

**GLOBALISATION, EMERGING MARKETS AND THE SOUTH  
AFRICAN ECONOMY**

**ELSABE LOOTS  
RAND AFRIKAANS UNIVERSITY (RAU)  
PO BOX 524  
AUCKLAND PARK  
2006  
JOHANNESBURG  
SOUTH AFRICA**

**E MAIL: [aelo@eb.rau.ac.za](mailto:aelo@eb.rau.ac.za)**

**TEL: +27 11 489-2017**

**FAX: +27 11 489-3039**

***Paper presented at the International Jubilee Conference of the Economic  
Society of South Africa, Glenburn Lodge, Johannesburg, 14 September***

***2001***

# **Globalisation, emerging markets and the South African economy**

## **1. Introduction**

Globalisation is a development that is having a profound impact on the subject of economics as a whole – to such an extent that it has become the defining process of the present age. Some economists such as Frankel (2000:2) view globalisation as being one of the most powerful forces to have shaped the world economy during the past 50 years.

Globalisation, however, is not a new phenomenon. O'Rourke and Williamson (2000:1) refer to economic historians who attach the 'big bang' significance of globalisation back to the years 1492 (when Columbus landed in the Americas in search of spices) and 1498 (when Vasco de Gama journeyed around Africa). However, Williamson (1996) is of the opinion that the first globalisation boom took place in the late nineteenth century when the benefits of revolutionary breakthroughs in transportation and communication were realised. The result of this was rapidly growing trade. A general retreat from globalisation was evident during the period 1913 to 1950. The reason for this was the inequality trends produced by this process during the preceding period. This is evident in the isolationist sentiments after World War I, monetary instability and depression during the interwar period, increases in tariffs and other trade barriers and the rise of the communist 'bloc' in the 1940s (Frankel, 2000:5). The second globalisation boom took place in the mid-twentieth century, but really accelerated during the early seventies. International trade did not regain its pre-World War I importance until the early 1970s. Frankel (2000:6) refers to the fact that it took the US more than 25 years after the end of World War II to reach the level of globalisation it experienced before World War I.

Globalisation is characterised by the fact that distance and national borders no longer matter, the ease with which business with a customer across the globe can take place and that the nation state and geography are no longer

relevant for economic purposes. While the opportunities and benefits of the opening of economies are emphasised by its proponents and supporters, disillusionment is growing among many policy-makers and economists about the costs and risks involved in the globalisation of national economies as well as the impact of it on future growth prospects.

South Africa re-entered the international economy in the early 1990s at a time when the process of globalisation was beginning to gain momentum. Apart from coping with the forces of globalisation, the South African economy also has to manage its emerging market status.

The objective of this paper is to analyse the impact of globalisation on emerging market economies in general and on the South African economy in particular. I will begin by defining the concept of globalisation. This will be followed by a brief discussion of the nature and extent of globalisation. Thereafter an analysis of the extent of the participation of emerging markets in the global economy will receive attention. Reference will be made to how South Africa compares with these economies. Finally, the impact of globalisation on economic growth in South Africa will be analysed.

## **2. Defining the concept of globalisation**

The term *globalisation* can be a very confusing concept and is often used to describe a variety of changes/events taking place in the world. Strangely enough, no precise generally accepted definition exists. Mittelman (2000:4) regards globalisation as a syndrome of processes and activities rather than a single, unified phenomenon. The processes and activities in general refer to the reduction of barriers between countries. This *borderless world* is typically referred to as the *global village* where distance and space disappear, and in which a single community and a common pool of resources exist.

The process of globalisation will necessarily encourage closer economic, political and social interaction. This in turn activates multiple levels of analysis in the fields of economics, politics, society and culture. Each of these fields will perhaps place a different emphasis on the definition of globalisation. Since

the focus of this paper is on economic globalisation, it is perhaps appropriate to refer to the definition used by the World Bank (2000a), which notes that, “in recent years a quickly rising share of economic activity in the world seems to be taking place between people who live in different countries”. Harris’s definition (1993:755) is more specific: he refers to economic globalisation as “the increasing internationalisation of the production, distribution and marketing of goods and services”.

There is a general consensus (see Rodrik, 1997; Frankel, 2000; Hemmer, 2001; etc.) that the driving forces behind economic globalisation are:

- A reduction in transport and communication costs in the private sector.
- Reduced policy barriers to trade and investment by the public sector.
- An increase in the availability of and access to information and technology.
- The speed with which information and technology can be transmitted across national boundaries.

The most important aspects of economic globalisation therefore include the breaking down of national economic boundaries, the liberalisation of international trade, finance and production activities and the growing power of transnational corporations (TNCs) and international financial institutions (Khor, 2000:3). Economic globalisation therefore manifests itself in various forms such as an increase in international trade, financial flows and foreign direct investment (FDI). All future reference in this paper to the concept *globalisation* therefore implies *economic globalisation*.

### **3. Nature and extent of globalisation**

The policy choices made to drive and enable economic globalisation on international and national levels have in recent years led to the rapid liberalisation of finance, trade and investment. Of these three aspects of globalisation, the liberalisation of finance has been the most pronounced. Since the abolition of the Bretton Woods system in 1972, international trade on the foreign exchange markets has expanded at spectacular rates. This is due to the fact that savers in many countries can now diversify their portfolios

to include foreign financial assets, and borrowers can utilise foreign sources of funds. On a wider scale, foreign currency speculators entered the market and contributed to the increase in international financial flows. Khor (2000:3) indicates that the daily average volume traded on world foreign exchange markets has grown from \$15 billion in 1973 to an average that currently exceeds \$1 000 billion per day. The largest percentage of these transactions is speculative in nature.

Global trade has expanded continuously over the past three decades. Total world exports increased on average from \$1 000 billion in the 1970s and \$2 650 billion in the 1980s to an average of \$5 440 billion in the 1990s. World trade as a percentage of world GDP increased from averages of 33 percent and 38 percent in the 1970s and 1980s respectively, to 41 percent on average in the 1990s (World Bank, 2000b). Services are becoming increasingly important in world trade: they currently account for approximately 20 percent of worldwide exports (Hemmer, 2001:4).

Foreign direct investment activities have also expanded over the past three decades. While the increase in the 1970s and early 1980s was marginal, FDI inflows thereafter started to increase more rapidly, and from the late 1980s these flows have set new records. The long-term picture is that FDI, under the common governance of TNCs, is playing a larger and more important role in the world economy. The volume of net world FDI inflows as a percentage of world GDP increased from 0.7 percent in the 1980s to 2.2 percent in 1998 (World Bank, 2000b). World FDI inflows as a percentage of gross domestic capital formation in all industries increased from 2.3 percent in 1980 to approximately 11 percent in 1998 (UNCTAD, 2000:5). This marks an unmistakable trend towards the internationalisation of production.

