global-economy?rgn=main;view=fulltext;q1=Globalization#N7). At this point, it is clear to me that there are multiple manifestations of this engagement, such as particular court rulings, legislative acts, executive orders, and private corporate decisions. I think of these engagements as representing a frontier zone, with many skirmishes between different vested interests and with many different outcomes across institutions and states. There is also the work of legitimating the changes, such as, for instance, government endorsement of privatization of public sector firms and deregulation of financial markets, both of which de facto entail today the opening of a country's economy to foreign investment.

With these legal innovations has come what we could think of as a new normativity, one deeply embedded in the new logic of the global capital markets. To become normative, this logic requires that states endorse and implement it as the "proper" way for governing a national economy. In this regard, the role of central banks has emerged as critical. Although they have lost some of their macroeconomic authority, they have now become intermediary institutions through which the new international rules of the game are implemented in national economies. Note also the new importance attached to the autonomy of central banks from the executive branch, a condition states must reach in order to get loans from the IMF.

Thus, characterizations of the state as simply losing significance are inadequate. Such characterizations fail to capture this very important dimension, and reduce what is happening to a function of the duality that splits state and global economy: what one wins, the other loses. Deregulation marks not simply the state's loss of control. It is also a mechanism for negotiating the juxtaposition of the inter-state consensus to pursue globalization with the fact that national legal systems remain as the major instantiation through which guarantees of contract and property rights are enforced.

At this time, we can identify at least the following in an effort to map the role of the state in these processes.

First, the emergent, often imposed consensus in the community of states to further globalization has created a set of specific obligations for participating states. The state remains as the ultimate guarantor of the "rights" of global capital, i.e. the protection of contracts and property rights. Firms operating transnationally want to ensure the functions traditionally exercised by the state in the national realm of the economy, notably guaranteeing property rights and contracts. The state here can be conceived of as representing a technical administrative capacity that cannot be replicated at this time by any other institutional arrangement. Furthermore, this is a capacity backed by military power, even global power in the case of some states.

This guarantee of the rights of capital is embedded in a certain type of state, a certain conception of the rights of capital, and a certain type of international legal regime. It is largely embedded in the states of the most developed and most powerful countries in the world, in Western notions of contract and property rights, and in a new legal regime aimed at furthering economic globalization. The state continues to play a crucial, though no longer exclusive role in the production of laws around these new forms of economic activity.

Secondly, while central, the role of the state in producing the legal encasements for economic operations is no longer what it was in earlier periods. Economic globalization has been accompanied by the creation of new legal regimes and legal practices and by the expansion and renovation of some older forms that bypass national legal systems. This is evident in the rising importance of international commercial arbitration and the variety of institutions which fulfill rating and advisory functions that have become essential for the operation of the global economy.

Third, what is generally called deregulation actually refers to an extremely complex set of intersections and negotiations which, while preserving the integrity of national territory as a geographic condition, do transform the exclusive authority of the state over its territory, i.e. the national and international frameworks through which national territory has assumed an institutional form. The discussion in the preceding sections brings to the fore the distinction between national territory and the exclusive authority of the state. These have corresponded closely for much of the recent history since World War I, especially in the case of highly developed countries. Today, globalization and deregulation may be contributing to an incipient slippage in that correspondence. Much deregulation has had the effect of promoting that slippage and giving it a legitimate form in national legal frameworks.

Fourth, in the case of the global capital market, we can see that beyond the fact of its raw economic power, the logic of this market has assumed normative weight in the making of national economic policy. We see this in countries as diverse as the United States and Mexico and, most recently, in countries such as France and Germany, which have long resisted this influence.

1. **Notes toward mapping a role for the state**

Much of my discussion is concerned with a particular type of issue: the formation of new legal regimes that negotiate between national sovereignty and the cross-border operations of corporate economic actors. But there is a second, distinct issue: the particular content of these new regimes. While such regimes contribute to strengthening the advantages of certain types of economic actors, they weaken those of others. With regard to questions of governance, then, there are two different agendas. The new legal regimes discussed here are centered on the effort to create viable systems of coordination among the powerful economic actors now operating globally, such as international commercial arbitration, credit rating agencies, and the new international standards for accounting and financial reporting. But there is a second agenda, one focused on equity and distributive questions in the context of a globally integrated economic system that produces immense inequalities in the profit-making capacities of firms and in the earning capacities of households. There is a larger theoretical question here that concerns which actors gain the legitimacy for governance of the global economy and the legitimacy to take over rules and authorities hitherto encased in the state.

If it is true that the nation state is likely to remain for some time to come a prominent reference point in the "cartography of governance" -- the subject of this symposium -- it is also true that the specific role of this administrative structure will be determined by more than structural or topographic features of a political system. To this extent, a "meteorology of governance" is needed as well, for it addresses the dynamic though often unpredictable processes that occur across the political landscape.

If the winds of political change are to sweep into the dusty halls of government, they will originate from the same place they have always arisen from time immemorial -- they will flow from the voices of the people.

To overcome the numerous institutional obstacles to change, broad-based coalitions must be formed among the people. Environmental NGOs can accomplish much through their own hard work and focused efforts. They can accomplish much more, however, through networks of alliances with other groups throughout civil society that share a commitment to the common good. These are the kinds of networks that led to the conclusion of the Mine-Ban Convention and the campaign to create an International Criminal Court. The Partial Nuclear-Test-Ban Treaty owes much of its existence to sustained work by people around the world who were concerned about the health and environmental effects of atmospheric nuclear testing. This track record indicates that the nation state and globalization are surely not mutually-exclusive concepts. Working together, they have the potential to be among humanity's most effective means of improving life on this planet for all and on an equitable basis. This challenge is no more important than in international peace and security, and no more demanding than in the area of disarmament. If the collective aim is inclusive, results-based globalization, clearly environmental NGOs have already made an excellent start in their combined efforts -- not to eliminate the state -- but to channel its significant resources toward achieving responsible, collective ends. This is the solemn task of environmental NGOs in the future, the task of mobilizing a stubborn defence of our common global heritage. Its best partners in this grand endeavour will remain an informed public, other like-minded groups, a state guided by enlightened laws and policies, and a common global forum to coordinate and integrate different pathways to our collective ends.

The fate of these collaborative efforts will profoundly shape both the cartography and meteorology of governance in the new millennium. They will determine whether humanity will find itself facing the dawn of a new millennium, or the encroaching darkness of its last sunset.

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# Theme of lecture № 13. Positive and negative effects of globalization

**Plan of lecture:**

**1. Benefits and risks of globalization for individual countries and companies**

**2. Strengthening of the technological gap**

# 4. Advantages and disadvantages of globalization of world economy

**1. Benefits and risks of globalization for individual countries and companies**

Globalization is associated with a potential win countries participating in this process. At the same time, the intensification of competition in integrating global commodity and financial markets, especially in the combination of globalization and large-scale liberalization of economic life, which was the main content of the neoliberal model of globalization, is unavoidable risks for individual companies, inferior to the competition stronger and for individual countries.

