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Economic globalization is an Irreversible Trend

Economic globalization refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies. It reflects the continuing expansion and mutual integration of market frontiers, and is an irreversible trend for the economic development in the whole world at the turn of the millennium. The rapid growing significance of information in all types of productive activities and marketization are the two major driving forces for economic globalization. In other words, the fast globalization of the world's economies in recent years is largely based on the rapid development of science and technologies, has resulted from the environment in which market economic system has been fast spreading throughout the world, and has developed on the basis of increasing cross-border division of labor that has been penetrating down to the level of production chains within enterprises of different countries.

The advancement of science and technologies has greatly reduced the cost of transportation and communication, making economic globalization possible. Today's ocean shipping cost is only a half of that in the year 1930, the current airfreight 1/6, and telecommunication cost 1%. The price level of computers in 1990 was only about 1/125 of that in 1960, and this price level in 1998 reduced again by about 80%. This kind of 'time and space compression effect' of technological advancement greatly reduced the cost of international trade and investment, thus making it possible to organize and coordinate global production. For example, Ford's Lyman car is designed in Germany, its gearing system produced in Korea, pump in USA, and engine in Australia. It is exactly the technological advancement that has made this type of global production possible. Moreover the development of the networking-based economy has given birth to a large group of shadow enterprises, making the concept of national boundaries and distance for certain economic activities meaningless.

If technological advancement and IT development were assumed as the technological driving force for economic globalization, then the market-oriented reform carried out throughout the world should be regarded as the institutional driving force for this trend. Under the framework of GATT and WTO, many countries have gradually cut down their tariff and non-tariff barriers, more and more countries open up their current accounts and capital accounts. All of these have greatly stimulated the development of trade and investment. Moreover the transition of the former centralized planned economies to market economies has made it truly possible to for the world's economies to integrate into a whole.

Multinational corporations (MNCs) have become the main carriers of economic globalization. They are globally organizing production and allocating resources according to the principle of profit maximization. And their global expansions are reshaping macroeconomic mechanisms of the operation of the world economies. In 1996, there were altogether only more than 44,000 MNCs in the whole world, which had 280,000 overseas subsidiaries and branch offices. In 1997, the volume of the trade of only the top 100 MNCs already came up to 1/3 of the world's total and that between their parent companies and their subsidiaries took up another 1/3. In the US$ 3,000 billion balance of foreign direct investment at the end of 1996, MNCs owned over 80%. Furthermore, about 70% of international technological transfers were conducted among MNCs. This type of cross-border economic activities within same enterprises has posed a challenge for the traditional international trade and investment theories.

Globalization of the financial sector has become the most rapidly developing and most influential aspect of economic globalization. International finance came into being to serve the needs of international trade and investment activities. However, along with the development of economic globalization, it has become more and more independent. Compared with commodity and labor markets, the financial market is the only one that has realized globalization in the true sense of 'globalization'. Since 1970's, cross-border flow of capital has been rapidly expanding. In 1980, the total volume of cross-border transactions of stocks and bonds of major developed countries was still less than 10% of their GDP. However, this figure had far surpassed 100% in 1995. The value of the average daily transactions of foreign exchanges has grown from US$ 200 billion in the middle of

1980's to the present US$ 1,200 billion, which is 85% of the foreign exchange reserves of all the countries in the world and 70 times as large as the value of the daily export of commodities and services.

The process of economy globalization is also the process of global industrial restructuring and readjustment. With the development of science and technology and increase of income level, industrial structures of all the countries have been also undergoing readjustment and upgrading. In recent years, developed countries in the west are gradually entering the era of knowledge economy and have started to shift to developing countries many labor-intensive industries of weak international competitiveness. This process of cross-country shift is pushing forward an in-depth development of economic globalization. On the other hand, there has existed a surplus of productivity since the end of the cold war. Due to this fact, economic globalization has intensified the competition at the international market among enterprises from different countries. In order to raise their positions and improve their competitiveness at the international market, both domestic enterprises and those from other countries have been resorting to mergers and acquisitions one after another, which has resulted in tides of industrial restructuring. Take a few cases just as a demonstration: the most recent acquisition of Mannesmann by Vodaphone, acquisition of MCI by British Telecom, acquisition of 信孚 by Deutsche Bank, and the amalgamation of Citibank with Travelers and that of Daimler-benz. All of these restructuring activities will exert far-reaching influence on the world's industrial competition pattern.