The liberalisation of markets and economic expansion on a global scale should, according to economic theory, improve the economic prosperity of the vast majority of the world's population. The question can be raised as to whether the process of economic globalisation through the liberalisation of finance, trade and FDI has benefited the world economy in general. Although it is difficult to isolate cause and effect, it is important to take note of the fact

that the growth in the world economy has actually slowed down over the past three decades. The average growth in the world economy during the 1970s was 4.1 percent, in comparison to the average of 3.2 percent and 2.5 percent in the 1980s and 1990s, respectively (World Bank, 2000c:295 & World Bank, 2000b). The benefits of world growth are still unequally distributed among the world's population. The latest World Development Report (World Bank, 2000c:3) indicates that the average income in the richest 20 countries is currently 37 times the average in the poorest 20 countries – a gap that has doubled over the past 40 years. In conclusion, it is evident that, although economic globalisation has expanded during the past three decades, world economic growth has actually slowed down.

An important issue is whether developing countries have benefited since the 1970s from the process of globalisation. The participation of developing countries in the process of globalisation differs in some respects from the advances experienced by the world economy. Firstly, the process of financial liberalisation has not been as spectacular as has been experienced by the world economy. This serves to indicate that the increase in world financial flows can mainly be attributed to flows in developed economies. Financial flows to developing countries only started to take off in the early 1990s. However, these flows tend to be very volatile. The portfolio equity flows to developing countries amounted to a mere \$2,7 billion in 1990, from where they increased to a record flow of \$51 billion in 1993. They declined marginally to \$49 billion in 1996 and to a low of approximately \$16 billion in 1998 (after the aftermath of the Asian financial crises), before increasing again to \$28 billion in 1999 (World Bank, 2000d:24).

Developing countries are increasingly participating in world trade. Total developing country exports rose by an average of 3 percent per annum in the 1980s, and a staggering average of 12 percent per annum during the 1990s (World Bank, 2000d:24). While developing countries' exports of goods and services as a percentage of GDP amounted to 21 percent in 1990, they increased to 26 percent in 1999 (World Bank, 2000c:299).

On the investment scene, the growth in FDI inflows to developing countries has increased significantly since the late 1980s. During 1997, this group received approximately 42 percent of total world flows, in comparison to a mere 21 percent in 1988 (Loots, 2000:99). However, the turbulence in the financial markets from the second half of 1997 caused a reversal in the 1998 trend, followed by a marginal increase in 1999, when developing countries received 24 percent of world FDI inflows (UNCTAD, 2000:283).

In general, the conclusion can be drawn that developing countries started to share in the benefits of globalisation from the late 1980s and early 1990s. This trend is especially prevalent in the case of international trade and FDI inflows. Although financial liberalisation started to take off in the early 1990s, it still remains highly volatile.

#### **4. Globalisation, emerging markets and South Africa**

The economic leaders among developing countries are generally seen as the emerging market economies<sup>1</sup>. This group of 24 countries includes Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hong Kong, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russian Federation, Singapore, Thailand, Turkey, Venezuela and South Africa.

Emerging market economies have, since the early 1990s played a more important role in the world economy. During the 1980s and 1990s these economies achieved higher economic growth rates than did developed and developing countries. Emerging market economies averaged real economic growth rates of 4 percent and 4.1 percent respectively during the 1980s and 1990s, in comparison with average rates of 3.4 percent and 3.3 percent for developing countries and 3.2 percent and 2.5 percent on average for the world economy (World Bank, 2000c:295). Emerging economies' exports contribute 23 percent to world exports and 92 percent of exports from developing countries (World Bank, 2000c:303,304). Apart from the fact that

---

<sup>1</sup> The classification for emerging market economies of The Economist is used.

emerging markets are highly active on the international trade scene, they are also the recipients of 92 percent of all FDI inflows to developing countries (UNCTAD, 2000:283-287). Almost all the portfolio flows to developing countries are also directed at emerging economies since their financial markets are more developed than those of the remaining developing countries. As has already been stated, these flows are very volatile and subject to emerging market crisis.

Two questions can be raised regarding emerging markets and globalisation. The first question is to what extent these economies participate in the process of globalisation, and secondly, how does South Africa compare with these countries?

In order to answer these questions, globalisation needs first to be quantified. In the preceding discussion it was pointed out that the process of economic globalisation manifests itself in three forms: the increase in international trade, international financial flows and international investment flows. To measure the participation of emerging markets in globalisation, the proxies for the above indicators would be as follows:

- Trade (exports plus imports) will be used as proxy for the participation in international trade. This figure could serve as an indicator of the openness of the economies of the various emerging markets.
- As a measure of the participation in international financial flows, total net portfolio investment (equity and bonds) will be used.
- The indicator or proxy to be used for international investment will be total net FDI inflows.

These special features or characteristics of globalisation will be expressed as a percentage of the real GDP of these countries. This will simplify the comparison between countries and regions. These so-called measures of globalisation for the period 1994 to 1998 for the different emerging market regions are presented in Table 1.

**Table 1: Regional globalisation comparison, 1994-1998 (as a percentage of GDP)**

Region	Trade	Net FDI inflows	Net portfolio inflows
All emerging markets <sup>1)</sup>	82.6	2.8	1.8
Asia	129.7	3.3	2.3
Latin America	37.9	3.2	1.7
Eastern Europe	74.0	3.1	1.5
Other <sup>2)</sup>	57.4	1.1	1.0
South Africa	49.0	-0.2	2.8

Sources: World Bank, 2000b

South African Reserve Bank, Quarterly Bulletin (used for South African data)

<sup>1)</sup> Average for emerging market economies

<sup>2)</sup> Includes Israel, Egypt and Turkey

From Table 1 it is evident that international trade is the main driver of the globalisation process in emerging market economies. The average openness for this group of countries is approximately 83 percent of GDP, with the emerging markets in Asia as the top scorer at approximately 130 percent. Latin America as a region is at the bottom of the list with an approximate openness level of 38 percent. The Asian economies are bearing the fruit of their respective export drives of the past 20 to 30 years. The Latin American case is indicative of its long history of inward industrialisation.

Figure 1 shows the ranking of the openness of the individual emerging market economies. Singapore, Hong Kong, Malaysia and the Czech Republic are the most open economies amongst the emerging economies. Although countries like Brazil and Argentina liberalised their trade, this has not been reflected in their exports. These two countries are, with India and Peru, the least open of all emerging economies. South Africa is ranked 16<sup>th</sup> out of 24 countries with openness levels similar to countries such as Turkey and Venezuela.