Moreover, in developed countries the potential benefits of globalization sufficient weight (this is where the headquarters of the strongest companies - players in the world markets, as well as the main scientific and technical and technological capacity of the planet, the main financial resources), and the risks in the form of a reduction of individual production, income redistribution and a possible increase in social inequality can be partly compensated by the state's social policy.

It is vulnerable and least developed countries with regard to their financial markets, foreign financial capital uncontrolled inflow and outflow, mainly speculative.

The benefits of globalization was often much less than its advocates claimed, and its price is much higher, because the destroyed habitat in the political process, corruption penetrated and, in addition, rapid changes did not give time to countries for cultural adaptation. Crises, followed by mass unemployment, entailed a long-term problem of the collapse of social structures.

**2. Strengthening of the technological gap**

In advanced economies, the development of capacities to confront the crisis in the financial markets much more.

Therefore, the processes of globalization lead to an increase in the level of development of advanced economies and weakening position in the global economy of less developed countries in many cases. Many developing countries and countries with economies in transition fall into technological dependence on developed: increasing complexity of modern technology makes their development in less developed countries is extremely costly exercise, and borrowed technologies often cannot be used effectively due to lack of complementary factors, primarily of highly qualified and educated professionals. Deepening the technological gap between these groups of countries.

**3. Political threats of globalization**

The obvious conclusion about the rise of the potential for conflict in the world economic system, accumulating on the side of developing countries, the vast potential of discontent. Strengthening linkages and interdependence among countries in the world economic system, combined with the growth of the global socio-economic disparities, widening gap in income and living standards between the richest and poorest quintiles and declines of the population of the planet.

**4. Offshore zones as a problematic factor**

Obvious benefits of globalization, especially financial, received some peripheral countries, is established on its territory (since 1960-1970-ies.) Offshore, free from taxation in order to attract foreign capital. A whole galaxy of offshore zones, bringing together four of their main regional groups. Railroad stations serve the Caribbean countries in North and South America, are in the same time zone as New York. Offshore areas in Europe include individual countries, coastal enclaves and Independent Island under the protection of the British Crown. They serve primarily the financial capital of countries in the European time zone. Railroad stations in the countries of the Persian Gulf oil-producing service in the Middle East. Singapore, Hong Kong, and Vanuatu, Nauru and other Pacific island territories use the financial capital of the Asia-Pacific region, are in the same time zone with Tokyo

# 4. Advantages and disadvantages of globalization of world economy

# Advantages of globalization of world economy

1. More efficient markets

Efficient markets should be what every economy strives for. Essentially, the sign of an efficient market is where there is an equilibrium between what buyers are willing to pay for a good or service and what sellers are willing to sell for a good or service.

If you can improve the way you produce a good or service by doing things such as outsourcing certain processes or buying from an overseas supplier that offers discounts, you can then afford to lower your selling price which results in increased demand and affordability.

Even if businesses don’t lower prices, they can make additional profits and then reallocate that excess profit into doing things like increasing wages, taking on more investments or even creating more expansion projects.

2. Increased competition

Anytime that you have multiple producers competing for a hold of the economy, that’s a good sign for consumers, as the quality of goods and services often goes up as a result.

When businesses started to venture across international borders, what they often did was introduce a new standard into the global marketplace. Consumers then had more options to choose from.

With more competitors to fight over market share, each company has to constantly look to improve their goods or services or create more value for their customers.

This means better products and sometimes lower prices, which is always a good thing for buyers.

3. Stabilized security

When your economy depends largely on another country’s economy, it is hard to imagine either one of the countries attacking the other. In a weird sort of way, globalization helped heighten world security.

Although this may seem kind of twisted since there is so much violence that still goes on in the world, the fact remains that globalization has halted many conflicts that could have turned ugly if their country’s financial health didn’t depend on the other.

4. More wealth equality throughout the world

Although many Americans contend that their standard of living has gone down because of globalization, the flip side to this is that hundreds of thousands of people around the world now have jobs, have started their own businesses and can provide comfort for their families.

Living in the U.S., we take things like clean water, shelter and plentiful food for granted. Our standard of living is so high compared to many nations that when we can no longer buy frivolous luxuries, we claim that we are poor.

Globalization may have stopped you from buying another flat screen TV, but it also helped countless people in developing countries put food on their table for their families.

**Disadvantages of globalization**

* 1. Human costs

Apple is known as the most successful and wealthiest company due to its manufacturing that is done globally. However, what Apple fails to disclose is that the major production of the devices came from China sweatshops.

In order to meet the global demands of production set by the management in a given timeframe, workers from the Apple manufacturing factory in Chengdu said that they were forced to work long hours, almost seven days a week, in harsh environments which resulted in the straining of workers’ health. Apart from that, there have been serious cases of abuse such as child labour and inappropriate employee’s welfare. All these factors have concocted a hazardous environment that resulted in two blasts within the manufacturing factory itself, consequently bringing about fatality as no proper safety measurements were taken.

Apple at that point in time had a narrow vision of company profit and growth, and that resulted in the company procuring methods that will increase the profit margin regardless of ethics, and one of the targets was low-cost production. This inadvertently brought about the neglect of their 120,000 worker’s welfare (Duhigg and Barboza, 2012). Companies from developed countries tend to take advantage of workers from developing countries in order to meet their aggressive demand. This happens due to racism, the feeling of superiority brought about by the factors such as the workers are a lower class due to the education level of developing countries and even because they are not of their own nationality.

1. Pollution

As China is on the rise to become a large economic power, they have inadvertently contributed to a huge environmental impact on the world.

China has increasingly become one of the countries chosen by many of its developed counterparts for factory establishment due to its ability to produce goods with low costs. However, with the increased number of factories setting up in China, it has resulted in the release of a huge amount of poisonous industrial gases into the air causing air pollution.

In the study by “The Proceedings of theNational Academy of Sciences”,the release of such gases is connected to the large exports in China. The pollution has not only affected their neighbouring countries decreasing the quality of air but it has also spread over to the United States, causing haze in the westcoast. In order to curb this pollution created by China, Lane and Stromberg (2014) suggested that it is a necessity for countries to come together and make a stand through subduing “global political tensions” and the goal of “short-term economic incentives” that prevents cooperation.And as mentioned in the reading, this increasing rate of the air pollution, would result in the deterioration in the health of the Chinese and eventually the people at the rest of the world.(Lane and Stromberg, 2014)

1. Insecurity and violence

China’s recent movement of placing an oil rig near to Vietnam has caused an anti-china riot in Vietnam. This brought up a sensitive issue regarding the ownership of the area in which the oil rig was parked at. The action has since resulted in many Vietnamese protestors reacting violently through the destruction and burning down of many factories that are owned by FDI. As Vietnamese protestors could not differentiate the different nationalities, they unintentionally affected many FDI companies that are actually owned by Taiwanese or South Korean businessmen. Many factories operating in the area were forced to shut down and with businesses continually disrupted the violence caused a huge decline in income. Vietnamese protestors have been known to be targeting and attacking the Chinese employees as well. In which the riots have resulted in almost two fatalities while leaving many other Chinese nationals injured. Due to this continuous violence many Chinese were sent back to China for safety reasons (Whiteman, 2014). With many establishments of FDI businesses in global countries, it will cause its nation people to feel a sense of insecurity of others invading their country. As depicted in the recent China and Vietnam dispute, all it takes is such sensitive matter to spark all these insecurities.

