Hyper Globalisation, Regionalisation and the Czech Republic

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To what extent can the global economy be described as hyper globalised? A case study of the Czech Republic.

Globalisation is a buzzword popularised by business, politicians and the media but in academic terms it is a highly contested idea and as a concept it is ill defined (McGrew, 1998, pp. 299- 300). While most academics agree that global trade and interdependence has increased since World War two (Hirst, 1997) there are important disputes as to whether this is truly globalisation or, with the growth of trade blocs such as the European Union (EU), North American Free Trade Area (NAFTA), and Association of Southeast Asian Nations (ASEAN) this constitutes regionalisation or internationalisation (McGrew, 1998, p. 305). These three different words are sometimes used interchangeably but they imply subtle differences. This essay will critically assess the differing conceptions of globalisation and evaluate the explanatory utility of each approach. This will include assessment of the hyper globalists who argue that true globalisation implies a harmonisation, across the world, of "the market" including price and interest rate convergence (McGrew, 1998, p. 305). This essay will then examine the "weaker" globalists who argue that globalisation simply means greater interconnectedness. This is sometimes referred to as internationalisation (Scholte, 2008, p. 1473). It will then critically assess whether the globalisation or regionalisation discourses have greater explanatory utility when assessing the world economy and to what extent the world economy is indeed globalised. This essay will take the Czech Republic as the case study for this critical evaluation.

The Czech Republic makes for a suitable case study because it is a relatively new emerging economy. The Czech Republic only re-entered the world market with the collapse of communism and the Soviet Union (USSR) in 1989 (Myant, 2007, pp. 431- 432; Marek & Baun, 2010a, p. 72). Since then the Czech Republic has been forced to compete in the global market. This essay will critically evaluate whether the Czech Republic has embraced hyper globalisation and fought on the world market, or whether it has sought the protection of regionalisation, through integration into the EU (Beckmann, Belke, & Kuhl, 2011, pp. 137- 138). This essay will assess the role of the EU in the development of not only the Czech economy, but also other aspects of Czech governance over the last thirty years or so such as changes to legislation (Marek & Baun, 2002b, pp. 899- 905). This essay will examine key areas of the Czech economy including: the hyper globalist idea of common policies such as laws and practices, the agricultural economy and the impact of EU membership examining in particular the role of the Common Agricultural Policy (Baun, Kouba, & Marek, 2009, pp. 275- 280), and finally the mobility of capital, including human capital and migration.

As mentioned above globalisation is conceptually ill defined and authors rarely offer solid explanations of how they are using this term (McGrew, 1998, pp. 299- 300). This essay will critically assess the explanatory utility of the term globalisation and will first examine the strong globalisation hypothesis.

Strong or hyper globalisers suggest that globalisation implies harmonisation of markets across international borders. This implies convergence of economic principles such as price and interest rates (McGrew, 1998, p. 305). Globalisation can also imply harmonisation of culture, legislation and working practices (Martell, 2007, p. 173). There are those who would argue that this convergence is facilitated through the increasing importance of global governance structures (Hirst, 1997, pp. 413- 414). These international institutions including: the World Trade Organisation (WTO) (World Trade Organisation, N/D), The International Monetary Fund (IMF) (International Monetary Fund, N/D), and the Organisation for Economic Coordination and Development (OECD) (Organisation for Economic Cooperation and Development, N/D) coordinate and facilitate the development and implementation of common rules and practices. According to Martell (2007, p. 173) Hyper globalisers include academics such as Reich (1991), Albrow (1996) and Ohmae (1990, 1995). Martell argues that these were the early hyper globalisers and that while their ideas may hold explanatory value they have been updated by the new "wave" of so called transformationalists who acknowledge the challenge of the sceptics and respond in such a way that supports the globalist position (Martell, 2007, p. 173). Hyper globalisers could argue that they have been proved correct in their assumptions with the growth of globally present transnational corporations, some of which operate in almost every state and are globally recognised. They point to well known corporations such as Coca Cola and McDonalds as proof of the liquidity of traditional state boundaries (Martell, 2007, p. 174). On the other hand academics such as Hirst (1997) offer a more sober assessment of hyper globalisation. Hirst (1997) claims that world trade is still dominated by the traditional triad of Europe, Japan and North America and that while these corporations operate across state boundaries they are still predominantly based in their home countries in terms of location of shareholders (Hirst, 1997, p. 410). This approach, so called internationalisation (Scholte, 2008, pp. 1473- 1475), will be assessed in the following section.