On the FDI scene, the countries in Asia, Latin America and Eastern European regions are the major recipients (see table 1). It is evident that regional links are important for FDI from source countries. Approximately 75 percent of FDI inflows to Asia come from countries within the region (Loots, 2000). Latin

America and Eastern Europe as regions also benefit from the close geographic proximity to the United States and European Union markets, respectively. The net FDI inflows as percentage of the respective countries' GDP are shown in Figure 2. The major recipient countries are Singapore (9.2 percent of GDP), Chile (6.2 percent of GDP), China (5.2 percent of GDP), Malaysia (5.2 percent of GDP) and Hungary (5.1 percent of GDP). South Africa is the lowest scorer among emerging economies. Although FDI flows to South Africa started to return from 1994, these flows are still very erratic. South Africa's net inflow position – which is close to zero for the period 1994 to 1998 – is also influenced by the fact that a number of local companies used the opportunity to invest abroad. The major drawback for foreign investment flowing to South Africa seems to be the fact that the TNCs are to a greater extent focusing on strong regions and that SADC does not qualify.

Net portfolio flows to emerging market economies are characterised by the fact that these flows are, although relatively small in extent (see Table 1), very volatile. Emerging market crises like the Mexican peso crisis of 1994/1995, the East Asian meltdown of 1997/1998, the Nasdaq meltdown (2000) and to a lesser extent the Russian, Turkish and Argentinean defaults all contribute to the volatility of portfolio investment flows to emerging markets. In this regard countries in Asia and Latin America are more exposed due to their larger exposure to portfolio flows. The ranking of the net portfolio flows as percentage of GDP for the emerging market economies is shown in Figure 3. South Africa, in comparison to the emerging market regions, receives, on average, a higher percentage of portfolio flows. This is due to the fact that the South African equity market is very liquid (Smith, 2001). As a percentage of GDP, South Africa is on par with Argentina. Only Malaysia (3.5 percent), the Philippines (3.3 percent) and Hungary (2.9 percent) received larger average percentage flows during the period 1994 to 1998.

The aggregate level of globalisation in the various emerging market economies is obtained by the summation of the trade, net FDI inflows and net portfolio inflow as percentages of GDP, respectively. In Figure 4 the countries are ranked according to their respective levels of globalisation. According to this criterion the most globalised emerging market economies are Singapore,

Hong Kong, Malaysia and the Czech Republic. Along with countries such as the Philippines, Thailand, Hungary and Israel, they are classified as strong or aggressive globalisers. The most passive globalisers are Brazil, India and Argentina. On this list South Africa is ranked fifteenth out of 23 countries and is classified alongside countries such as the Russian Federation, Poland, Mexico and Indonesia as moderate globalisers.

Table 2 combines the globalisation rank of the countries with their respective economic growth rates for the period 1994 to 1998. When the average economic growth rates for strong, moderate and passive globalisers are taken into account, mixed results were obtained. The highest average real economic growth rate (5.3 percent) for the period 1994 to 1998 was achieved among the passive globalisers, followed by a 4 percent average for strong globalisers and 2.8 percent for the moderate globalisers. Singapore, a strong globaliser, achieved an exceptionally high growth rate for the period under discussion, but so did moderate globalisers such as Chile and Poland, as well as passive globalisers such as China, Peru and India.

An interesting phenomenon seems to be the fact that the strong globalisers, with the exception of the Czech Republic and to a lesser extent Israel, are all high-technology exporters. These countries' high technology exports as a percentage of their respective manufactured exports are all higher than the average for all emerging market economies (World Bank, 2001:310-312). Another important determinant seems to be FDI inflows. Amongst the strong globalisers, Singapore, Hong Kong and Malaysia were the major recipients of FDI inflows for the period under discussion. Among the passive globalisers, China, Argentina and Brazil are the major recipients. China is the second largest global recipient of FDI inflows after the United States (UNCTAD, 2000:286). Chile, Mexico and Poland are the major recipient countries among the ranks of the moderate globalisers.

**Table 2: Aggregate level of globalisation and economic growth, 1994-1998**

Country	Rank	Globalisation	Economic growth	Classification
Singapore	1	329.4	7.3	<b>4.0%</b> <b>Strong Globalisers</b>
Hong Kong	2	276.2	2.8	
Malaysia	3	199.0	5.5	
Czech Republic	4	117.6	2.0	
Philippines	5	98.9	3.9	
Thailand	6	94.3	2.5	
Hungary	7	90.5	3.1	
Israel	8	78.6	4.7	
Korea	9	70.1	4.6	<b>2.8%</b> <b>Moderate Globalisers</b>
Indonesia	10	65.7	3.0	
Chile	10	65.7	6.9	
Mexico	11	61.4	3.0	
Poland	12	54.1	5.9	
Venezuela	13	54.0	1.3	
Russian Federation	14	52.2	-4.8	
South Africa	15	51.6	2.7	
Turkey	16	49.9	3.8	<b>5.3%</b> <b>Passive Globalisers</b>
China	17	49.0	9.9	
Egypt	18	49.0	4.9	
Colombia	19	38.8	3.3	
Peru	20	33.8	6.0	
Argentina	21	26.1	4.1	
India	22	24.9	6.9	
Brazil	23	19.2	3.2	
<b>Average</b>		<b>85.4</b>	<b>4.0</b>	

Source: Calculated from World Bank, 2000 b.

No strong correlation in general exists between the level of globalisation and average real economic growth in emerging market economies for the period 1994-1998. On average the passive globalisers achieved higher rates of economic growth than the strong globalisers. The losers seem to be the average globalisers who could only achieve an average economic growth rate of 2.8%.

## 5. Globalisation and South Africa

In comparison with other emerging economies, South Africa seems to be a moderate globaliser. South Africa re-entered the international economic arena at a stage when the forces of globalisation – specifically for emerging

market economies – became more prominent. It is therefore imperative to establish what the impact of globalisation is on the South African economy.

For the purpose of this paper the impact of globalisation will be tested on the GDP by using graphical and statistical analysis. The ultimate aim of the statistical analysis is to develop a globalisation index that can be used to monitor the future globalisation process in the country. Although it is acknowledged that globalisation probably has a wider influence than simply on output and economic growth (e.g. income distribution, poverty, etc.), a discussion of its other effects is beyond the scope of this paper.

The level of globalisation in the South African economy for the period 1980 to 2000 is shown in Figure 5. From the figure it is evident that, after a period of stagnation during the 1980s, South Africa started to participate in the global economy from 1992. The minor declines in the globalisation trend in 1998 are due to a major FDI outflow and the 2000 decline due to large portfolio outflows. In general a fairly strong correlation (0.858) exists between the level of globalisation and economic growth for the period 1990-2000.

