



## The Euro Crisis and Globalization

Globalization, defined as the integration of national markets through international trade and investment, has boosted competitiveness, productivity, innovation, and living standards around the world. And that's not all. According to Geoffrey Gertz of the Brookings Institution, a Washington, D.C.-based think tank, globalization is responsible for reducing the world poverty rate by approximately 70 million people each year since 2005, a number equal to the population of Turkey.

But global integration also has presented difficult challenges for many countries, and could be at the root of current problems in Greece and other eurozone nations.



In 1999, *New York Times* columnist and author Thomas Friedman said, when a country recognizes the rules of globalization and decides to abide by them, it puts on the “Golden Straitjacket.” For it to fit, Friedman said, countries must adhere to sometimes difficult but similar policies that enhance competitiveness. These include policies designed to reduce barriers in order to spur international trade and investment, and boost productivity through incentives promoting research and development, worker training and life-long learning, and investment in transportation and digital infrastructure, among other things.

One could argue that certain eurozone members, such as Italy, Portugal, Spain, and especially Greece, have not donned the “Golden Straitjacket” or adapted as well to globalization as perhaps Germany has.

For many, this is no surprise. Each one of the 17 eurozone members has a different economy, fiscal discipline, democracy, history, values, and language. Attempting to drive similar changes in vastly dissimilar countries—like Greece and Germany—is no easy task. And trying to maintain homogeneous economic disciplines during harsh economic times is even more arduous.

Other factors play a role, too. For example, according to the *2012 Index of Economic Freedom* published by the Heritage Foundation, a Washington, D.C.-think tank, Germany is ranked the 26th freest economy in the world. On the other hand, Greece's economic status is defined as “mostly unfree” and is ranked 119th in the world.

Greece's rule of law has deteriorated, its judicial framework is weak, its regulatory framework burdensome, and its protection for property rights is not well enforced, the report continues. In addition, Greece's many non-tariff barriers raise the cost of trade, and its investment regime, which lacks transparency and efficiency, is not conducive to growth.

In many ways, the Organisation for Economic Co-operation and Development (OECD) concurs. In its latest report, the OECD said Greece has high barriers to market entry, low levels of innovation and job creation, and the most regulated business environment in Europe, all which have resulted in a poor level of competitiveness.

In turn, the OECD suggests Greece should modernize its economy, adopt structural reforms, improve its labor participation rate, and reduce its high level of structural unemployment, among other things. But these reforms,

which will help Greece better adapt to globalization, will take time, especially since many problematic policies have been in place for decades. Noted above, Greece is not alone.

In 2006, Jason Saving, a senior research economist and advisor at the Federal Reserve Bank of Dallas, said as globalization has heated up, the cost of inflexible European labor markets and other less competitive policies led to lower output, slower job creation and foregone productivity. Similarly, that same year, a Brussels Journal article by Martin De Vlieghe and Paul Vreymans said Europe's social model is unable to tackle the modern challenges of global integration.

To what degree globalization plays a role in the problems currently incurred in the eurozone is unclear. Nevertheless, two facts remain certain: the challenges posed by globalization are painfully evident and governments around the world will be under increasing pressure to implement policies to enhance competitiveness.

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