There is no doubt that to some extent globalisation is occurring (Hirst, 1997, p. 409). States are forced to compete with each other on an increasingly global scale thanks to improvements in technology and infrastructure. Academics such as Hirst (1997) argue from a weak globalisation position. Hirst (1997) claims that if the term globalisation is simply used to describe a situation of increasing international trade there can be little argument that this is the case (Hirst, 1997, p. 410). This is further backed up by Fischer (2003) who claims that in terms of everyday life and the effect of globalisation, people are simply more likely to consume products from another country than they were fifty years ago (Fischer, 2003, p. 4). Fischer fails to even acknowledge that there is a possible debate over globalisation and to what extent it is, or indeed not, occurring. However Fischer (2003), like many writers on globalisation, fails to define what he actually means by globalisation. Fischer (2003) and Hirst (1997) could be seen to be describing internationalisation rather than full globalisation. Internationalisation, according to Scholte (2008), is defined as the growth of transactions and interdependence of states (pp. 1473- 1474). This can be defined as weak globalisation. The internationalisation thesis has significant explanatory utility in explaining trends in the world economy but it can be criticised. Internationalist approaches can be criticised for being outdated and redundant (Scholte, 2008, pp. 1474- 1475). Internationalisation has long been present and understood. It can be argued that the world was more internationalised one hundred years ago during the *belle époque* of 1870 to 1914 than it is even now owing to the *laissez- faire* attitudes of states and a lack of supranational supervisory institutions (Hirst, 1997, p. 411; Martell, 2007, p. 175). It is therefore claimed that internationalisation does not add anything of real academic value to the globalisation debate (Scholte, 2008, pp. 1474- 1475). This essay would dispute this claim as internationalisation is an important conceptual tool in explaining current global markets.

Globalisation can also be framed in terms of the removal or lowering of trade barriers such as tariffs and quotas, (Scholte, 2008, p. 1475) the neo-liberal approach. This is another form of weak globalisation which implies that global markets are deregulated and privatised and that states intervene as little as possible. In other words states and global institutions take a *laissez- faire* approach to global governance. This neo-liberal form of globalisation can also be termed as westernisation (Scholte, 2008, p. 1476). The main drivers of this approach both intellectually and ideologically are western capitalists with certain pre-supposed universal ideals. This neo-liberal framing of globalisation is often described by critics, such as Chilcote (2002), as imperialist and a way for the rich global north to exploit the poor global south (Chilcote, 2002, pp. 80- 81). Again this neo-liberal thesis offers significant explanatory utility with particular reference to certain key aspects of the world economy such as the fairly recent experiment of privatising water in several states, both in economically developed states and less economically developed states (Goldman, 2007, pp. 787- 788). The neo-liberal approach lacks universality and cannot yet accurately describe globalisation but again it is a useful tool for understanding key developments and helps to explain the rationale behind important decisions behind certain important supranational bodies such as the World Bank and the IMF.

Overall it is clear that even with all these attempts to conceptualise globalisation as a systematic and total overarching concept it [globalisation] is not yet fully formed. There still remain significant barriers to totally free trade between states including economic and cultural differences which hyper globalisation fails to adequately explain. Internationalisation is currently the most accurate description of the current state of the global economy, with transnational corporations often operating in several states, but these firms are rarely truly international. Certainly there are still differences in economic and legal practices throughout the world which hyper globalisers predict to end but currently show little sign of doing so.

Globalisation currently fails adequately to describe the state of the world economy. Certainly cooperation could be improved but cooperation is occurring more at regional rather than systemic levels. Good examples of this increased cooperation can be seen through the strengthening of supranational bodies such as the European Union (EU), NAFTA and ASEAN whose aims are explicitly to promote trade first and foremost amongst member states (US Department of Agriculture, 2009; EU, N/Da; ASEAN, 2009). The establishment of these institutions suggests that rather than fully globalising, the world is regionalising and increasingly forming trade blocs along clearly defined geographic boundaries (Hirst, 1997, p. 410; Marek & Baun, 2002b, pp. 895- 896). This essay will evaluate the extent to which globalisation or regionalisation has greater explanatory utility in explaining the current real- world economic situation in the Czech Republic and the EU.