A general measure that can also be used to indicate the integration with the world economy is the existence of a divergence between the GDP and GNP. This measure compares payments made to foreign-owned factors of production operating domestically to payments received by domestic-owned factors of production operating abroad (Kearney, 2000:18). The divergence between the GDP and GNP for the period 1980 to 2000 is shown in Figure 6. In the figure it is evident that in the early 1980s South Africa moved from a situation where domestic-owned corporations contributed more to economic output towards a more dominant position by foreign-owned corporations and then to a stagnant position in the middle eighties. Since the early 1990s the net position is moving towards foreign-owned enterprises contributing more to economic output, suggesting a greater openness to the global economy.

As has already been stated, the proxies for globalisation are trade (exports plus imports), net FDI inflows and net portfolio inflows. The first step in the statistical analysis is to establish whether a correlation exists between

economic growth (GDP at constant 1995 prices) and the individual independent variables (trade, net FDI and net portfolio investment). When the Pearson Correlation test was applied, the only significant correlation was found between trade and economic growth – a highly positive correlation of 0.944. The correlation coefficients of both net FDI and net portfolio

**Table 3: Statistical properties of the various scenarios**

<b>Scenario I</b>			
<b>Parameters</b>	<b>Coefficient</b>	<b>t-statistic</b>	<b>Adjusted R<sup>2</sup></b>
Constant	92495.2	36.625	
Trade	0.776	18.850	
FDI	0.035	0.691*	
SQRT (10 000 + PI)	-0.022	-0.433*	
			<b>0,890</b>
<b>Scenario II</b>			
<b>Parameters</b>	<b>Coefficient</b>	<b>t-statistic</b>	<b>Adjusted R<sup>2</sup></b>
Constant	118676.2	92.273	
Trade	0.0726	12.763	
FDI <sub>t-2</sub>	0.376	1.163**	
PI <sub>t-3</sub>	0.068	1.011**	
			<b>0.884</b>
<b>Scenario III</b>			
<b>Parameters</b>	<b>Coefficient</b>	<b>t-statistic</b>	<b>Adjusted R<sup>2</sup></b>
Constant	117 404.8	111.958	
Globalisation	0.10249	22.345	
			<b>0.922</b>

\* Statistically insignificant

\*\* Statistically significant at the 75 percent confidence level

investment proved to be insignificant. When the three independent variables were regressed on GDP, only the trade coefficient proved to be statistically significant (see Table 3, Scenario I). The failure of the model therefore proves that net FDI inflows and net portfolio inflows do not contribute at all in explaining the change in GDP<sup>2</sup>. A possible explanation could be that both of these series are very volatile. The volatility can partly be explained by the fact that South African companies and individuals – due to international sanctions – did not have the opportunity to invest abroad since the mid-1980s. As South Africa re-entered the international economy in 1990, a number of South African companies expanded to become TNC's. The gradual relaxation of exchange control also permitted companies and individuals to invest a large proportion of funds abroad. It can be concluded that in this model the trade variable proves to be the only significant variable and that its relative contribution to the model (according to the standardised beta coefficients) is 94 percent.

The second scenario that was tested was by using the following independent variables: trade, FDI inflows and portfolio inflows. When the Pearson Correlation Test was applied, significant correlations were found between all three independent variables and the GDP. With reference to trade, the correlation proved to be positively strong at a level of 0.949. The correlations for the remaining two variables were weak (0.452 for FDI and 0.493 for portfolio investment), but still significant. When the variables are tested for various lags, the correlation coefficients seem to improve (Trade: 0.94, FDI<sub>t-2</sub>: 0.552 and PI<sub>t-3</sub>: 0.561).

To establish the statistical relationship between GDP and the various independent variables, the following regression function is used:

$$GDP_t = f(\text{Trade}_t; \text{FDI}_{t-2}; \text{PI}_{t-3})$$

---

<sup>2</sup> Data transformation did not prove to be successful. Various lags were also tested, but no significant results could be obtained. A similar exercise was done by using trade, total FDI (inflows and outflows) and total portfolio flows (inflows and outflows). Again the correlation between FDI and GDP proves to be insignificant. The only significant variable in the regression analysis again proves to be the trade variable.

The regression results are shown in Table 3 (Scenario II). Although a fairly high adjusted  $R^2$  was obtained, the coefficients for FDI and PI still seem to be statistically insignificant at the 95 percent confidence level. They are however statistically significant at the 75 percent level. The relative contribution of the trade variable (as measured by the standardised beta coefficients) is now 87 percent. Only 13 percent of the regression equation is explained by the combined contribution of FDI and portfolio investment.

A third scenario is to develop a composite globalisation variable. The weights of the standardised beta coefficients were used. The weights for the respective variables are: trade 0.865,  $FDI_{t-1}$  0.075 and  $PI_{t-3}$  0.066. These weights are indicative of the relative contribution of each variable to the regression equation. When the correlation between the GDP and the composite globalisation variable was tested, a significantly positive correlation of 0.96 was obtained. The regression results are shown in Table 3. An acceptable adjusted  $R^2$  was obtained indicating that 92 percent of the variance in GDP is explained by the change in globalisation. The globalisation coefficient indicates a 10:1 relationship between globalisation and the GDP: i.e. if globalisation increases by R1 million, the GDP will increase by R100 000. It can be concluded that the GDP in South Africa is definitely influenced by globalisation, but that the relationship is still quite weak.

Finally, the composite globalisation variable can be transformed into an index. The globalisation index for South Africa is shown in Figure 7. From the figure it is evident that South Africa's globalisation drive took off in 1993 and has been increasing ever since. This globalisation index can be used to monitor the future globalisation process in the country.

## **6. Conclusion**

From the preceding discussion of the process of globalisation it is evident that this phenomenon is more complex in nature than was originally thought. The concept of globalisation is a very wide one and can include the fields of economics, politics, society and culture. However, the driving forces behind

economic globalisation include the reduction in transport and communication costs, technological advancement and the liberalisation of trade and investment. Economic globalisation therefore manifests itself in the increasing involvement of nations in international trade, finance and investment. Although advances in world trade and FDI attract attention, the liberalisation of financial markets has expanded at spectacular rates. However, judging from the world economic growth during the past three decades, the process of globalisation is a very uneven process with a relatively small number of countries benefiting from this process.

The impact of this process on emerging market economies is also not conclusive, although it seems that the majority of this group benefited in one way or the other. The evidence shows that international trade is the main driving force in the globalisation process. The average openness of emerging market economies is approximately 83 percent of GDP. Due to the volatility experienced in the financial flows to these countries, the benefits mostly accrued from increases in international trade, although some countries benefited from strong FDI inflows. No strong correlation in general exists between the level of globalisation and average real economic growth in emerging market economies for the period 1994-1998. On average the passive globalisers achieved higher rates of economic growth than the strong globalisers. The losers seem to be the average globalisers who could only achieve an average economic growth rate of 2.8 percent. An interesting phenomenon seems to be the fact that almost all the strong globalisers are high-technology exporters.

