

The in terms of greater interdependence and integration essay



The aim of this essay is to discuss to what extent the traditionalist interpretation of the above statement, which refers to economic globalization, is convincing. This essay will begin by providing a brief outline of the traditionalist, globalist and transformationalists perspectives on economic globalization. It will then proceed by focusing on the traditionalists argument and the evidence they provide to support their case.

They use two key indicators, trade flows and capital investment to measure the extent of interdependence and integration in the national economy. It will be necessary to discuss how both globalists and transformationalists may interpret some of the evidence provided, in order to reach a conclusion of the traditionalist's interpretation of economic globalization. There is much debate in the social sciences about the effects of economic globalization and the extent of interdependency and integration in today's international economy. There are three conflicting approaches at the centre of this debate the traditionalists, the globalists and the transformationalists. The focus of this essay is on the traditionalists perspective therefore the following definition from the European Commission, is an appropriate starting point. ' Globalization can be defined as the process by which markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology.

It is not a new phenomenon but the continuation of developments that have been in train for some considerable time. (European Commission 1997 PG

45The traditionalists are very sceptical in their view of economic globalization and see economic activity between countries as being regional,

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using the European Union as an example of this, rather than global. They agree with the definition on two points, firstly that there is a growth in interdependency and integration in the international economy due to the growth in international trade and capital flows between countries. Secondly, that it is not a new phenomenon in that economic activity today is no different from other economic interactions, which have taken place between countries at previous times in history. Open trading and liberal economic relations were the norm worldwide'.

(Thompson 2000) There is also much debate about the autonomy of the nation states, however traditionalists argue that they still play a significant role in that they can 'challenge market forces, and manage domestic economies and govern the International economy' (Thompson 2000) The globalists on the other hand would disagree with the definition in that they see globalisation as a significant and new phenomenon. They would argue against the traditionalists in that they see the intensification of trade and capital flows as being on a truly global scale. They would cite the financial crisis of East Asia as an example of this, due to how economic events in one country had detrimental effects in other countries. There are types of globalist positions, the neo-liberals who see globalisation as a positive trend, which increases the efficiency of goods and capital in markets and benefits consumers. Then there are the neo-Marxists who also see globalisation a strong process however they see this process as 'just another move by international capital to extend and secure power and exploitation at a global level' (Thompson 2000).

The globalists argue that this new global structure has rules, which determines how nation states, people and companies function. The globalists also argue that the nation states have lost their autonomy and sovereignty to the forces this new global structure has created. The transformationalists would also disagree with the definition and also see globalization as a new and significant process in that ' new forms of intense interdependence and integration are sweeping the international economic system' (Thompson 2000). They argue against the globalists in that they still see the nation states as economically powerful. However due to the competitiveness in global markets there are now constraints on nation states, making it difficult for them to make their own economic policies.

They would also argue that the traditionalists have underestimated the impacts and effects of this new global economy. The transformationalists argue that these effects are ' complex, diverse and unpredictable.

'(Thompson 2000). They argue that the internationalization of economic activity is an unequal process. They would cite the triad as an example of this.

' the triad accounts for between two-thirds and three-quarters of the worlds population.....

....

..... vast section of the world is almost written out of the equation' (Thompson 2000), arguing that due to economic globalization the inequalities between the rich and poor are growing.

Lets continue then by focusing on the traditionalist's argument. In agreement with the definition the traditionalists identify that growth of trade shows interdependency, hence it shows the impact of international trade between trading countries. Capital flows are used to show integration because they show the extent of ' international borrowing between economies' (Thompson 2000). The aim of traditionalists evidence is to show that we are not, as the globalists and transformationalists would argue, part of a new globalization process. Lets look at some statistical evidence they use to support their claims.

Firstly we have a graph (WTO 1995) showing world trends in merchandise trade and merchandising output. On first glance the figures show a dramatic increase in merchandising trade to output from 1950 to 1994 an obvious indication of interdependency. However traditionalists argue that the dramatic growth of trade could be due to population increase and wealth, hence people spending more on imports. So by expressing the trade figures as a ratio of output this gives a more balanced judgement of the figures. The next three tables are more specific.

They show a number of the same countries, specific figures for particular countries at particular times in history. The figures shown reflect merchandise trade to GDP (measures output of a country). In the first table (Maddison 1987) shows current prices. In support of the traditionalists it does show that trade internationalization appears to remain the same over time.

In table two (Maddison 1995) the data is given however this time, due to the fact that in the first table it could be argued that inflation has not been taken

into account therefore underestimating true extent of interdependency. However even with the adjustments, the data still falls in favour with the traditionalists at this point. However if we analyse the last table (Feenstra 1998) which has been adjusted again to ensure a fair assessment, this time the figures are shown with the service element of trade removed, which leaves us with marketing adjusted value added figures. This evidence falls down on the traditionalists somewhat. Although the traditionalists can identify two out of the five countries shown as being less interdependent today than in 1913, the globalists and transformationalists would take no time in pointing out the three countries who are clearly show an increase in interdependency today in comparison with 1913. However traditionalists could argue that if a true global economy is upon us how come this is not evident in the other two countries.

The transformationalists could also point out that this is where economic activity is unequal. Lets look now at the evidence for capital investment in the same way. To do this we need to look at foreign direct investment. (FDI), which is where companies borrow and lend money in the national economy. in order to ' set up some kind of economic activity abroad that is under its direct control.

'(Thompson 2000). These companies are called either multinational companies (MNCs) or Transnational companies (TNCs). MNCs are companies which, although they have some production sites situated abroad, they are still ' regulated and policed by ' home country'authorities' (Thompson 2000), where they are based. TNCs however have no clear home base and operate '

by roaming the globe for cheap but efficient production locations' (Thompson 2000), they are very competitive in the global markets.

The traditionalists would argue that due to the fact that there are only a few TNCs in operation, this then refutes the claims of a new global economy. However as it is often difficult to pinpoint where the home-base of many MNCs actually are, due to their production sites being all over the world, such as Honda, Nestle and Michelin, it is fair to argue that this could be an effect of globalization. To continue then, on looking at the data (Institute of Development studies, 1998), which shows FDI between the G7 countries from 1870 to 1990, expressed as a ratio of their GDPs. This data shows that although investment relationships have been growing, they were still higher in 1913, in the gold standard period. Again concluding that the international economy is certainly not as fully integrated today as others may claim. So how does the traditionalists theory stand up to the three tests of evaluation, in its coherence, empirical adequacy and comprehensiveness? The traditionalists argument is convincing.

The evidence they use is clear and concise and supports their argument in a logical way. They account for time and space in their statistical evidence, showing the comprehensiveness element of this theory. As the essay shows however, their argument is certainly not without its loopholes. How can the traditionalists, for example, not recognise the impacts of the Asian crisis and how it effected so many countries? How can they ignore the fact that the autonomy of the nation states has changed, maybe not to the extent argued by the globalists, but certainly to a certain degree? What about the

inequalities between the rich and poor? In conclusion the traditionalists do <https://assignbuster.com/the-in-terms-of-greater-interdependence-and-integration-essay/>

offer a convincing argument, to a certain extent. However they fail to recognise many relevant and important factors associated with economic globalization and their effects on society today.

There theory appears somewhat naive and simplistic in its nature, which leaves the traditionalist open to much criticism.