The EU began as a free trade area but has expanded its remit in recent times with barriers on the movement of economic commodities reduced to a minimum in the participating countries, this includes all form of capital including human capital with the ratification of the Schengen agreement which ensures the right of all workers in all participating countries to work and travel visa free (EU, 2009c). The hyper globalisers claim that globalisation encompasses not just market harmonisation but also harmonisation of practices such as legal practices (Martell, 2007, p. 173). The EU insists that all new member states sign up to certain common laws known as the*acquis communautaire* (Allemand, 2005, p. 597). All the candidate countries for the 2004 expansion round had to implement, and comply with, the 100,000 pages of *acquis communautaire* demanded by the Maastricht treaty (Allemand, 2005, p. 597). The Czech Republic faced challenges with its micro- regulations which were sometimes stricter than EU regulation but since accession the regulations have been simplified and brought into closer alignment with EU regulations (Baun, Kouba, & Marek, 2009, p. 277). This would suggest that the hyper globalisers may be correct that eventually globalisation will lead to a harmonisation of legal practices, but at the moment these laws only apply to EU member state countries which comprise 27 states in Europe from Britain in the west to Slovakia and Hungary in the east. This would suggest that the EU is an example of regionalisation which, in this case, has greater explanatory utility than globalisation or even internationalisation.

As well as promoting free trade within its geographical boundaries the EU also enacts protectionist policies suggesting it is not as neo- liberal as it appears. Examples of this include: the limit on Czech workers able to move to Germany, Austria and several other EU member states post accession (Marek & Baun, 2010a, pp. 78- 79), and the recent trade dispute with China with the EU raising punitive import duties on Chinese made ceramic tiles and bicycle parts in an effort to protect European manufacturers (The New Economy, 2011, p. 18). This would suggest that the EU is not as neo- liberal as it would first appear. Another sector of the European economy which is also subject to protection is agriculture through the common agricultural policy (CAP) (EU, N/Db, pp. 4- 5). This is a system of subsidies which helps to stabilise prices for agricultural products as well as incentives to produce (EU, N/Db, p. 19). This essay will critically evaluate the effect of the CAP on the Czech economy.

The Common Agricultural Policy is an example of regionalisation through protectionism of a perceived key industry (EU, N/Db, pp. 4- 5). The CAP seeks to stabilise farming income through direct payments, in effect subsidising production (EU, N/Db, p. 19). The CAP has greatly benefitted the Czech Republic since its accession to the EU in May 2004 (Marek & Baun, 2010, p. 1). Before accession the majority of Czech farms ran at a loss but since accession now run at a profit (Baun, Kouba, & Marek, 2009, pp. 281- 282). This can be directly attributed to CAP funding. Another benefit has been the stabilisation of the economic situation of Czech farmers which has allowed them to invest in, and modernise, their farms and equipment. This has greatly benefitted Czech farmers (Baun, Kouba, & Marek, 2009, p. 281). This has created a situation where EU farmers gain an unnatural competitive advantage and would suggest that the economy of the Czech Republic has not embraced globalisation but instead sought the protection of regionalisation. As well as the direct payments scheme the Czech economy has also been altered by EU tariffs. The EU remains the main trade partner of the Czech Republic but the balance has shifted slightly from the EU-15: the EU member states prior to the 2004 expansion round, towards the EU-10: the states which joined the EU in the 2004 expansion round (Ketels & Solvell, p. 4; Eurostat, 2010). This growth of exports occurred not just in agricultural products but across the whole Czech economy. In the year after accession Czech exports increased by 21% to the EU- 15 and by 33% to fellow new member states, especially the Central and Eastern European States of Poland, Hungary, Slovakia and Slovenia (Marek & Baun, 2010a, pp. 76- 77). Due to favourable export tariffs, which represent an anti globalist trading practice, the Czech Republic has also managed to increase exports to the developing world with exports in 2005 increasing 64% and accounting for 7.1% of total Czech agricultural trade (Baun, Kouba, & Marek, 2009, pp. 278- 279). Overall this would suggest that the Czech Republic has become an increasingly regional actor and has benefitted from the protectionist policies of the EU. Therefore it is clear that regionalisation has greater explanatory utility in this case than globalisation.