In comparison with other emerging market economies, South Africa seems to be a moderate globaliser. The globalisation process in South Africa is also mainly driven by trade. Both net FDI inflows and portfolio inflows seem to have a very limited impact on economic growth in the country due to their high levels of volatility. When a composite globalisation variable is developed, it can be concluded that a 10:1 relationship exists between globalisation and the GDP. The composite globalisation index also indicates that the globalisation drive in the country took off in 1993. This index will be used to monitor the future globalisation process in South Africa.

## References

Frankel, JA, 2000: "Globalisation of the economy", National Bureau of Economic Research, Working Paper, W7858, August, Cambridge, MA.

Harris, RG, 1993: "Globalisation, trade and income", Canadian Journal of Economics, No 26, November.

Hemmer, HR, 2001: "Developing countries – Victims or beneficiaries of globalisation?", Paper presented at the Konrad Adenauer Foundation Workshop, Johannesburg, 19 June.

Kearney, AT, 2000: "Globalization Ledger", Global Business Policy Council, AT Kearney Inc, Alexandria, Virginia.

Khor, M, 2000: "Globalisation and the South: Some critical issues", UNCTAD, Discussion Papers, No 147, April.

Loots, E, 2000: "Foreign direct investment flows to developing countries: Policy implications for South Africa", Journal for Public Administration, Vol 35, No 2, Pretoria.

Mittelman, JH, 2000: The Globalisation Syndrome. Transformation and Resistance, Princeton University Press: Princeton.

O'Rourke KH & Williamson, JG, 2000: "When did globalisation begin?", National Bureau of Economic Research, Working Paper, W7632, April, Cambridge, MA.

Rodrik, D, 1997: "Trade, social insurance and the limits to globalisation", National Bureau of Economic Research, Working Paper, W5905, January, Cambridge, MA.

South African Reserve Bank: Quarterly Bulletins.

Smith, G, 2001: "Considering the causes and impact on South Africa of recent Emerging Market contagion events", Paper presented at the RAU Department of Economics Seminar Series, Johannesburg, 30 August.

United Nations Conference on Trade and Development (UNCTAD), 2000: World Investment Report 2000. Cross-border Mergers and Acquisitions and Development, United Nations: New York.

Williamson, JG, 1996: "Globalisation and inequality: Past and present", National Bureau of Economic Research, Working Paper, W5491, March, Cambridge, MA.

World Bank, 2000a: Assessing globalisation, Briefing papers, April (<http://www.worldbank.org>).

World Bank, 2000b: World Development Indicators, CD Rom, World Bank: Washington DC.

World Bank, 2000c: World Development Report 2000/2001. Attacking Poverty, Oxford University Press: New York.

World Bank, 2000d: Global Development Finance. Country Tables, World Bank: Washington DC.

World Bank, 2001: World Development Indicators, World Bank: Washington DC.