1. Conclusion

As mentioned above, globalization has proven to greatly contribute to the country’s economic growth in both developed and developing countries. It has not only created a substantial number of job opportunities around the world, it simultaneously allows the distribution of technology and knowledge between countries that are essential for their economy’s advancement. Globalisation is also a crucial for developing countries as the input from other countries aids in the faster and continuous development of the country.

However, while countries are enjoying the fruits of the economy’s growth, there are consequences that appear a result of globalization mostly affecting the developing countries. As mentioned earlier, globalization has resulted in issues such as violating human rights, environment pollution and distrust among countries. With globalization constantly growing and here to stay, more concerns would arise.

With the rise of globalization, it has created a disparity between countries in today’s world. This is because while some countries are proving to be hubs where investments continually pour in for that purpose, resulting in rapid economic growth, other countries that are not as attractive and less developed are struggling to keep up. Developing countries are gradually becoming the generator of the developed countries’ economy growth and instead of growing together, the economic gap between these countries continues to widen.

A global wealth report in 2013 said that wealthiest 10% of the global population possesses 86% of world’s wealth while the bottom half of the rest possess less than 1%. As compared to developed countries which reports show an average of a $100,000 wealth per person, the standard wealth of each person in the less developed countries was $5,000 or less (Appiah, 2014). In a report from 2012, it is said that the world’s population is made up of 82.5% who resides in less developed countries. This further shows that there are huge gaps in the wealth distribution between the developed and developing countries. It also means globalization while beneficial to the economy of developed countries, is inadvertently creating a larger disparity and straining the economic growth in the developing countries.

Furthermore, globalization implicates internal problems within a country to the countries in which their businesses reside in. With the global economy differences, it creates social imbalance where people from both developed and developing countries hold different status and wealth, causing opportunities to be extended out only to the ones who can afford it (Appiah, 2014). Workers from developing countries working for these foreign companies feel that they are of lower status as compared to them. Due to the disparity, people from the developing countries feel disadvantaged and discontentment, which in an extreme example resulted in the act of terrorism, aimed at developed countries (Appiah, 2014). The rise of globalization would also mean more foreign companies establishment in developing countries which will increase a deeper sense of insecurity among its people in these countries. An example would be the significant U.S. September 11 attacks in 2001 whereby the New York's World Trade Center towers were being hit by planes that were hijacked by terrorist which eventually affected the world’s economic and global assurance (BBC, n.d.). Violence is viewed as a repercussion of extensive inequality, affecting and compromising the world’s safety (Appiah, 2014).

Therefore, globalization might be beneficial to the developed countries initially. However, with the rise of globalization, it would widen the gap that is of major disadvantage to the world, and this inequality would inadvertently cause tension that will lead to belligerent situations between countries.

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**Theme of the lecture №14.** **Institutional aspects of globalization**

**Plan of lecture:**

**1. Three main institutions of globalization**

**2. The scale of the problems and opportunities of institutions**

**3. Problems of modern international institutions in an era of globalization**

***1. Three main institutions of globalization***

Globalization is accompany by the creation of new institutions, which are attaching to existing, to work in the supranational framework. To understand the fallacy of action it is important to consider the three main institutions governing globalization the IMF, World Bank and WTO. In addition to these there are many other organizations are also playing a role in the international economic system.

**What is 'Globalization'**

Globalization refers to the tendency of international trade, investments, information technology and outsourced manufacturing to weave the economies of diverse countries together. In business and finance, it primarily refers to the economic integration of global markets, but the term is also used to describe socio-cultural integration among countries. Altogether, globalization has had the effect of markedly increasing both international trade and cultural exchange.

Globalization has been credited with helping shift wealth to less-developed countries. However, globalization is also often blamed for the loss of employment in developed nations, as corporations ship manufacturing facilities and  jobs overseas in order to save costs; critics say it weakens national sovereignty as well.

**BREAKING DOWN 'Globalization'**

The goal of globalization is to provide organizations with a competitive advantage through lower operating costs and the gain of greater numbers of products, services and consumers. One of the key ways this is done is through diversification of resources, opening up additional markets and accessing new raw materials. And indeed, it has brought the entire world together, with multinational corporations manufacturing, buying and selling goods across the globe. For example, a car company based in Japan might have auto parts manufactured in several different developing countries, then ship the parts to another country for assembly, and then sell the finished car to nations everywhere.

Globalization is not an entirely new concept – as far back as ancient times, caravans traveled vast distances to obtain valuables like salt, spices and gold, then traded or sold them once back in their home countries. With the advent of the Industrial Revolution in the 19th century, every advance in communication and transportation helped lessen borders and increase economic ties between nations. But in the last few decades, globalization has been occurring at an unprecedented pace and scope.

What has Spurred Globalization?

Public policy and technology are the two main driving factors behind the current globalization boom.

Over the past 20 years, various governments around the world have integrated a free-market economic system into fiscal policies, monetary policies and trade agreements. This evolution of economic systems has stimulated domestic production potential and opened countries to increased financial opportunities abroad. World governments now focus on decreasing barriers to trade and actively promote international commerce in relation to investments, goods and services.

Technology has also been a major reason for the growth in globalization. Advancements in information technology (IT) and the flow of information across borders have helped people become more informed about economic trends and investment opportunities, and have made it easier for them to transfer financial assets and invest abroad. Technology has also increased the ability to communicate internationally, and made it easier and faster than ever to do so.

Broader Meaning of Globalization

Globalization has grown beyond economics to become a social, cultural, political and legal phenomenon.

In social terms, globalization describes an increased level of interconnectedness among the people of the world and their lives, work and families. As a cultural phenomenon, it means the exchange of ideas and values among cultures and implies, for some, a trend toward the development of a single world culture.

Political globalization refers to the shift of political activities from a solely national level to a global level through intergovernmental organizations such as the United Nations and the World Trade Organization.

As a legal phenomenon, globalization is, in part, a shift in the ways in which international law is created and enforced.

The Globalization Controversy

Debates continue as to the negative and positive effects of globalization in all its contexts.

Advantages of Globalization

Proponents say that globalization helps developing countries catch up to industrialized nations much faster, creating jobs, developing manufacturing, diversifying and expanding their economies, and increasing the overall standard of living. China is a good example of a country that has benefited immensely from globalization in this way.

In particular, the practice of outsourcing brings jobs and technology to developing countries – along with offering the outsourcing company the benefit of reducing reduce labor and production costs. Initiatives like the North American Free Trade Agreement (NAFTA), for example, encouraged U.S. car manufacturers to relocate facilities to Mexico.  Many U.S. companies have also outsourced call centers to India.

Another positive impact of globalization is the broadening of the notion of social justice from a national to an international scale to include the equality, human rights and dignity of all people of the world. Legally, advocates of globalization report that the trend has facilitated the promotion of human rights all over the world.

Some consider the spread of pop culture from country to country to be a benefit of cultural globalization in that the exchange of ideas, art, language and music fosters understanding among the different cultures of the world.

Disadvantages of Globalization

While globalization is often praised for having many positive effects, economists also observe negative impacts.