Developed countries have been playing a dominant role in the process of economic globalization. In 1996, the total volume of exports of developed countries was US$ 4,057 billion, accounting for 81.7% of the world's total value of international trade. In 1995, the foreign direct investment by 10 major developed countries including the G7, Switzerland, Sweden and the Netherlands took up 85.1% of the total value of foreign direct investment in the whole world. The dominant role of developed countries in the process of economic globalization is also reflected in the fact that it is they that determine the rules for international economic exchanges. Although current rules of game for international economic activities have the good aspect of being in keeping with socialized mass production, they are generally laid down under the dominance of developed countries.

International economic and financial organizations are under the control of the United States and other western countries. They have been using these advantages to promote and dominate the development of globalization. At the same time, they are the largest beneficiaries of economic globalization.

In November of last year, China and the United States reached an agreement on the China's accession to WTO. With this, China made a decisive step forward on its way to becoming a member country of WTO. The signing of this agreement shows the determination of the Chinese government to firmly speed up the reform of its economic system and further integrate itself into the process of economic globalization. It is a win-win agreement. On one hand, the United States can increase its exports of goods and services to China, thus creating more employment opportunities. While on the other hand, China can boost its economic growth by increasing its share of the US market. In addition, more advanced technologies, management experience and capital can be introduced from developed countries. And the pressure international competition will become a driving force for the reform and opening toward the outside world. This in turn will promote the competitiveness of china's enterprises.

Risks Brought along by Economic Globalization to Developing Countries and The Prevention against Related Risks

The participation of developing countries in the globalization process can enable them to better utilize their comparative advantages, introduce advanced technologies, foreign capital and management experience. It is also favorable for eliminating monopolistic behaviors and strengthening market competition. Nevertheless, while providing more development opportunities for developing countries, the globalization process is also posing enormous risks.

First of all, economic globalization has in fact expanded rather than reduced the gap between the North and South. According to some report published by UN in 1999, the number of developing countries that have benefited from economic globalization is smaller than 20. The difference of income per capita between the richest country and poorest country has enlarged from 30 times in 1960 to the current 70 times. In 1960, the value of foreign trade of the poorest 46 countries accounted for 1.4% of the world total. Towards the latter half of 1990, this proportion had already reduced to 0.6% and further down to an almost negligible o.4% in 1995. The average trade deficit of developing countries in 1990's increased by 3% as compared with that in 1970s. And over 80% of the capital are flowing among US, Western European and East Asian countries. Except for donations and bilateral financial aids, most developing countries could not attract any capital.

Secondly, economic globalization has also developing countries' risks of being concussed by unfavorable external factors. Under open economic conditions, the conflict between the realization of external economic equilibrium and that of internal economic equilibrium is a great constraint on the macroeconomic policies of developing countries, weakening their capacity of macroeconomic control and regulation. With continuous innovation of financial instruments, rapid expansion of financial assets and the trend of privatization of international capital, a large volume of international floating capital has brought along enormous impacts on the economic safety and financial stability of developing countries. According to some data provided by IMF, the value of short-term bank loans flowing at and through international financial markets and other financial and capital markets in 1997 at least amounted to US$7,200 billion, which was about equal to 1/4 of the total output of the whole world. According to an estimation by the US Federal Reserve Board, the daily total value of transactions of foreign exchanges in New York, Tokyo and London alone in 1997 was about equal to US$620, 18% of which was used for foreign trade and investment, and the rest 82% were used for speculation at international financial markets. This huge amount of floating international capitals may lead up to bubble economies and disorderly fluctuation of foreign exchange rates. They may also weaken the monetary sovereignty of a country and bring along a dysfunction of its monetary policy. The 'sheep-flocking effect' and the 'self-fulfilling mechanism" of monetary crisis existing in international financial markets will further strengthen the concussion suffered by developing countries. Although the financial crises erupted in Mexico and East Asia in 1990s were rooted in the defects of the economic systems and economic structures, the impact from the floating international capital was the direct fuse, which also greatly reinforced their destructiveness.