Figure 1: Openness - Emerging market economies

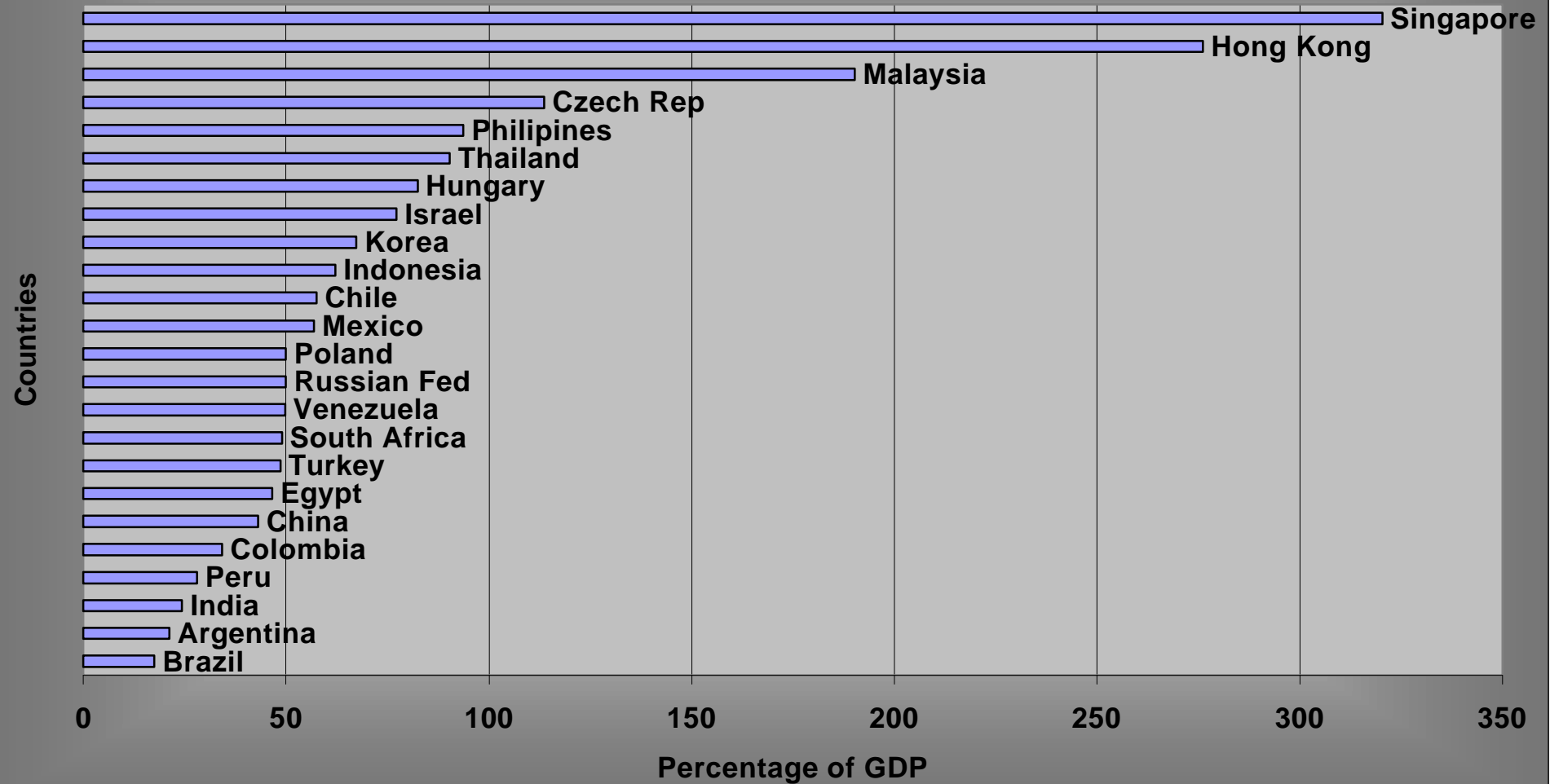


Figure 2: Net FDI inflows - Emerging market economies

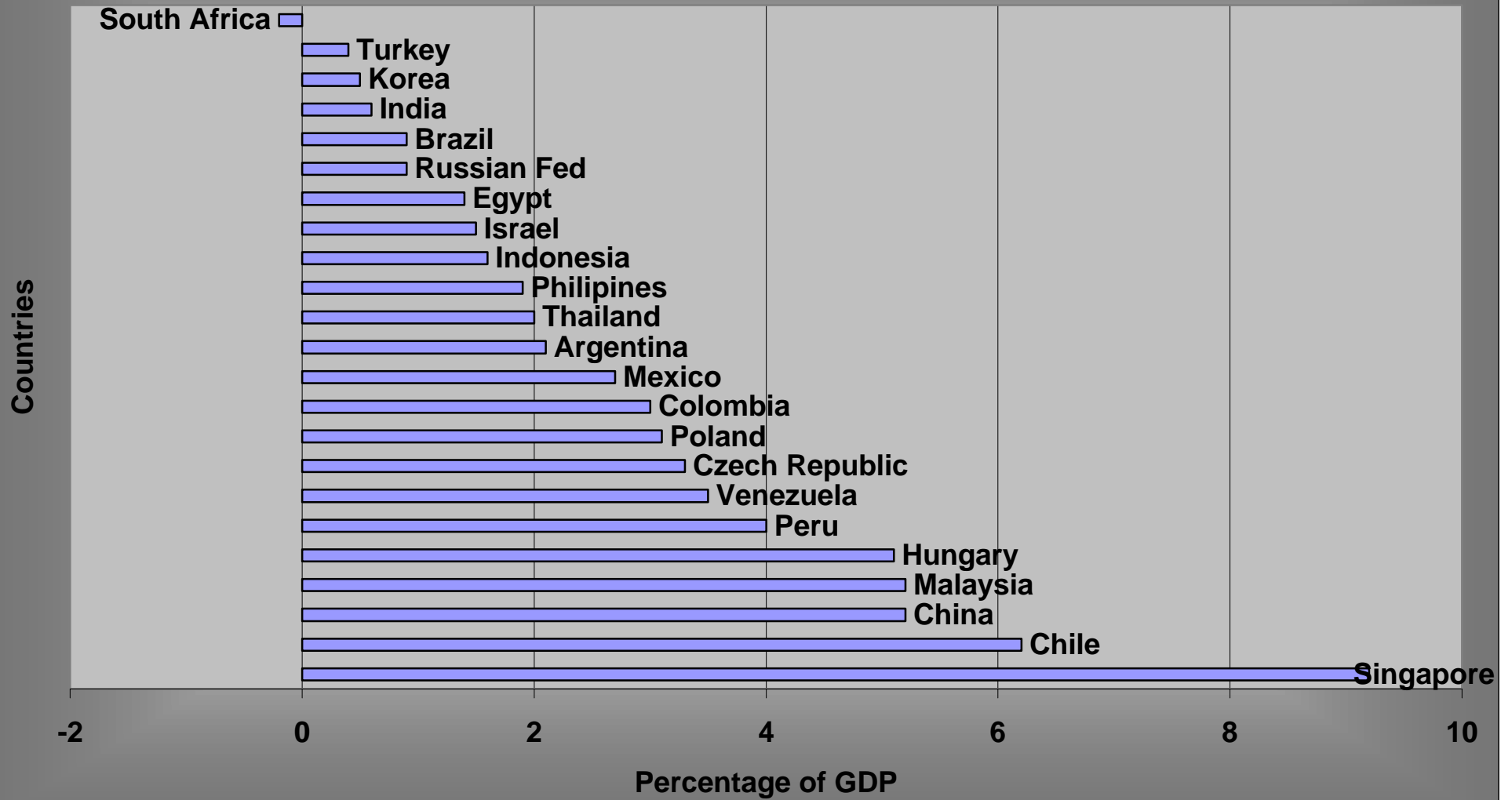