When countries’ economies are intertwined, economic downturns in one country can cross borders and affect the economies of other countries. Critics argue this interdependency threatens to weaken multiple countries and economies through a domino effect when a problem arises. For example, when Greece's economy nearly collapsed due to its debt crisis in 2009-10, the impact was felt throughout all of Europe, and many countries, such as Germany, scrambled to ensure their own economies would not also suffer.

Another common criticism of globalization is that it has disproportionately benefited corporations in the Western world, enhancing wealth disparity: the rich getting richer while the poor continue to get poorer. Certainly, the free trade trend means there a higher risk of failure for smaller, privately or family-owned companies that cannot compete in a global market. Then there is digital divide, between those with computer and internet access and those without, which critics charge has resulted in the concentration of information, and therefore power, in the hands of a small elite. Thanks to globalization, opponents say, certain groups have acquired resources and power that exceed those of any single nation, which allows them to pose new threats to human rights on an international scale.

Other critics concede that global standards of living have risen overall as industrialization takes root in third-world countries, but maintain that living standards have fallen in developed countries.  Some politicians even argue the middle class is diminishing in the United States thanks to globalization. Outsourcing is often cited as the chief culprit here: U.S. companies often move jobs – and sometimes even their entire headquarters – abroad in an effort to save wages and American payroll taxes, and avoid negotiating with unions. In effect, critics say, globalization means U.S. workers have to compete not just nationally but internationally for jobs – a competition they cannot win.

Still others cite global warming and climate change, due to greenhouse gases emitted by expanding industrial facilities, as negative political effects of globalization. The overuse and abuse of natural resources are other harmful consequences of increased demands for a country's goods

And while globalization has helped economies and societies expand and broaden, it's also made them more homogenized, critics charge. Case in point: The growth of international chains that results in the same restaurant – a Starbucks or a Shake Shack – on every corner, or the same retailers – Apple, Nike, The Gap – in every town. As these examples suggest, the so-called cultural exchange has been largely one-sided: American goods and culture have spread to other countries more than those of any other nation, often to the detriment of smaller, indigenous brands and outfits that can't compete with global giants, as mentioned above. So, countries end up with societies very similar to one another.

**Globalization may simply be defined as the free movement of:**

 *1.Capital*

 *2.Labour*

 *3.Goods and services across various countries of the world.*

1. Globalization of capital flows has injected a new challenge to managers of well-established companies. The capital flows permit rivals from emerging markets or smaller firms in developed countries to formulate and implement new global strategies leveraging their capital access. Witness how Tata Steel was able to buy Corus Steel in Europe using capital raised abroad. More recently, Indian telecom firm Bharti has sought to become a global player by seeking to acquire MTN, the largest Africa-based telecom firm. In turn, these competitive moves by emerging market players call for managers in existing firms in the West need to be nimble and strategic in their responses.

Managers of existing firms face some difficult questions:

* Should they preserve the corporate strategies that got their companies to their current position?
* Do those strategies represent a core rigidity that makes their companies unable to adapt to change and thus vulnerable to upstart competitors?
* If so, do acquisitions represent a profitable means of reviving a moribund company’s growth?

In some cases, global acquisitions can represent a logical way to extend a firm’s corporate strategy. Deals that make the most strategic sense target large, rapidly growing markets and assemble a set of capabilities that enables the combined company to take significant share in those growing markets.

Such deals are likely to pay off for managers by reviving a stagnant company. In other cases, acquisitions are a mistake because the availability of private equity and bank debt enables deals that would otherwise not make strategic sense.

Deals that are driven primarily by the availability of capital to finance them, rather than a sound strategic logic, tend to fall apart rather quickly once the appetite for such financing switches off. Such failed deals should be a cautionary tale for managers in existing industries.

Their key lesson is that managers must separate investment decisions from financing decisions. If the availability of financing causes managers to seek investments that make little economic sense, the managers will later regret their inability to resist the deal.

In general, managers make their companies vulnerable if they do not remain keenly attuned to changes in their competitive environment. The globalization of capital flows and the resultant entrepreneurial moves by new players represent a threat to companies that refuse to pay attention to how this force can upend their business. Yet for managers willing to tap its power, the globalization of entrepreneurship can revive a moribund company in a mature industry.

Profiting From Opportunities and Shunning Risks

What can managers do to capture the opportunities of capital globalization and avoid the risks of capital going global? We suggest the following six-step methodology:

1. **Pinpoint large countries growing fast with industries in which your company competes.** To find such markets, managers may seek to focus on developing countries with large populations where there is demonstrably rapid growth in demand for their products. It is worth noting that unless the manager’s company can satisfy that demand better than competitors already do, then the investment it might make in trying to take a share of that market is likely to be wasted. To avoid that fate, managers ought to conduct research into the specific criteria that channels and end-users apply to competing suppliers to assess which one to pick.
2. **Identify risks and opportunities in the country’s regulations regarding foreign ownership and other corporate governance matters, its capital markets, its human capital, and its IP regime**. However, if managers see an opportunity in meeting customer needs better than the competition, they should next consider whether the country’s EE is at odds with their own. Such differences do not necessarily mean that the managers should not seek to enter that new market. However, managers will find themselves at a disadvantage if they do not explore those differences early in the process of considering a new country in which to expand.
3. **Identify companies in those countries/industries that could be acquisition candidates**. Having settled on a particular country in which to invest, managers may wish to consider whether they should seek to take market share through a de novo venture, partnership, or acquisition.
4. **Rank the companies based on their fit with your company’s skills and the potential for an attractive investment return**. Such data can help managers as they decide which of those companies they should approach first, and which they should shun.
5. **Complete the acquisition and integration of the company that best fits these criteria. The next step is to execute**. In general, this involves a huge amount of management effort, in conjunction with advisers, capital providers, target company management, and regulators, to complete all the tasks from contacting the target company to completing the integration of the target into the acquiring company.
6. **Set performance milestones and manage the company to achieve them**. This implies the willingness to re-examine the premises that underlie how the value chain of the firm is currently distributed globally and how it could be reconfigured to benefit the firm strategically.

Global capital flows follow the pathway of country EEs. Managers in existing firms can tap the growth that these capital flows seek. But along with the opportunities of competing in these countries and industries come risks. Our analysis shows that the six-step process outlined above can help managers to get the best opportunities while skating around the most treacherous risks.

According to the Wikipedia online encyclopedia, Globalization refers to a process of increasing global connectivity and integration between nation-states, households/individuals corporations and other organizations. It is an umbrella term referring to increased interdependence in the economic, social,

technological, cultural, political, and ecological spheres. In the context of global trade, the term

Globalization is the opposite of protectionism. Theodore Levitt is usually credited with globalization's firstuse in an economic context.The IMF International Monetary Fund stresses the growing economic interdependence of countriesworldwide through increasing volume and variety of cross-border transactions ... free international capitalflows, and more rapid and widespread diffusion of technology.

A less economic-focused definition from the Encyclopedia Britannica states that globalization is the "process by which the experience of everyday life ... is becoming standardized around the world."

