

MODULE 2: Europe in a changing world

The fact that the world is changing is not surprising, it has always been this way. What is new, however, is that changes taking place in the world are no longer initiated by Europe - as used to be the case in the past – but that these changes are pushed forward by other parts of the globe. First of all one needs to mention the United States of America which surely was the decisive power in the 20th century – which is why one speaks of the American Century. Nowadays it also other regions in the world that determine the speed of development. In this respect we, of course, are referring to the big countries China and India both of which have a population of more than one billion people. But it is also smaller countries like Vietnam and Thailand that have a say in the development of international markets. The aim of this module is to trace down these changes that we generally refer to as “globalisation”. What exactly is changing and how do we Europeans have to react?

1. The Goods Market

In simple terms „globalisation“ means that the market economy is extended all over the world, at least stretching over national borders. We buy our goods where we best like them and where they are cheapest.

Where do your things come from? Just have a look inside your sweater!
Here are some examples from Germany and the Czech Republic:



Jelena:

cell phone: China
jeans: China
sweatshirt: Cambodia
tee-shirt: Bangladesh
trainers: Taiwan
sunglasses: Turkey

Maarit:

I-Pod: China
jeans: Tunisia
white top: Bulgaria
sweatshirt: Cambodia
underwear: Turkey
belt: Germany
sunglasses: Taiwan
shoes: Italy
white bag (seen in the
background behind
Julian): Mauritius

Julian:

sweatshirt: Mexico
jeans: Romania
tee-shirt: South Korea
boots: China

"Although the textiles industry had to struggle with great difficulty over the past 30 years we are proud to say that we have managed these years with success. Not only were we able to sustain and secure work places but we have increased the number to a total of 1,200 over the last years. I consider it to be my duty to include my fellow citizens in the work process and to secure our jobs for the future. We must not kill even more jobs in our native country Germany nor dismiss workers who have done an excellent job and we must stop to fail in providing our young people with perspectives. German wages are not too expensive if the capacity for work is properly used, if employees are motivated and if human labour will create products that can be sold. These conditions, however, need to be ensured by the employers. It is not power, market share and size that should be considered to be the decisive factors but solidness, responsibility for fellow citizens, justice and continuity. I therefore take it to be my priority also in the years to come to take on responsibility for our large company family so as to ensure that our jobs will be secure in the future. I may assure you that I will do everything that this task of mine requires me to do."

Wolfgang Grupp, owner of TRIGEMA GmbH&Co.KG

http://www.trigema.de/customer_public/statisch/Unternehmen/philosophie.asp?smSessionID=4YxHJSG3O5Hvz074123, last accessed 1 April 2007

The German company TRIGEMA owned by Wolfgang Grupp produces cotton jersey garments (i.e. T-shirts, night wear etc.). He takes pride in advertising that all his goods are produced exclusively in Germany. What do you think about that?

- That is very good, because in this way jobs in his native country are secured.
- That is stupid, because we all take advantage from world-wide trade. Only if we buy from other countries will they in turn be able to buy from us.
- If all entrepreneurs were to think in this way there would be less unemployment in their respective countries.
- If all entrepreneurs were to think in this way there would be more unemployment in their respective countries (other opinions)

Whilst discussing these questions please take the following aspects into account:

- Does he grow his own cotton?
- further points

Graphic on German imports. "A growing part of German export is previously being imported."
[Schaubild Erich Schmidt Verlag, Deutschland als „Basar-Ökonomie?“ (Nr. 390 665, 8/04)]



2. The Money Market

"Most large companies are not owned by individuals any more, but belong to many people who hold an interest in the company, the so-called shares. Whoever buys a single share in a company becomes a partner in the firm; even though it is only a very small part of the company, it belongs to him or her.

An increasing number of people in our countries buy shares and use them as a provision for their old age. So-called pension funds also invest their clients' money in shares. In doing so they are not at all interested in what is produced by the company but rather that there are high profits. This is because each of the share holders will get their interest, the so-called dividend. If there is a lot of profit made by the company, many investors will want to own this company's shares. Shares are traded at the stock market; there they are bought and sold every day just like tomatoes in a food market. Trading in shares follows exactly the same rules: the higher the demand, the higher the price at which the shares are sold. Thus the share becomes more valuable. This is a good opportunity for speculators to make profit. This is how it works: The price for one share is 100 Euros. Mr. Miller buys ten of them. As there are many others who buy this share demand is increasing and with it the price. The following day the share will be sold for 110 Euros. So, the day after Mr. Miller had bought the share for 100 Euros, he sells it for 110 Euros. With this little transaction he has made a profit of 10 Euros; if there had been ten shares the profit would have been 100 Euros. And he did not actually work very hard for this - all he had to do was to get his computer going two times and effect the transaction. In reality share trading takes place on a much larger scale. At Frankfurt stock exchange - Germany's largest, but by no means only stock exchange - shares adding up to 1.8 trillion Euros (= 1 854 000 000 000.00) were traded in 2006. Because shares can be traded every day share holders are not really interested in companies' long-term profit. Once Mr. Miller has sold his shares making profit, he no longer cares whether the company whose shares he no longer owns, will go bankrupt in the following year or not.

