

RELATIONSHIP BETWEEN GLOBALIZATION AND FREE MARKET CAPITALIZATION

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Abstract

This viewpoint researches how and if globalization and free market capitalization are related to one another and determines the reasons for their relationship or lack of. To understand the rationale behind the study, we examine first definitional terms, as analysed by different theorists and sources, and take into consideration current interpretations. To better contemplate the connection between globalization and free market capitalism, we dig into why it is the way it is and deliver an easy to follow viewpoint of validation. At end, to better understand the relationship, we take a secondary step and briefly assess a case study of Germany and utilize it as a check on the purposed examination.

Keywords: free market capitalism, globalization, economic theory, international economics, Germany

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Pinpointing the Relationship: Review

The relationship between globalization and free market capitalization exists not only in theory but, we would argue, also in reality. This viewpoint briefly pinpoints aspects of this relationship and is a commentary on the topic. The research has been based on a variety of key standpoints, including a number of books and online sources (Scott, 2006; Gonzalez, 2016; Pitulec, 2016; Ortiz-Ospina, 2017) that connected the topic and profoundly deepen the analysis in the terms international economics and how the current economic system functions. At length, the scope of the paper introduces a case study of Germany in order to show how the relationship from a national perspective and real-world stance exist in the contemporary order.

Globalization and free market capitalism are terms that should be important to everybody. They are both connected to the global economy, especially in twenty-first century, as they become larger (and larger) in terms of global impact and a force for change (Westra, 2008; Celine, 2018). As a consequence, they both have an enormous influence on world economies, state-level development, entrepreneurs, and people's lives (i.e., at the individual level). To better understand the enormity of the topic, short definitions are given of both crucial terms. Globalization has a number of different definitions in which a number of individual theories combine to create a general assumption. Globalization is a process of expanding interdependencies between different countries, i.e., via economic and cultural unification—an interchanging of views, ideas, products, mutual sharing, etc. As such, a merging of national economies leads gradually to the emergence of a unified global economy (Gonzalez, 2016). In

term of free market capitalism, it is a system of economics that minimizes government intervention and maximizes the role of the market. According to the theory, free markets are rational economies that behave well in their own self-interest in dealing with information, price of goods, and services as efficiently as they can. Government regulations, trade barriers, and labour laws are thought to distort the market. Proponents of the free market argue that it provides the most opportunities for both consumers and producers by creating more employment and allowing competition to decide what businesses are successful (Gonzalez, 2016; Beckett, 2017). Critics maintain that an unfettered free market concentrates wealth in the hands of a few, which can be said to be unsustainable in the long-term. In practice, no country or jurisdiction has a completely free market (Wallerstein *et al.*, 2013).

Over the past few centuries, different economic systems have evolved with our current free market capitalization emerging as the paramount system to date. Living in a capitalistic economy one has the right to engage in exchange or not to. Such freedom gives great possibilities. The citizenry can engage in the economy—even at the national-level—by simply starting a new business. Comparing both definitions, it becomes obvious that capitalism is a consequence of globalization. Thanks to the removal of restrictions on free trade, privately-owned institutions have had the opportunity to flourish and grow. Widespread popularity of globalization has also granted a type of “staying-power” to the capitalization system. As a result, many countries that previously rejected capitalism are slowly embracing it, as a means of being incorporated into the global economy, moulded under the umbrella of globalization. Capitalism is encouraged by globalization; however, the two terms cannot be interchanged (Celine, 2018).

Competitive Markets: Turning Point

One of the primary features of capitalism is the fact that there are a number of competitive markets. Consequently, owners of competing companies have to do their best to be competitive. Consumers are free to choose which products and services they desire, so the quality must be good enough and prices must be reasonable in order to let the entrepreneur keep their market share. All of this, by design, is also connected to the phenomenon of globalization. As a result of globalization, people started exporting and importing goods (i.e., more often) creating growth and exchange among countries as well as decreasing the number of barriers to create more freedom in the market and, hence, the emergence of free market capitalization (Scott, 2006).

Globalization has had a tremendous impact on societies and governments. To maximize advantage, enterprises converge in basic structure and strategy and move production in search of cheap labour. Such exploitation has maneuverer exit-related options by pressuring governments to change their regulatory frameworks to lower labour costs and taxation as well as deregulate internal markets—else fallout of the global market (Hall and Soskice, 2001). It can be said that globalization is “the inexorable integration of markets, nation states, and technology, the spread of free market capitalism to virtually every country in the world” (Moghaddam and Redzuan, 2012). This competitiveness of course means among the winners there are loser (i.e., those that fall completely between the cracks). Figure 1 illustrates world poverty in absolute numbers from 1820-2015 and indicates a general consensus the global economy is becoming better off.