The question arises that is globalization just a buzzword or is it a real phenomenon? The world in which welive today, the word distance here has virtually no meanings in it. You can move around the globe in lessertime than the globe takes to revolve around its own axis. In other words, the different parts of the world seem to be connected and moving from one part to another is not a big deal today. A few centuries from today, man had to travel months on land and through sea to reach from one continent to another. Trade was very slow and its volume was negligible as compared to today. But today, as we see, this is no more the case; ships, aircrafts and land transport is fast enough to cover the distance or around the globe in no more than a few hours. This is resulted in brining together various countries and culture of the world. People are now more dependent on each other. For instance, the United States is depended in most of its goods on China, whereas many countries are dependent on Pakistan for the supply of crops. Therefore, the world has become what we call a "Global Village." Although its huge, yet the dependencies have rendered the world like a small village where everyone has to play its part for everybody else's survival.

Further question arises that is Globalization a recent phenomenon? The phenomenon of Globalization was given much more importance during the last few decades and the general perception is that Globalization is a recent phenomenon. In fact, Globalization has been on since the history of mankind. If we trace back the history of mankind, we would find the earliest well-recorded history is that of the Egyptian civilization. The Egyptian civilization was established around river Nile. It was discovered that the Egyptians used to trade wood through this river. Later during the Roman and the Greek civilization, trade was not uncommon. Therefore, we see that since long, man has been involved in conducting commerce and trade across countries and dependencies have been created since long. The city states of Samarkand and Bokhara are said to have flourished because of trade which was carried out between Asia and Europe during the 16th and the 17th centuries. This should make it clear that the path towards Globalization was paved centuries ago, only the pace has increased rapidly today. This is why today we feel that Globalization is a recent phenomenon.

**2. The scale of the problems and opportunities of institutions**

The main problem of the current global instability that the global economic development scale beyond the capacity of institutions and methods of regulation.

Doctor of Economics, Professor M.E. Konovalov notes that "the State, under certain conditions market failure is the neutralizer, and the market, on the contrary - the state, but these offsets and compensation should not replace state regulation on market self-regulation, and vice versa, and cannot completely remove the problem of failure of the state".

**Aspects of Globalization**

**Economic aspect**

Globalisation has encouraged more trades and increased the flow of capital among nations; For instance, businesses can seek their funding from foreign banks that offer the most competitive interest rate (Bhagwati 2004). MNEs have more flexibility to operate as well as locate their operations in any countries that offer advantages (e.g. cheaper labour cost or closer proximity with the customers); For example, many US corporations moved their labour intensive productions to China because Chinese workers have lower wage than the American counterpart. As a result, the world consumers can purchase goods and services at a lower price. Moreover, economic opportunity has been expanded, from domestic to regional and global consumers, as technology such as internet or cheaper transportation make possible for people to seek out new business connections (e.g. franchise). With more players selling the same goods to target customers, competition is increased; consumers will get the benefit of cheaper price. There are many institutions among countries to encourage economic collaboration such as WTO, OPEC, APEC, ASEAN, EU and UNCTAD.

**Socio-cultural aspect**

Nowadays, the communication, information exchange, and mass media have been raised. This helps reduce the communication barrier so that people from different culture, life style, and society have more understanding of each other (Tomlinson 1999); For example, internet helps people to communicate easier and to find the information (such as news, fashion trend, education). Moreover, many US and UK universities open the opportunity by offering distant learning program with granted degree for foreign students who cannot afford high cost of living in the countries. This could help those people to improve their quality of life. Some problems such as poverty, health care, gender equality, child labour, and global warming are difficult or impossible to solve by individual nation. Globalisation has made such issues global awareness and concerns. It encourages harmony and willing from every country to help combat the problems (e.g. the global warming meeting held in Denmark). There are many international organizations that help promote collaborations and tackle socio-cultural issues such as UNICEF, UNEP, UNESCO, and WHO.

**Political aspect**

Political tension was no longer individual problems between conflicting nations. Poverty in the Caribbean means more drugs on the streets in Washington and London. Conflict in the Balkans causes more refugees in Germany and here in the UK (Stiastny 1999). These problems can only be addressed by international co-operation. Globalisation promotes the circumstance of state interaction. Whether nations like it or not, we are all internationalists. There are a lot of collaborate institution among countries to strengthen the political collaboration UN, EU, and G7. Many conflicts were encouraged to be solved through peaceful approach, such as negotiation. After the end of cold war, globalisation inspires nations to develop friendly relationship, to help nations work together to improve quality of life, and achieve world harmony.

**Anti-Globalisation**

Globalisation became an unending controversy (Bhagwati 2004). Many critics are against globalisation because they can notice its disadvantages. To analyse how negative of the globalisation, the cons of globalisation would be seen through the same aspects as the benefits has seen through.

**Economic aspect**

According to the labour flow has distributed from developed countries to developing countries because the corporations always focus on maximising profit and try to find the lowest labour cost. The developing countries obviously have lower labour cost than developed countries. While job is increasing in developing countries, this make developed countries people losing job as well, especially for labour level.

There are also many moments of crisis occur from globalist project such as Asian financial crisis (1997), the collapse of WTO Ministerial conference in Seattle (1999), and the collapse of stock market in Clinton boom (Bello 2004). Moreover, when the depression happens to one country, it will easily spread to other countries. For example, Greece great crisis heavily impact to countries in Europe zone and other countries in the world. This is because the crisis has reduced the investors' confidence. Then this made Euro currency drop sharply as well. For another example, the root cause of the hamburger crisis may not be directly from globalisation. However, the globalisation stimulates and spread its effect throughout the world.

**Socio-cultural aspect**

Globalisation made the flow of culture happened, for example, the American and Western culture spread all over the world. The more powerful countries' cultures have weakened the cultures of the others. The private corporations, which have the capital to invest, will have influence over the countries, in the case of media, society, and individual. Because of wider range of transportation and communication in the world, the decease will be easily spread from one country to another country. For instance, the Swine flu, which started from Mexico, distribute to other countries all over the world. Increase of environmental concerns and sustainability in developing countries because the distribution of factory, especially the polluting making factory, from developed countries to developing countries. Moreover, the war could be happened from competing for the world resources such as oil, coal, and iron.

**Political aspect**

Cerny (1997:251) states that "the transformation of the nation-state into a 'competition state' lies at the heart of political globalization." The less developed countries maybe at disadvantage and losing of control from developed countries. The illegal trade in drugs, arms, intellectual property, people, and money is booming. Like the war on terrorism, the fight to control these illicit markets pits governments against agile, stateless, and resourceful networks empowered by globalisation. Governments will continue to lose these wars until they adopt new strategies to deal with a larger, unprecedented struggle that now shapes the world as much as confrontations between nation - states once did. (Naim 2003)

We have already discussed what Globalization is; in order to get a better picture of the impact of

Globalization of the lives of human beings, we need to consider the various aspects of Globalization which may be categorized as follows:

**Industrial Globalization**

Every country in the world is moving towards specialization. Specialization may be referred to as the phenomenon of producing only that product in which the country has competitive advantage in terms of cost. For example, Singapore specializes in pharmaceutical while the US specializes in military equipment.