However, joint-stock companies rely on share holders to buy their shares because otherwise they would not have the money to do business. Therefore the companies have to put in a lot of effort to keep their share holders happy and increase profit. Share trading works the same way the world over. Investors from the U.S.A or China are as much in a position to sell and buy French shares as French nationals. Therefore a company's viability – even on a short-term basis - is characterised by world-wide competition. The one who is last will lose out."

From the book "Wirtschaft in Deutschland" von Eckart D. Stratenschulte, Bonn 2006

The following questions are to be discussed in small groups:

- What are the consequences of international share trading for companies?
- What are the opportunities that individuals get from share trade?
- How do you rate share trade as far as national economies are concerned?
Does it have positive or negative impacts?
- What would you do if you were a share holder?

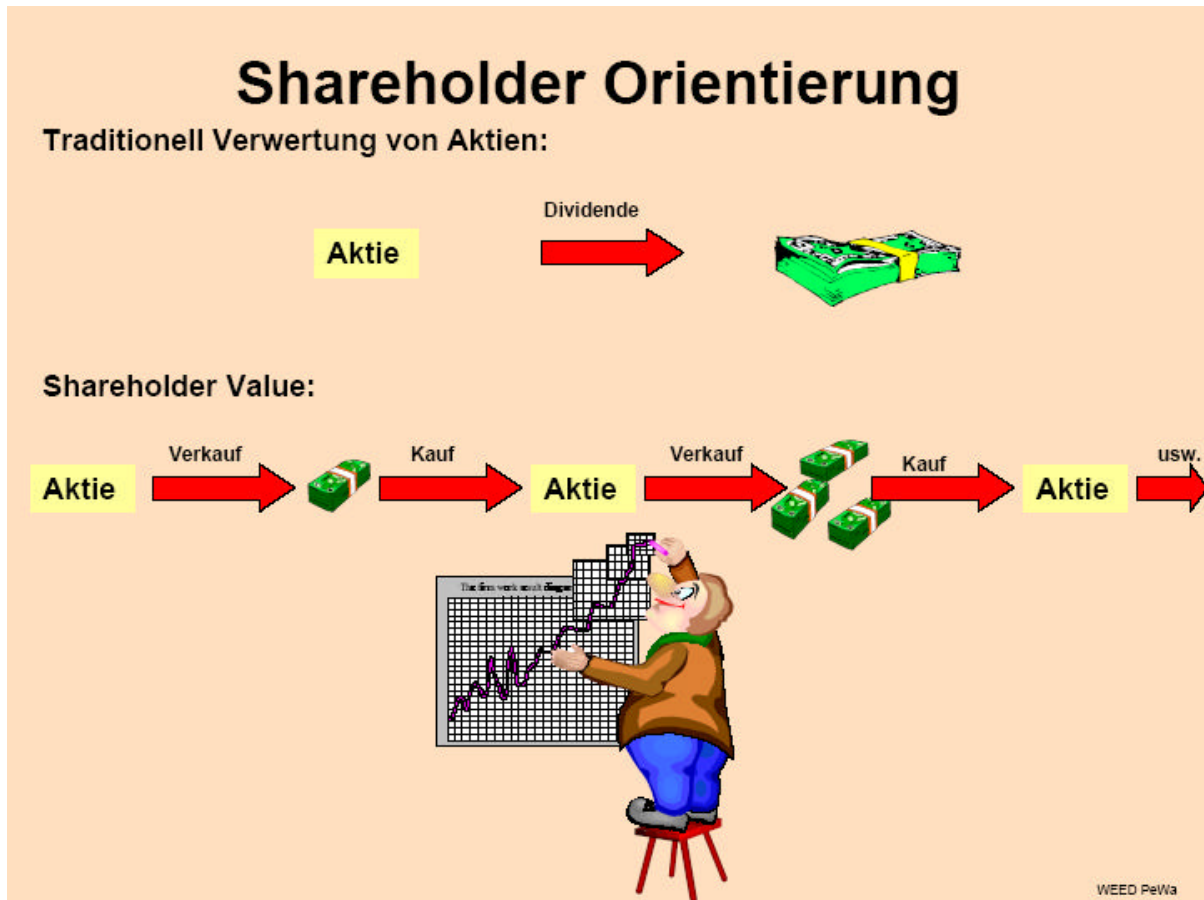
Overhead transparencies by Peter Wahl



Drastic increase of cash flow
1.9 trillion \$ per each trading day
475 trillion p.a.
Liquidity to an extent not known until our times