In order to prevent and dissolve the risks brought along by economic globalization to developing countries, the following measures should be taken:

In the first place, international economic organizations should play a bigger role in the process of economic globalization. What is in striking contrast with the rapid development of economic globalization is the vacancy of an organization for global economic regulation and control as well as the lagging behind of the establishment of a regulatory system. Factually, the increasingly globalized world economy is in a free and drifting state. This is, to a great extent, very similar to the domestic economic situations of developed countries in the west in 1930s when the economic crises spreading all over the capitalist world gave rise to Keynesian economics and governmental intervention of economic operations. The Mexican and East Asian financial crises in 1990s and the collapse of long-term capital management companies call for a globalized Keynesian economics and the establishment of a corresponding institution to exercise effective interventions in the world economy and particularly in the functioning of international financial markets. The current international economic organizations have many limitations in managing the world economy. To change this, the following should be undertaken: (1) The coordination of the macroeconomic Created by cirdpolicies of different countries should be strengthened, and IMF and World Bank should establish perfect early warning system against financial crises and build up their post-crisis supporting capacities. (2) The cross-border financial supervision should be strengthened. The Basle Committee and the Basle Credit Facility Agreement have done lot in increasing transparency of financial institutions and raising their capital sufficiency rate. However, this is far from enough. An organization that can play the role of 'final lender' all over the world, providing floating financial relief and support to crisis institutions so as to restore the confidence of international investors, strengthening the monitoring and supervision over financial institutions and stamping out ethic crisis. (3) Appropriate control over the flow of international capital, particularly over the flow of short-term capital that has serious negative effects, should be exercised. In recent years, there has been heated discussion in the international circle of economic on the 'Tobin' tax. We hold that, though there are some problems with Tobin tax needing to be addressed concerning specific operations and after-profit tax distribution, it is feasible and practical as an orientation. Thus it is worthwhile to create conditions for its further implementation.

Secondly, Interests of developing countries should be guaranteed and their say enlarged in the process of developing a new international economic order. The trend of economic globalization that came into being and has developed under conditions that the old international economic order has not yet been fundamentally changed. Globalization itself can not bring a fair and reasonable new international economic order, and some developing countries that are unable to enjoy the benefits and evade the harms are confronted with the danger of becoming outsiders. Therefore in the face of economic globalization, developing countries are bogged in a dilemma: On one hand, if they keep themselves away from this process, they will surely be left far behind the development of other economies. On the other hand, if they participant actively in the process, it is most probable that they will be reduced to annexes of developed countries due the latter's dominance in the process. In view of this anticipation, the interests of developing countries must be guaranteed and their say enlarged in the process of developing a new international economic order. The precondition for the development of economic globalization to gain a sustainable driving force for its development is that growth sharing must be guaranteed. That is to say, the progress of globalization no only should bring huge benefits for the world economy, but also should make these benefits available to every country and to different departments and interest groups. To be more exact, a few countries or a handful of nations and interest groups should not exclusively enjoy the benefits of globalization. And the progress of globalization should bring Parrato improvement. If for a long run developing countries can not benefit from the globalization process, the economic interests of developed countries will surely be affected. Take the labor standard problem for an example. Developed countries and particularly the United States have long insisted linking this with trade issues, i.e. to set a uniform labor standard including wage standard. If the wage standard in any country does not meet the uniform standard, this country would be punished. This insistence in fact means to eliminate the comparative advantages of developing countries and weaken their international competitiveness. Therefore, it is requested that developed countries should take enough consideration of the realities of developing countries and give up their unreasonable requirement of linking labor standard to trade issues.

Thirdly, the step of reforming economic system and readjusting economic structures should be quickened. International competition in the era of economic globalization is competition on economic systems and enterprise mechanisms. In terms of both economic system and economic structure, the gap between developed and developing countries is quite large. Macroscopically speaking, the problems of the government being offside, vacant and dislocated must be solved. To this end, direct administrative interventions in the affairs of macroeconomic players should be gradually weakened and finally eliminated. At the same time, the government should strengthen its functions of protecting intellectual property rights, ensuring legal fulfillment of contracts, providing infrastructure and stabilizing macroeconomic situation, etc. At the microeconomic level, the government should play the major role in establishing incentive and constraining mechanisms in line with enterprise system and corporate governance so as to improve enterprises' efficiency and competitiveness. As for industrial structures, the government should focus their efforts on stimulating rapid scientific, technological and education development and increasing investment in developing human capital for the purpose of pushing forward upgrading of industrial structures.