Another key tenet of hyper globalisation is the free movement of goods, services, labour and capital (Ferreira, 2011, p. 94). This led to a fear in the Czech Republic that land would increase in price once their markets opened up to competition (Baun, Kouba, & Marek, 2009, p. 279). This fear was evident amongst both farmers and the Czech Land Fund which gave large amounts of support to Czech farmers pre-accession in order to reduce the effects of this price inflation (Baun, Kouba, & Marek, 2009, p. 279). This price inflation failed to occur and remain roughly the same relative to other EU countries with Czech land roughly 2.7% cheaper than French land but 1.2% more expensive than Polish land (Baun, Kouba, & Marek, 2009, p. 280). This is closely linked to a political row which occurred in the Czech Republic about land sales to foreigners. Pre-accession the Czech government negotiated a 7 year transitional period, during which time foreigners were not allowed to purchase Czech land (Baun, Kouba, & Marek, 2009, p. 285). Some agricultural professional organisations and non-governmental parties opposed this law on the grounds that Czech farmers will not be able to compete with wealthier foreign farmers while exponents of the law, such as Pavel Kováčik (2007), argue that it protects Czech national interests and is not simply a “demonstration of chauvinism” (Baun, Kouba, & Marek, 2009, p. 285). So far these fears have again failed to materialise with land sales to foreigners, or trade firms using foreign capital, having been negligible (Baun, Kouba, & Marek, 2009, p. 285). The free movement of human capital was also of particular concern to the neighbouring countries of the Czech Republic as it acceded to the EU (Marek & Baun, 2010a, p. 78). The neighbouring states were worried that Czech workers would flood their markets with cheap labour. Therefore most of the EU-15 states, excluding the UK, Ireland and Sweden, insisted on immigration limits from the Czech Republic which would suggest anti- globalisation sentiment (Marek & Baun, 2010a, pp. 78- 79). This flood of workers failed to occur and Marek and Baun (2010) claim that the numbers of Czech workers who migrated to the EU- 15 even after the restrictions were lifted was “negligible” (Marek & Baun, 2010a, p. 79). This would suggest that the hyper globalisers again fail to adequately explain real world situations.

The free movement of capital also encompasses investment by foreign firms, so called foreign direct investment (FDI). Foreign direct investment has played an important role in the Czech economy since the fall of Communism (Myant, 2007, p. 440; Marek & Baun, 2010a, pp. 76- 78). The collapse of communism also meant that that the Czech economy had to be transformed from a centrally planned state- owned economy to market orientated capitalist economy (Marek & Baun, 2010a, p. 72). This meant the Czech Republic was forced to undergo huge structural changes such as the freeing of price controls, privatization of ownership and crucially the liberalization of foreign trade and investment (Marek & Baun, 2010a, p. 72). This liberalisation along with Czech accession to the EU led to large amounts of FDI into the Czech Republic. By the end of 2007 cumulative FDI into the Czech Republic reached over €76 billion of which 90% came from fellow EU members (Marek & Baun, 2010a, p. 77). However Czech firms were initially careful about accepting foreign investment for fear of job losses (Myant, 2007, p. 440). Often firms sought assurances from their future parent firms over matters such as continued employment or investment (Myant, 2007, p. 440). A good example of this is the sale of the Škoda car manufacturer to Volkswagen (VW) in 1991 which was sold with assurances that VW would invest substantially in the Czech wing of the firm to double production. Volkswagen agreed and subsequently invested around €3.5 billion making Škoda one of the largest employers in the Czech Republic with around 27,000 workers and, as promised, production also rose from 184,000 units in 1989 to almost 500,000 by 2005 (Myant, 2007, p. 440; Marek & Baun, 2010a, p. 77). This would suggest that the Czech Republic has embraced the idea of the freedom of movement of capital and the subsequent foreign direct investment. However due to the fact that this investment is largely from fellow EU members this would suggest that the economy of the Czech Republic can more accurately be described as regionalised rather than hyper globalised.

In conclusion it is clear that the globalisation thesis has some explanatory value when examining the actions of large multinational corporations such as Coca cola (Martell, 2007, p. 174). It is clear that to some extent trade and interdependence have increased among states (Hirst, 1997, p. 410). It is also clear that there have been increasing efforts towards some form of global governance through the increasing importance of institutions such as the World Trade Organisation, International Monetary Fund and the World Bank (Hirst, 1997, pp. 413- 414). On the other hand it is clear that extreme globalisation, as envisioned by the hyper globalisers, has failed to fully occur (Albrow, 1996; Ohmae, 1990, 1995; Reich, 1991). This can be seen with the growth, alongside the global institutions, of regional institutions such as the European Union, the North American Free Trade Association and, the Association of South East Asian Nations. Globalisation fails to adequately explain the real world situation with particular reference to the Czech Republic in relation to its interactions with other EU member states and, indeed, other states throughout the world. The EU has certainly started along the road which hyper globalisers have envisioned such as the harmonization of laws through the *acquis communautaire* and the implementation of the free movement of people and goods through agreements such as Schengen but ultimately these are regional agreements and so do not constitute globalisation but regionalisation (Allemand, 2005, p. 597; EU, 2009c, Martell, 2007, p. 173). Globalisation also fails to adequately explain the situation of a seeming lack of globality both in terms of capital and labour in the Czech Republic with the price of Czech land changing very little even since accession (Baun, Kouba, & Marek, 2009, p. 280), Czech workers failing to migrate despite the possibility of better wages, and the continuing prevalence of foreign direct investment originating from within the European Union rather than being truly global (Marek & Baun, 2010a, pp. 77 -79).

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