This graphic depicts the sum of daily (company shares and currency) transactions all over the world. Every day shares and securities valued at 1.9 billion US dollars are traded, this is an annual sum of 475 billion dollars. This is primarily to be explained by the fact that stocks and shares are frequently re-sold immediately, if their value has risen. Then again new shares are purchased, until their value has risen, with the sole purpose of selling them on again.

This cycle of selling and buying is also portrayed in the following slide.



Financial orientation

Traditional share exploitation

Share Dividend

Shareholder value

Share -> selling -> buying -> share -> selling -> buying -> share -> etc.

New economic powers on the international stage

For this topic we recommend the article "India vs. China – The elephant is on the trail to catch up on its competitors" by Olaf Ihlau from Spiegel online published on 15 October 2006 (<http://www.spiegel.de/wirtschaft/0,1518,442495,00.html>). This article describes the two Asian threshold countries and their development towards economic powers. Apart from their increasing influence, their common ground as well as their differences and the rivalry between them are described. Furthermore an outlook on the future of China and India is given and challenges for their further development to become economic giants are discussed.

Please read and comment on this article. According to your opinion, have the new economic powers i.e. China and India been depicted in the right way? What can you find out about this issue (using encyclopaedias, Internet, newspapers)? How should we react to the challenges? Would it be better if each state tried to make its own way or do you reckon that the only possible answer lies in close European unification? Please give reasons for your opinion and discuss it with your fellow students.

Background for teachers

From the photo of the three young people we learn that globalisation is dealt with naturally in everyday life. Students can be asked to check where their clothes and accessories were produced. The results will be similar.

This exercise can be extended for other goods or a “shopping basket”.

The slogan “Nationals, buy only national products” that springs up from time to time in different countries is utter nonsense in terms of economics. Our economies are dependent on exchanging goods and services. The idea to export goods without importing on the other hand is wrong. This would lead to a situation where our exports become too expensive to be bought by other countries and we would be even worse off if our exports increased. This perspective does not make sense. In so far the Trigema company’s approach may serve as an advertising gag, but is not useful advice to the well-being of a national economy. The question of management ethics, which is touched upon briefly in the short text, is not influenced by this.

The introduction to the share market is inspired by the book “Economics in Germany” by Eckart D. Stratenschulte (Bonn: Federal Agency for Civic Education 2006). The text aims at illustrating the pressure under which joint-stock companies find themselves these days. However, one must not forget that share trading forms an integral part of our economic order and ensures the inflow of capital to companies. But this does not stand in the way of limiting negative consequences resulting from speculators’ “hop on, hop off” transactions, for example by introducing speculation taxes that are linked to certain periods of time. With regard to this problem various approaches and rules can be found in the European Union. The law in Germany states that there is a speculative period of 12 months, i.e. if shares are held for at least 12 months no taxes will be raised when sold with profit. This law may be changed in the near future. France has a graded model with decreasing rates of taxation, i.e. if shares are held for 6 years one third of the profit will be exempt from taxation, if held for 7 years two thirds of the profit will not come under taxation and if held for 8 years there is no profit taxation at all.

A similar model is in force in the Czech Republic with flat-rate taxation during the first six months, after that rates of taxation decrease. In Poland there is no speculative period, the normal rate of tax must be paid on profits derived from selling shares. It would surely be an advantage if the same rules were applied all over Europe.

The slides of Peter Wahl illustrate the workings of the share market.

New economic powers on the international stage

For this topic we recommend the article “India vs. China – The elephant is on the trail to catch up on its competitors” by Olaf Ihlau from Spiegel online published on 15 October 2006 (<http://www.spiegel.de/wirtschaft/0,1518,442495,00.html>). This article describes the two Asian threshold countries and their development towards economic powers. Apart from their increasing influence, their common ground as well as their differences

and the rivalry between them are described. Furthermore an outlook on the future of China and India is given and challenges for their further development to become economic giants are discussed.

This article is comprehensible and of value as regards contents. However, we recommend to shorten the text for using it in class. Due to legal reasons we are not allowed to include the article in this module. Thus we want to direct you to the aforementioned web link. There you will also find links to other articles on this topic.

A translation of this article into English, French, Czech and Polish will be sent to you upon request per email (contact Lisa Moldenhauer, LM@eab-berlin.de).