Figure 3: Net portfolio investment - Emerging market economies

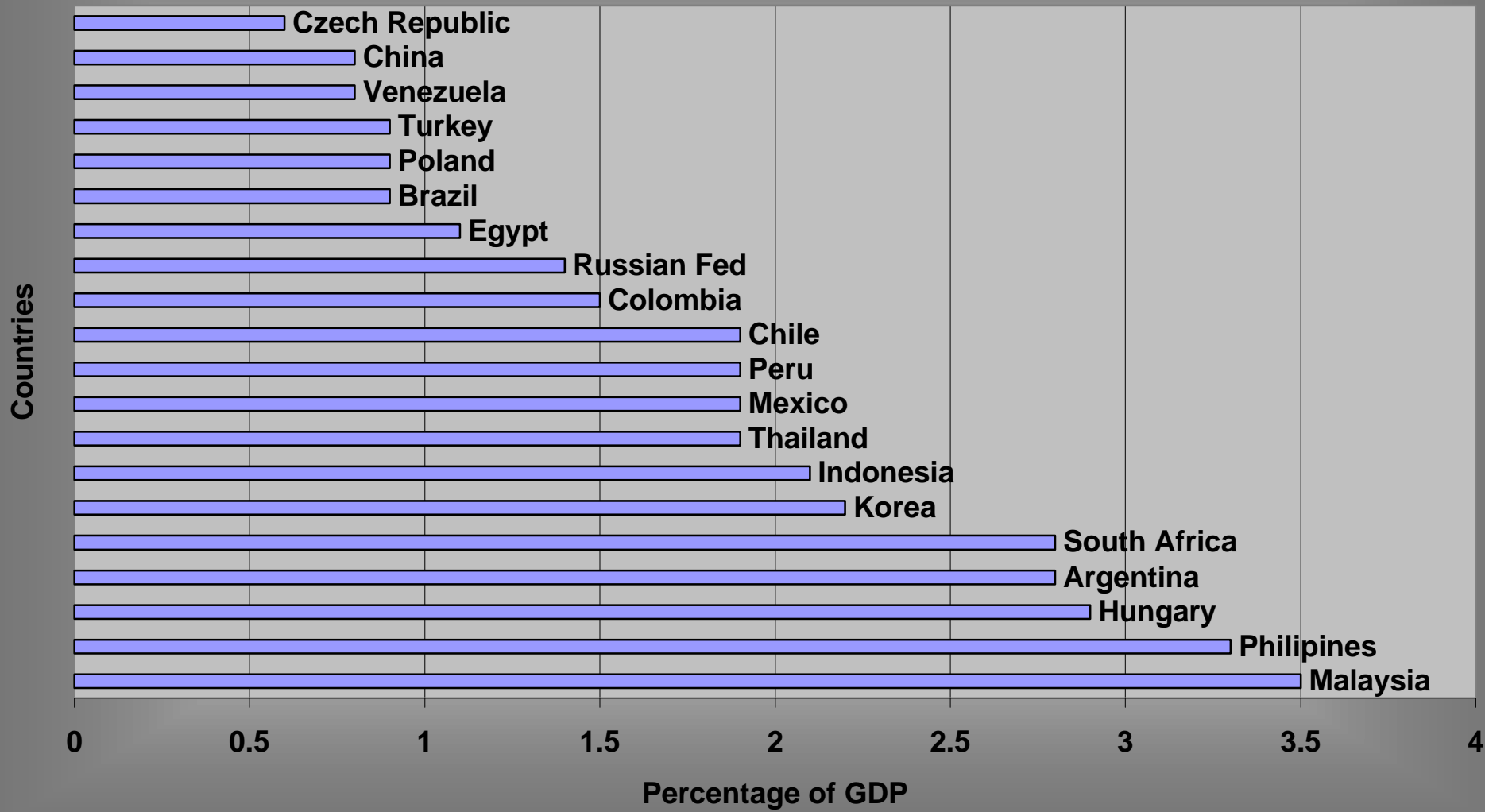
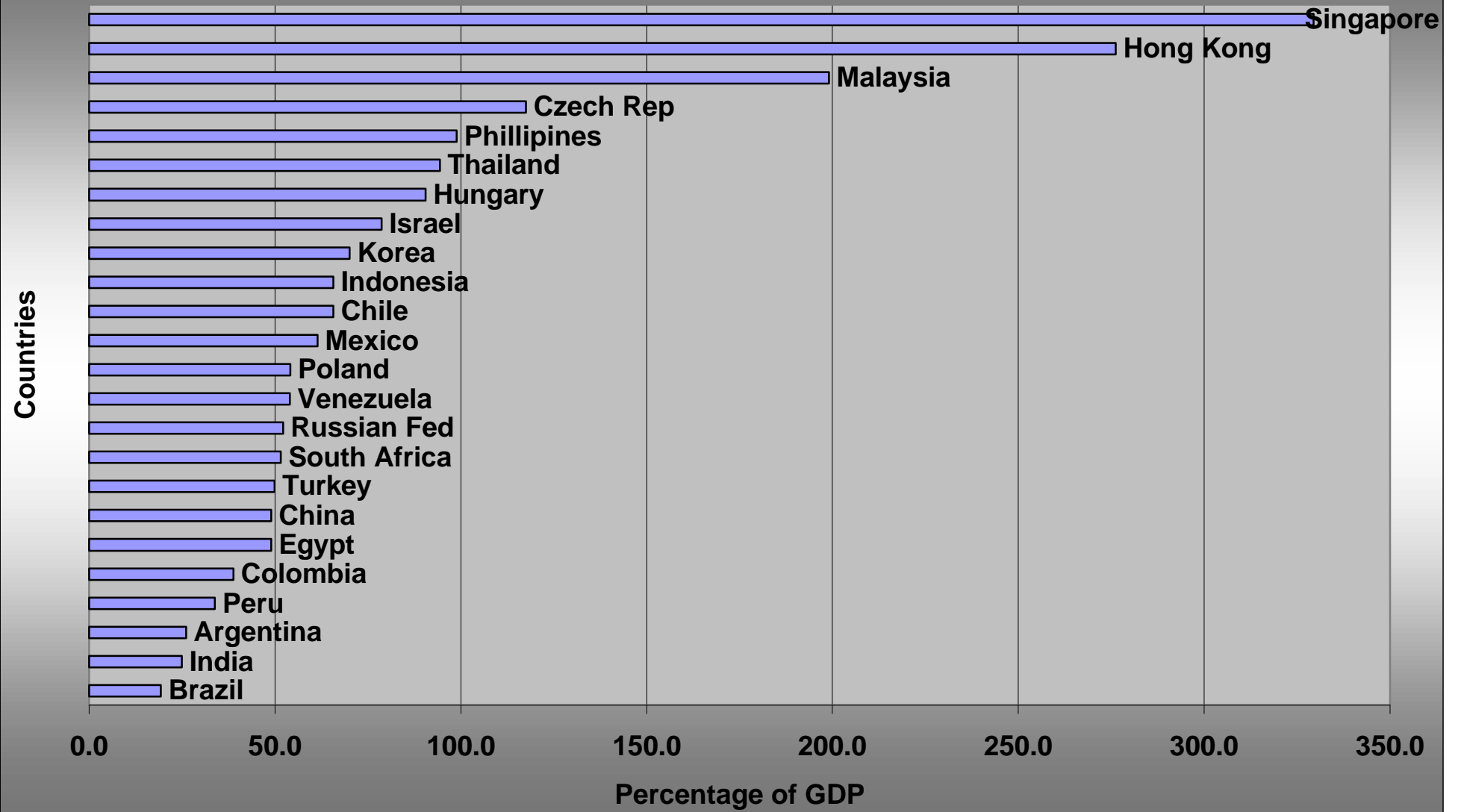