Therefore, the countries exchange their industrial products, which is known as trade, and fulfill the

requirements of their people. Every country of the world today is involved in trade and is depended on some other country one way or the other. The US is the biggest economy in the world and even that is depended on other countries for many of its needs. Hence the industries of the world today are considered

to be working not for their native countries but for the world as a whole. This is known as Industrial Globalization.

Furthermore, today various world-wide standards have been developed which ensure that the products of all the countries around the world meet certain quality requirements. For example the ISO 9000 standards are applicable worldwide as quality standards. The markets of the world have united and the products could be sold anywhere without any hindrance. In other words emergence of worldwide production markets and broader access to a range of goods for consumers and companies is known as Industrial Globalization.

*2.* *How does Globalization affect the labor market?*

Positive Effects

►Positive effects can occur as a result of the increased capacity of developing countries to create new opportunities for work and production following the alleviation of price distortions with respect to both labor and capital. (ESCWA 1999:24).

►FDI has both direct and indirect effects on employment creation in the recipient countries. This depends on the size and type of investment, the type of technology adopted and the ability of the host country to master the imported technology and adapt it to its needs.

►FDI also has indirect effects on employment through the vertical links to the TNCs, and there may also be spillover effects of TNCs on local science, technology, education and training

Negative Effects

► Negative effects occur as a result of large-scale technological developments that accompany this phenomenon, which will reduce the demand on unskilled labor

Even direct foreign investment does not care for cheap workers but only for highly skilled workers.

► The traditional nature of “work” might disappear due the rapid advances in technology, while at the same time creating new and innovative occupations in favor of the highly specialized professions.

► An increase in hidden unemployment, a lack of new job openings, and a deterioration of real wage rates are the consequences of globalization in most developing economies, which were unable to adapt the new technologies.

► Moreover if the labor clause, will be enforced through the WTO, this will have a negative impact on economic growth and employment in many developing countries, where child labor exists and where working conditions are miserable (Nassar,2003).

► Most trade liberalization benefits will be received by the manufacturing-producing countries, while the smallest share will be going to the agricultural-producing countries (developing countries).

► In addition policies of structural adjustment such as privatization imply an increase in unemployment since privatization is accompanied usually by a reduction in the demand for labor.

► Finally the theoretical predictions about the employment consequences of trade liberalization are based on assumptions of full employment of resources and flexible labor markets. These assumptions, might not hold true in developing countries where labor markets are inflexible due to structural factors.

**3. Problems of modern international institutions in an era of globalization**

The task of the international economic institutions should be (and should be) to provide countries with everything you need to make informed choices on the basis of information and understanding of the consequences and risks, consisting in each alternative. Necessary rules governing international relations that reduce transaction costs.

**The problem of transparency and openness of information in international institutions**

Openness and transparency will bring stability to the development of the international financial and economic relations, "herding" investor behavior occurs when they do not have sufficient information about the reliability and professionalism of those who manage their resources. It is obvious that the existence of asymmetric or incomplete information, investors will quite rationally take actions that could increase price volatility and cause sudden crises.

**Financial Globalization**

It may be defined as the emergence of worldwide financial markets and better access to external financing for corporate, national and sub-national borrowers. For example, the Tarbela Dam and the Mangle Dam projects in Pakistan were sponsored by foreign investors. They may be in the form of international organizations or independent investors. The IMF and the World Bank today give funds to various countries for developmental projects. We may say, that today the financial markets of the world have untied in such a way that finances are easily available throughout the world. This is known as Financial Globalization.

**Political Globalization**

This may simply be defined as the development of political interests of countries in other countries.

**Informational Globalization**

This aspect of Globalization has perhaps had the greatest impact on the world today. Sitting at one end of the world, you can have access to the information available in any other part of the world with just the push of a button. Internet, television, telephone, fax, etc. are some of the inventions that may be considered as a part of the informational Globalization process where the information flow has dramatically increased between geographically remote areas of the world.

**Cultural Globalization**

In the context of Organizational Psychology, this is another important aspect of Globalization which refers to the growth of cross-cultural contacts. The cultures of the world have become similar and have had influence from one another in many ways. This has changed the environment of mankind and it is known as Cultural Globalization.

**Effects of Globalization**

As discussed earlier, Globalization refers to the greater international movement of commodities, money, information, and people; and the development of technology, organizations, legal systems, and

infrastructures to allow this movement. The effects that Globalization has had on the modern day living of

mankind are as follows:

·  International Cultural exchange

·  Multiculturalism

·  Diversity

·  Greater international travel and tourism

·  Greater immigration, including illegal immigration

·  Spread of local consumer products (e.g., food) to other countries (often adapted to their culture)

·  World-wide fads and fashions

·  World-wide sporting events such as Cricket world cup

·  Formation or development of a set of universal values

·  Development of a global telecommunications infrastructure

·  Greater trans-border data flow,

·  Increase in the number of standards applied globally; e.g. copyright laws, patents and world trade agreements.

·  International criminal court and international justice movements.

·  Development of world-wide commerce

·  Improvement in standard of living

·  Corporate Imperialism: Dominance of MNCs

·  Cultural Imperialism

·  Harmful effects on environment due to rapid industrialization

·  Suppressing of underdeveloped countries

·  Greater market access for firms

Globalization has also affected OP in major ways;

·Trade between nations has become huge·6 million foreign nationals are employed by 100 companies·450,000 multinationals exist today

·Every organization is moving towards diversity in order to have diverse view points from within the organization Information Globalization has affected the work and organizations in seven ways

·  Flattening: Organizations have today have smaller hierarchy and layers of management

·  Downsizing: Organizations employee lesser number of employees today for the same jobs as it did previously due to dependence on machines.

·  Paperlessness: Organizations are dependent on paperless communication, i.e., communications through computers.

·  Brain mimicking: Organizations are dependent on computers and artificial intelligence which is similar to the working of the brain of a human being.

·  E-business/commerce/intranets: Organizations are dependent on E-Business, i.e. business over the internet and are connected internally through networks called intranets. Business to business is five times greater than business to consumer (B2B greater than B2C).

·  Knowledge management: It is the management of intangible assets of knowledge, i.e. outcomes, patents, copyrights and of intangible asset, i.e. intelligence, skills of workers. Organizations are able to better acquire and share knowledge internally and externally.

·  Human/intellectual capital: Human capital and intellectual capital has had increased importance due to globalization and extreme competitiveness. Human/intellectual capital is experience, skills and ideas of people. 40-90% market value of firm is human capital.