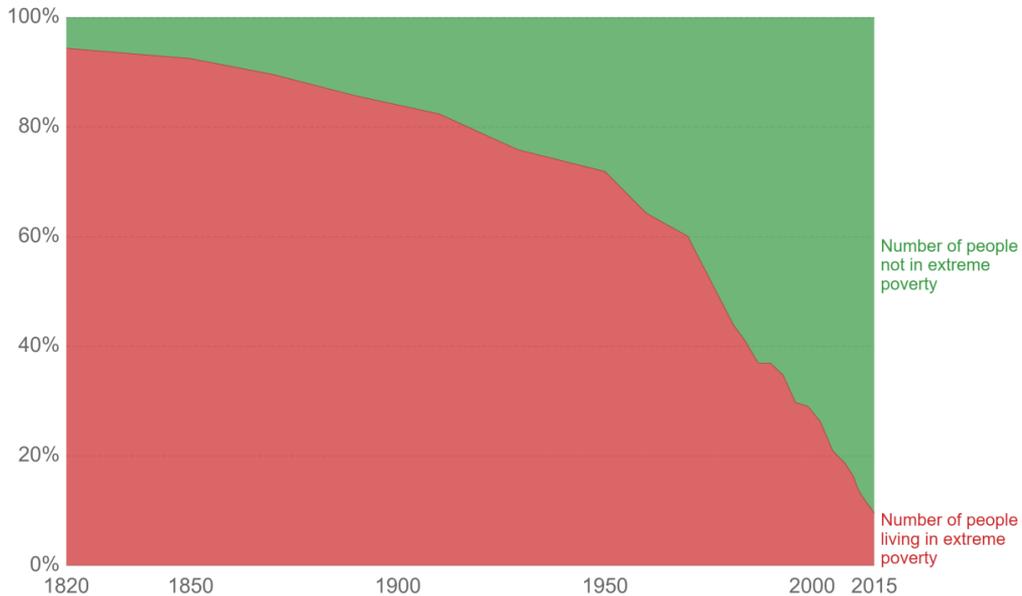


Figure 1. World population living in extreme poverty, 1820-2015

Sources: Bourguignon and Morrisson (2002), World Bank (2016)

Data presented in Figure 1 depicts the share of people worldwide living in extreme poverty has fallen continuously over the last two centuries. It is often said that globalization with its interconnectedness with free-market capitalism are the main reason of such a remarkable and historical achievement. Hence, on the one hand, it can be said that over the last two hundred years globalization together with the free market has had a positive effect on economic growth, contributing to better living conditions, and reducing extreme poverty across the world (Ortiz-Ospina, 2017). Globalization itself is substantially enhanced and aided by capitalism. Globalization does not impose anything on us, but it offers us a number of pursuant avenues—including new employment and consumption opportunities. Capitalism is in some ways similar to science. Its successes are virtually self-evident and hard to forego once they are available (Westra, 2008). As a result, globalization, together with the free market capitalization system, has similar consequences since they are closely connected and somewhat reliant on the other.

However, on the other hand, free market capitalism and growing globalization are not always seen as positive phenomena. In 1997, the World Bank, previously an uncritical advocate of its state-shrinking orthodoxies, published a report conceding that “an effective state is the cornerstone of successful economies” (World Bank, 1997). In 1999, an even wider mass movement formed around the world against environmental and social damage as a result of globalization. This movement spread and integrated free-market capitalism as part of the problem and was euphemistically called out by its advocates. Large-scale protests took place from Genoa to Seattle. Smaller, but still vibrant, anti-capitalist demonstrations also began to occur regularly in London (Beckett, 2017). To date, the alternative systems of economics are debated among big versus small government design—with the emergence and duality between globalism and national populous movements sprouting out throughout the West.

Case Study: Germany

Germany, in particular, has been benefitting very well from the process of globalization. Its exports currently account for 45 % of its economic output. In comparison, between 2000 and 2005 its share in global trade averaged 9.7 % for goods and 7.5 % for services. Offshoring, as an important part of globalization, has increased employment in Germany with flexible use from the labour market via employee demand. Advancing liberalization of the capital markets has significantly facilitated financing cross-border activities. According to Preqin (2020), private equity totalling € 380 billion was acquired and invested in 2006 alone. This gave additional vigour to globalization and has assisted in Germany's growth ever since. The first address for private equity investment in Europe was held by the the United Kingdom, with a share of 33 % of all European private equity investment, followed by France (i.e., 15.2 %) and Germany (i.e., 10.2 %). Private equities are one of symptoms of free market capitalism, so it can be said that globalization helps to create and enforce the system per se (Völz, 2009).

On the contrary, one important recent finding indicates that it can be seen that some the transnational corporations of the European Union (EU) are doing better in terms of globalization than within the EU economy. For example, the difference between the efficiency of Krupp Thyssen Nirosta GmbH (KTN), i.e. German producer of stainless steel, internationally (i.e. predominately in the United States) versus domestically is clear-cut. Downstream sales domestically are much worse than its American KTN subsidiary (Department of the Treasury, 2001; Litchfield and Schmitz, 2006). In recent years, top enterprises improving economic performance clearly contrasted with the national economy. This has been made possible because these enterprises, when undertaking international business activities, reduce dependence on the economy of its home country (Pitulec, 2016). Transnational corporations must invest abroad to maintain or improve their competitiveness, reduce costs, and achieve faster growth than is possible domestically. Germany is a classic case when taking this into consideration. As such, it should be noted that not only in the literature, but also in the real sense of things, transnational companies can gain a lot (e.g., benefits) from globalization and its accompaniment with the free market capitalization system.

Conclusions

Free market capitalism is strongly connected to globalization as it has become one of its consequential outcomes. They have some common parallels in the historicity of economic development. Both have a meaningful and beneficial level of integrative means for the global economy—evident from the decrease in poverty worldwide. However, some disadvantages exist, for example the clustering of a small group of rich people, transnational enterprises becoming extremely power (e.g., Facebook and Google), and these enterprises not being accountable to such power. All in all, at the same time, it can be observed that there is increasing poverty in some regions which are not able to be competitive in the free market. This cause for concern is something the global market must deal with. The resulting effects are small companies are crushed by global ones and local-entrepreneurial development is impeded. To date, the current marriage between globalization and the free market seems to be the best system that has alleviated the most amount of people out of poverty. The global challenge will be fill in these gaps and complete the picture.

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