Figure 4: Globalisation rank



**Figure 5: Level of Globalisation - South Africa**

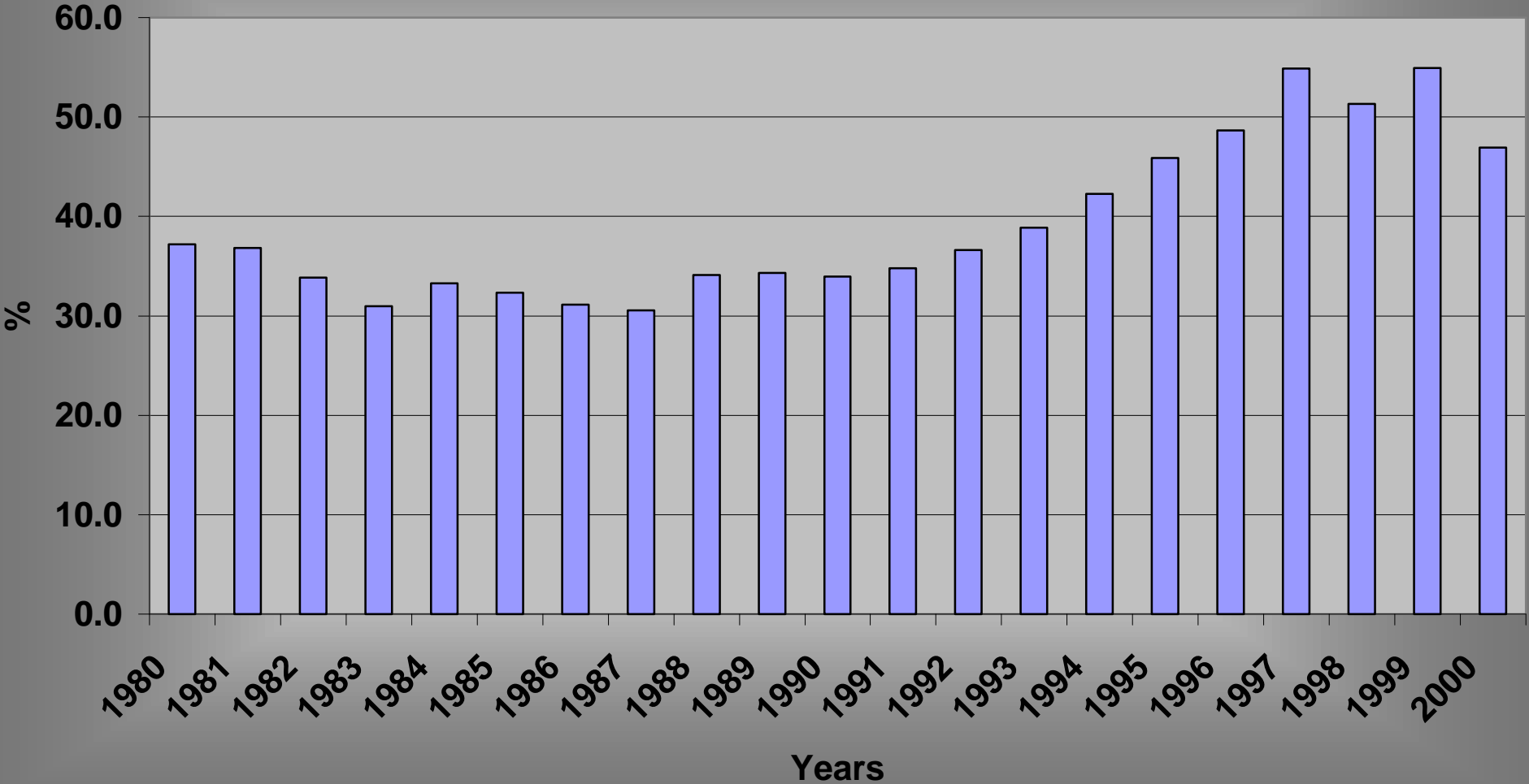
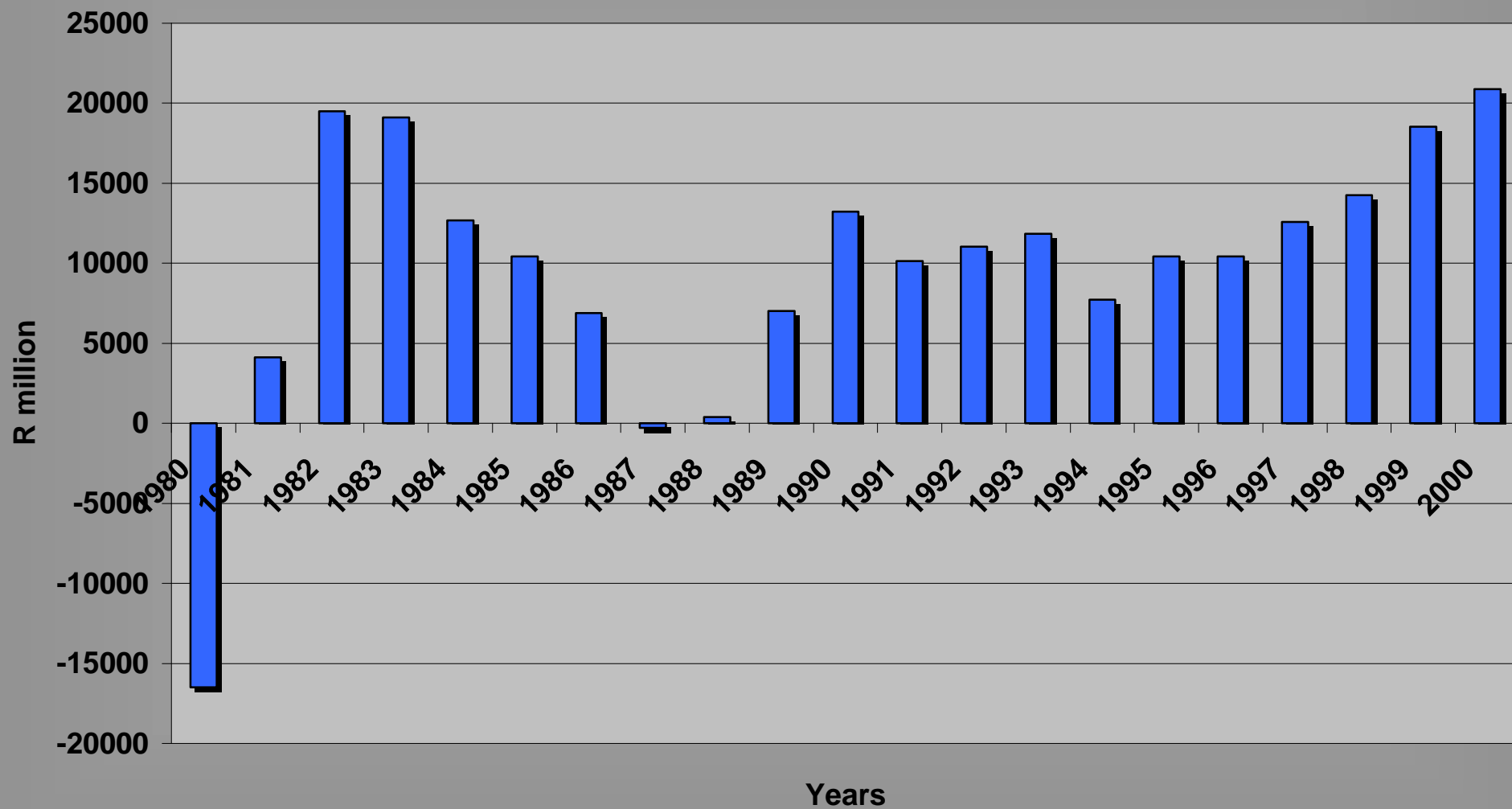


Figure 6: Convergence/Divergence between GDP and GNP



**Figure 7: Globalisation index**