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## Theme of the lecture №15. Transformation of economy of Kazakhstan in conditions of globalization

**Plan of lecture:**

**1. Economy of the Republic of Kazakhstan**

**2. Globalization as a new condition of the modern world**

**3. The state of Kazakhstan's economy and foreign economic connections of the country**

**4. Opportunities of Kazakhstan's participation in the globalization process**

**1. Economy of the Republic of Kazakhstan**

*The* ***economy of Kazakhstan*** is the largest economy in Central Asia. It possesses enormous oil reserves as well as minerals and metals. It also has considerable agricultural potential with its vast steppe lands accommodating both livestock and grain production, as well as developed space infrastructure, which took over all launches to the International Space Station from the Space Shuttle. The mountains in the south are important for apples and walnuts; both species grow wild there. Kazakhstan's industrial sector rests on the extraction and processing of these natural resources and also on a relatively large machine building sector specializing in construction equipment, tractors, agricultural machinery, and some military items. The breakup of the USSR and the collapse of demand for Kazakhstan's traditional heavy industry products have resulted in a sharp contraction of the economy since 1991, with the steepest annual decline occurring in 1994. In 1995-97 the pace of the government program of economic reform and privatization quickened, resulting in a substantial shifting of assets into the private sector. The December 1996 signing of the Caspian Pipeline Consortium agreement to build a new pipeline from western Kazakhstan's Tengiz Field to the Black Sea increases prospects for substantially larger oil exports in several years. Kazakhstan's economy turned downward in 1998 with a 2.5% decline in GDP growth due to slumping oil prices and the August financial crisis in Russia. A bright spot in 1999 was the recovery of international petroleum prices, which, combined with a well-timed tenge devaluation and a bumper grain harvest, pulled the economy out of recession.

Current GDP per capita shrank by 26% in the Nineties. In the 2000s, Kazakhstan's economy grew sharply, aided by increased prices on world markets for Kazakhstan's leading exports—oil, metals and grain. GDP grew 9.6% in 2000, up from 1.7% in 1999. In 2006, extremely high GDP growth had been sustained, and grew by 10.6%.Business with booming Russia and China, as well as neighboring Commonwealth of Independent States (CIS) nations have helped to propel this growth. The increased economic growth also led to a turn-around in government finances, with the budget moving from a cash deficit of 3.7% of GDP in 1999 to 0.1% surplus in 2000. The country experienced a slowdown in economic growth from 2014 sparked by falling oil prices and the effects of the Ukrainian crisis The country's currency was devalued by 19% in 2004 and by 22% in 2015.

In 2015, the World Economic Forum compiled its Global Competitiveness Ranking ranking Kazakhstan 50th out of 144 countries. The ranking considers multiple macroeconomic and financial factors, such as market size, GDP, tax rates, infrastructure development, etc.[ In 2012, the World Economic Forum listed corruption as the biggest problem in doing business in the country,while the World Bank listed Kazakhstan as a corruption hotspot, on a par with Angola, Bolivia, Kenya, Libya and Pakistan.

The World Bank Vice President for Europe and Central Asia, Cyrill Muller, visited Astana in January 2017, where he praised Kazakhstan's progress made during the 25-year partnership with the World Bank. The World Bank VP also talked about Kazakhstan's improved positioning in the World Bank's Doing Business Report 2017, where Kazakhstan ranked 35th out of 190 countries worldwide.

Kazakhstan secured 2nd position in the Central and South Asia regional ranking of the 2015 Global Innovation Index (GII) released by World Intellectual Property Organization (WIPO) together with Cornell University and INSEAD France.

Kazakhstan is listed in the 2016 Bloomberg Innovation Index among the top 50 most innovative economies. Kazakhstan improved its position in the 2017 Bloomberg Innovation Index by 2 spots ranking 48th with total score 45.56.

**2. Globalization as a new condition of the modern world**

**Globalization as a new condition of the modern world makes powerful impact on development of all mankind and all separately taken states, and this influence can have both a positive and negative orientation**.

 But anyway global influences create essentially new conditions for realization of national interests, for carrying out policy by all states. Globalization significantly strengthens solidarity of mankind in its approaches to environmental problems. But the world isn't so integrated that it was possible to underestimate features of the certain states, their national interests. Connection in concrete policy «global» and «national», from the point of view of interests and influences, is represented difficult administrative process. It is especially difficult for Kazakhstan because of formidability of its own ecological sphere which is directly connected with world ecology, but in the presence of the responsible problems which aren't quite coinciding with universal tendencies. Therefore the environmental policy which isn't contradicting world tendencies of development, but providing reliable protection of national interests is sharply necessary for our country. However the environmental policy of the Republic of Kazakhstan pursued now is still ineffective. In any case the suspense of many nature protection questions, important for the country, and the proceeding deterioration of an ecological situation in extensive territories testify to it. The state activity in the ecological sphere obviously doesn't provide requirements of the population and protects interests of the country insufficiently.

**Again created power service companies (ESKO) will help the enterprises and the population not only to fulfill standard requirements, but also to receive a real economic benefit. The same mechanisms of audit could be introduced concerning water saving and the address of industrial and household wastes.**

 It is necessary to pass to delivery of ecological permissions and according to development of an assessment of impact on environment (EIA) only for those enterprises which carry out ecologically dangerous kinds of activity (by an example of the European Union). It will allow to reduce bureaucratic procedures approximately for 80 thousand enterprises, mainly small and medium business, and also to reduce the corresponding function in local executive bodies [3; 29].

Also our standard system needs to be brought into accord with recommendations of the World Health Organization (WHO) that will allow reducing costs of cleaning of dumping to the level «is purer, than in the nature». Not the fiscal problem of filling local and the republican budget, and a problem of stimulation of investments into innovative environmentally friendly technologies have to become the main task of economic instruments of environmental policy. It is separately necessary to tell about work with NGO. Kazakhstan signed with one of the first countries and ratified the Orkhussky convention on access for the population to ecological information, decision-making and justice in the field of environmental protection. In Almaty in 2005 at direct sponsorship of Kazakhstan the 2nd conference of the parties of this convention was held. Practically all provisions of the Orkhussky convention are implemented in the legislation of the Republic of Kazakhstan. However work in this direction should be continued. It is necessary to change radically relationship between NGO, government bodies and business, to construct them on mutual aid in achievement of the general for all the purpose — ecological safety. For this purpose environmental agencies have to work in full contact with public environmental assessment and public environmental control, on the basis of providing full and reliable ecological information, on the basis of the full accounting of public and personal reasonable offers and interests of citizens and protection of their violated rights. It is quite possible that Department of environment and water resources has to become an example not only the maximum transparency and availability to public control, but also an example of the translation of all the functions to the sphere of the state services, and then to the sphere of the social order and social business of non-profit organizations. The principle of an economic pragmatism underlain in our strategic and political documents defines need of the predictable, gradual and planned toughening of ecological requirements. In the developed countries of the world this approach is realized by establishment of target indicators of quality of environment for a long time. In the conditions of Kazakhstan such approach is successfully realized by introduction of obligatory production programs on full utilization of associated gases at oil production. This successful example is set by need of introduction of the program principle for reduction of all harmful issues in environment, and also for reduction of emissions of greenhouse gases. At the same time separate structural parts of environmental policy demand more careful and detailed accounting of national interests of Kazakhstan in the sphere of ecology, easing of dependence from the globalists of accents in nature protection activity and, on the contrary, strengthening of communication between the put-forward ecological tasks and their resource providing, development of national economy and a standard of living of the population.

**We will emphasize that process of formation of environmental policy of Kazakhstan happened in a specific transition period when the political and economic system of the country was transformed. The most important characteristic of a condition of the country unavailability to world processes of globalization, both political, and economic structures.**

The chosen type of modernization almost inevitably brought environmental policy of Kazakhstan under influence of subjects of ecological globalization in many respects the Government of RK, making concessions to the western investors, seeking to expand attraction of the foreign capital, directed development of the state on the way of developing countries and transfer of Kazakhstan to category «the countries — harbors» for which decrease in environmental control and lack of tough environmental policy is characteristic. Kazakhstan didn't become an exception. In our opinion, throughout 90th and still environmental policy of Kazakhstan in many respects depends on influence of subjects of ecological globalization.

