Globalisation, Regionalism and Economic Interdependence

How has increasing economic integration at the regional and global levels affected the functioning of the global economy? What are the consequences of globalisation and regionalism for world trade, production processes and domestic economies? What kind of economic adjustments do these phenomena imply in terms of factor mobility and relative costs?

Globalisation, Regionalism and Economic Interdependence addresses these and other questions by exploring the relationship between globalisation and regionalism from both academic and policy-making perspectives. It assesses the extent to which increased global and regional integration has changed the functioning of the world economy and analyses the implications for global trade, the relocation of production, structural changes and the international transmission of shocks. With contributions from both academics and professionals, this book is an invaluable guide to the increasingly important effects of the interaction between globalisation and various different forms of regional integration.

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Globalisation, Regionalism and Economic Interdependence

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Preface

Jürgen Stark

One of the main features of recent times has been the establishment of new major players in world markets amid the rapid diffusion of information technology. With emerging Asia, as well as central and eastern European countries, rapidly integrating in a more globalised economic setting, worldwide competition has sharpened, also leading to major changes in the structure of international trade. While globalisation was unfolding, regionalisation, another – possibly older – process was gaining momentum as well, most notably in Europe. How are these two processes interrelated, though? Are they complementing or contradicting each other?

To be sure, globalisation and regionalism are not mutually exclusive and cannot be seen in isolation from each other. Both encompass a strong increase in cross-border transactions in goods and services, capital, labour and natural resources. Both imply a dramatic change in the international transmission of shocks and in the ways that economies relate to their international environment. Both confer clear economic benefits, but there are also significant challenges to face.

At the ECB we are well aware of such issues, and in 2005, together with the Lowy Institute for International Policy and the Centre for Applied Macroeconomic Analysis at the Australian National University, we jointly organised the conference ‘Globalisation and Regionalism’. Drawing partly from this conference, the book edited by di Mauro, Dees and McKibbin sets out to reply to the above-mentioned questions from both an academic and a policy-oriented viewpoint. Using a broad range of methodologies and techniques, the various chapters provide an overall understanding as to how the acceleration in the globalisation process interacts with the process of regional integration. The main aim is to analyse the implications for global trade, the relocation of production, structural changes and the international transmission of shocks.

1 Member of the Executive Board of the European Central Bank (ECB).
Against the background of increasing economic integration at the global and regional levels, policies have an important role to play in order to improve economies’ adaptability to new challenges, thereby raising the overall welfare of their citizens. From a euro area perspective, the Economic and Monetary Union (EMU) and the enlargement of the European Union (EU) – a prime example of regionalism – have not only fostered European economic integration but also made euro area countries better prepared for the challenges of globalisation. The euro, in addition to providing participating countries with a strong currency and a credible monetary policy, has helped them to cope with increasing trade and financial openness. The EMU has also heightened the need for other policies – beyond monetary policy – to be more proactive and coordinated. Interestingly, greater integration within Europe has gone hand in hand with stronger integration of Europe within the global economy. In trade terms, for example, the openness of the euro area as a whole – as measured by the share of total trade in GDP – continues to rise, and much more rapidly than for the United States and Japan, which shows that, despite increasing regional integration, there is no evidence that Europe is developing as a ‘fortress’. Quite the contrary.

This notwithstanding, there is no space for complacency. While positive signs are evident, further adjustments appear to be needed to improve the functioning of the euro area economy. In particular, in several domains, the euro area still appears to be slow in adjusting to the major transformations occurring in its global and regional environment. Looking ahead, in the face of increasing trade liberalisation, protectionism and the shielding of jobs and industries from international competition are not conceivable as options. In order to reap the full benefits of globalisation, the euro area must make further efforts towards a knowledge-based economy. In this context, promoting firms’ capacity for innovation and workers’ skills are indeed crucial policy steps included in the Lisbon agenda. At the same time, economies need to adjust to the reallocation of production and the new competition from emerging markets in certain sectors. Economies with uncompetitive product markets and rigid labour markets not only fail to adjust to technological change but are also more vulnerable to shocks associated with the globalisation process. Reforming product and labour markets is therefore important to foster innovation and increase productivity potential, while raising the adaptability of all economic agents to a changing environment. In this respect, there is solid evidence that the euro area can turn this challenge into success for its citizens.