This judgment is confirmed by real policy of the state which was pursued actually, being arranged under needs of formation of new economy. Very eloquently it is confirmed in the analysis of questions of political and administrative character environmental policy of RK is still ineffective, the directions of the state activity planned in it often don't coincide with really happening processes. Complex problems which slow down carrying out environmental policy in life have a different origin. Low level of ecological consciousness, characteristic for the majority of social groups of the population, including government officials, has roots in national traditions, in the general and ecological culture of the people of Kazakhstan. It is especially negatively reflected on the way to nature protection activity, carrying out actions for protection of the nature, behavior of people in life. Here it is necessary to add to the bases of cult urological, mental character also a factor of social injustice in use of natural resources which was widely shown in the conditions of transition to a private property and the market relations. Substantially negative attitude to the authorities which adopted these laws especially as not all elements of the ecological legislation of RK are directed on interests of broad masses of the population affects rejection of laws. Are the reasons of insufficient financial and resource ensuring environmental policy also objective shortage of means because possibilities of the country obviously don't correspond yet to that scale of ecological actions which are undertaken by the state in many respects under the influence of global factors and nature protection political practice of the rich and economically more developed western countries, but also and feature of administrative activity of the state.

***3. The state of Kazakhstan's economy and foreign economic connections of the country***

The challenges of globalization have their specificity for countries with economies in transition, and in particular for Kazakhstan. The need to adapt the national economy to the requirements and challenges of globalization, managing risks associated with it, and its negative effects coincided with the processes of transformation of the economic system in Kazakhstan, the transition from a centrally-planned (administrative-command) economy to a market-based economy. As a result, the country was affected by two shocks of different nature, the impact of which on the national economy mutually enhanced by interaction with each other. All this determined the additional complexity and severity of the Kazakhstan economy problems associated with the flow of globalization processes within the global economy.

Kazakhstan's involvement in the global economy is one-sided, ie, there is export to world markets mainly of fuel and raw materials and products of the first stage of primary processing of raw materials.

Thus, currently the dominant model of integration of Kazakhstan into the world economy is based on the export of raw materials (oil, natural gas) and products of the first stages of its processing (production of ferrous and non-ferrous metallurgy, chemical and petrochemical industry) in exchange for the delivery of foreign finished products, including consumer goods, as well as food.

***The competitiveness of Kazakhstan economy and its determinants***

The problem of competitiveness in the global economic environment is extremely important for the economy of any country, especially in conditions of globalization of the world economy, when the value of the national economies of various forms of foreign economic relations, the degree of openness of national economies to foreign goods, services and capital rise sharply. Competitiveness appears a universal requirement of an open economic system to any of the national economy. Competitiveness of the country is the ability of national economy to produce and consume goods and services in competition with goods and services produced in other countries, with an increase in living standards and compliance with international environmental standards.

Depending on the level of competitiveness of industries and companies and the volume of export and import structure, trade and balance of payments of each country are added, the positioning of a particular national economy is defined in the global economy

***Financial aspects of foreign economic relations of Kazakhstan***

One of the main factors affecting the price competitiveness of domestic production, and at the same time a powerful tool of foreign economic policy of the state, is the nominal exchange rate of the national currency*.*

Undervalued exchange rate in relation to the purchasing power parity inevitably leads to the value of the real exchange rate, higher than the unit. This means that, ceteris paribus, one set of foreign goods is exchanged for more than one set of domestic goods. Only such a price ratio of foreign and domestic goods and services makes the latter competitive in the global and domestic markets, taking into account the lower quality and consumer characteristics of developing countries and countries with economies in transition compared to the best world standards.

The source of financing of the restructuring of domestic production in Kazakhstan, increasing its competitiveness may be foreign portfolio investments, ie, non-residents buying shares and debt securities which do not ensure control of companies or opportunities to participate in their management.

Another possibility to attract foreign portfolio investment is the output of Kazakhstan companies with their bonds, American and global depositary receipts for shares on foreign stock markets.

Another source of foreign financing of restructuring of domestic production is the attraction of foreign loans (one of the main items included in other investments).

**4. Opportunities of Kazakhstan's participation in the globalization process**

In previous years, Kazakhstan could benefit from the processes of globalization mainly due to trade in raw materials. It received a fairly high income from the export of hydrocarbons, other raw materials and products of primary processing, if there was a favorable pricing environment for these products on the world market.

Accession to the WTO, suggesting weakening of foreign trade barriers in Kazakhstan obviously does not threaten businesses of raw export sectors of national economy. On the contrary, they can benefit from the ease of access for their products to world markets. A different case with the manufacturing industries and the service sector, including insurance and banking sectors, many of them are not yet ready to compete with foreign goods and services without the use of various types of protective measures.

**Perhaps, on the same basis there are continuous reorganization of the operating structures in the nature protection sphere, and mechanisms of administrative activity unite not only democratic and is administrative — authoritative methods, but also the shadow, closed from society methods of acceptance and implementation of solutions of the state level.**

The most serious problem of realization of environmental policy is its administrative aspect. It is the general relation of the state to environmental issues as to the minor sphere which is shown in structural and technological actions, in financing, in the general attention of power structures. It is still poorly developed ecological legislation which is quite often missing specific questions not reflecting various processes and the phenomena of ecological character. It is unstable, often and unfairly changing system of the government nature protection bodies, bad interaction between them and the public ecological organizations. It is universal use of inefficient administrative technologies and mechanisms, some of which transfer a state policy to the category antisocial, shadow, and is frequent also corruption activity. Only overcoming of such administrative problems is capable to provide effective realization of environmental policy in national interests of Kazakhstan.

At the same time, it should be noted that to speak about low efficiency of the environmental policy which is carried out in our country. Large-scale environmental pollution proceeds. Natural resources are injuriously used. The accepted programs of restoration or protection of concrete natural objects (Aral, Balkhash, forest parks, etc.) aren't carried out in necessary volumes. The ecological law of the country is systematically violated. There is a set of the political, administrative, resource and economic, moral and legal problems which are negatively influencing realization of environmental policy of Kazakhstan. Instability and corruptibility of the government administrative institutions in the nature protection sphere. Closeness of decision-making process, an assessment of the carried-out activity, and distributions of the financial means allocated for nature protection actions. Legal nihilism of the population in combination with a legal lawlessness of bureaucracy. Accurately expressed preferences of the Government to the financial benefits received from operation of natural resources it is frequent to the detriment of ecology.

The financial means allocated by the state for nature protection actions don't correspond to the global tasks containing in its environmental policy, don't provide all scale of the Kazakhstan nature. And, of course, big uncertainty in the maintenance of modern political system of Kazakhstan which is in a condition of transformation unites elements of democracy, administration, authoritarianism. Such of political system does it closed and torn off from society, unstable and ineffective. In impact of political system of Kazakhstan on the ecological sphere of the country these characteristics prove out.

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