



# THE GLOBAL ECONOMY AND INTERNATIONAL DIVISION OF LABOUR

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## **Abstract**

Participation in the International Labour Division (IDL) has many benefits for a country since it allows to reduce the average production costs, increase the production capacity of a given country and improve efficiency of management. Thus, specialization is a factor of economic growth for a country since it enables the achievement of benefits from the international division of labour thanks to improvement of management efficiency (Bożyk 1972, pp. 7).

The present article is devoted to international specialization and international trade in the conditions of globalization and turbulent environment.

**Key words:** economy, globalization, division of labour, trade.

## **I. INTRODUCTION**

Structural changes taking place in the economy are one of the most important aspects of an economic process. Countries become participants in the international division of labour (IDL) by specializing in production and international exchange. International Division of labour was created when different countries, initially independent of each other in terms of production, established a mutual exchange of products. It gave rise to lasting and intense interrelationships of various branches of production in different countries. International specialization and international trade are therefore closely related because international division of labour causes the development of international exchange and determines its level and structure. In turn, international trade is the cause of the deepening international specialization (Błaszuk 1999, p. 21).

## **II. LITERATURE REVIEW**

### **The international division of labour**

The international division of labour is a special form of social division of labour which developed in the past and was a consequence of many phenomena such as different working conditions as well as the division of labour between agriculture and industry. Then, the differences in production costs determined who was gaining a dominant position and who had to withdraw from the market. When local markets turned out to be too small in relation to the growing production, there appeared tendencies to look for business partners outside these markets. With time, ties between countries transformed into permanent economic ties, and surplus goods gave way to products resulting from specialization (Bożyk 2008, p. 19).

Generally speaking, the international division of labor can be defined as specialization of countries in the production and exchange of goods. The level and structure of production as well as specialization are the basis for the development of international trade. These factors determine its character, directions and structure (Orłowska, Żołądkiewicz 2012, p. 69).

Factors which determine a country's predisposition to a specific direction of international specialization can be divided into internal and external. The first group includes a political system or availability of production factors while the second group includes factors resulting from transformations in the world economy. These factors can also be divided into structural, institutional, technical and technological as well as economic factors (Dudziński, Nakonieczna-Kisiel 2006, pp. 9-10).



In the second half of the last century, another IDL criterion appeared - differences in the level of technique and technology. The scientific and technical revolution had a significant impact on the modern IDL. The direction of its development was determined not by the differences in the resources of production factors but by the differences in the productivity of labour and capital. Thus, the role of countries that had an advantage in the resources of these factors decreased, and the role of countries which participated in the development of science and technology increased. Science and technology began to set new directions for economic development, initiate transformations in the economy, and thus change the nature of IDL (Bożyk 2008, p. 22).

Taking into account the fact that advanced technologies, which increase a country's share in IDL, require high investment outlays and a qualified workforce, economically developed countries are exporters of highly processed goods (a technological factor that shapes the international division of labour in the long term). The other participants of the exchange act as followers, which reduces their benefits from trading. High costs related to the development of new technical solutions and the lack of funds for their purchase lead to deepening of technological backwardness between countries (technology gap). As a result, the possibility of specializing in the production and export of goods, especially highly processed goods, remains for economically developed countries. A high demand for these goods provides such countries with high prices and benefits from qualitative changes in IDL

### **Development of the international division of labour**

International division of labour is undoubtedly a dynamic phenomenon, so the directions of international specialization are constantly evolving. The literature (Dudziński, Nakonieczna-Kisiel 2006, pp. 15-23) mentions three basic stages of the development of IDL:

- stage I - traditional, which was shaped in the nineteenth century, mainly under the influence of the industrial revolution, as well as territorial conquests: the division of the world into an economic centre created by a group of developed countries, e.g. England, France, Germany, specializing in the production of processed goods as well as politically dependent countries which could not decide on the direction of specialization and were a source of raw materials and agricultural products and sales markets for goods from the economic centre; the commodity nature of international exchange; labour-intensive and material-consuming nature of industrial production, most often unit production; inter-industry specialization which resulted from comparative benefits dominated; minor role of a state in financing scientific research.
- stage II - industrial, characteristic of the second half of the 20th century: division of the world into rich industrialized countries and developing countries; the gap between countries producing processed goods and countries specializing in the production of raw materials and agricultural products is widening, with the exception of newly industrialized countries; rapid scientific and technical progress; the growing importance of science for development; the importance of services is growing in trade in which the industrialized countries play a dominant role; mass and large-scale production; the importance of intra-industry specialization resulting from the possibility of achieving scale benefits is growing - a given country exports a limited amount of products within a given industry, and imports the rest, therefore it may be a net exporter or importer in it; development of regional economic integration.
- stage III - information and technology (modern), characteristic of the 20th and 21st centuries: the growing importance of information, access to capital and skilled labour is of significant importance for international competitiveness and specialization; intra-industry specialization is deepening; the quality and efficiency of work as well as spending on research and development are increasing; automation of manufacturing processes; scientific

and technical progress is the main factor of development.

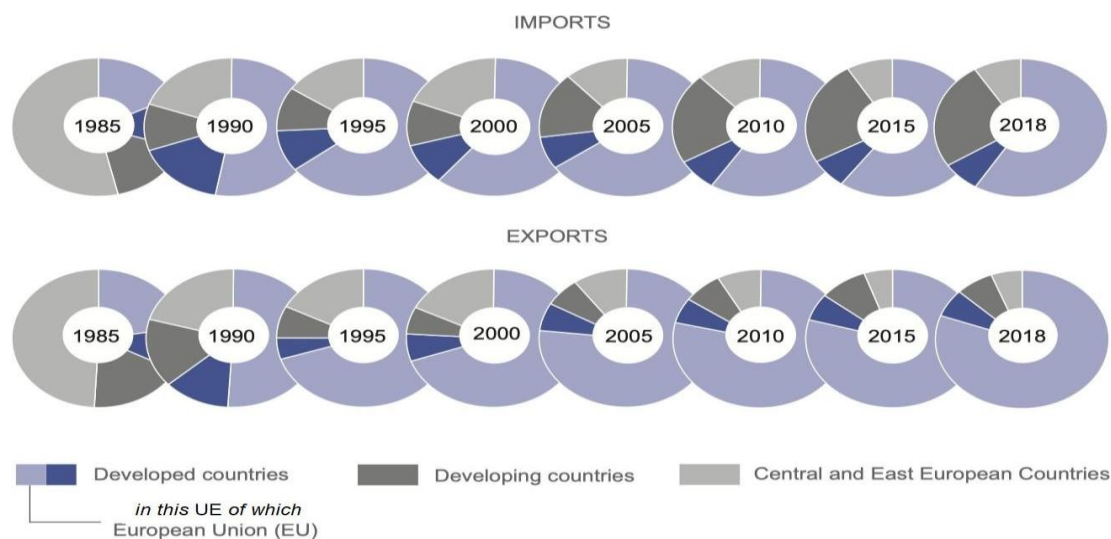
**Inter-industry and intra-industry specialization**

Nowadays, the exchange characteristic of the traditional international division of labour is giving way to the exchange that trades processed goods. At the same time, the phenomenon of overlapping export and import streams occurs when the exchanged goods are identical or close substitutes (cross-border, seasonal, cyclical or caused by oligopolistic market structures) or different but based on intra-industry specialization (intra-industry trade) (Kundera 1992, pp. 5).

H.G. Grubel (Grubel 1967, p. 33) divided intra-industry trade into:

- trade in homogeneous products within which he distinguished: cross-border trade resulting from striving to minimize transport costs, re-export, which, like cross-border trade, is associated with lower transport costs, cyclical trade caused by cycles in demand or supply, trade in strategic goods;
- trade in diversified products.

The concept of intra-industry trade (including products of a given industry) is very broad, so in order to better understand its causes it is divided into vertical and horizontal trade (Owczarzak 2004, pp. 33-34). Vertical trade concerns products that differ in quality. Horizontal trade covers identical products that consumers perceive differently in terms of aesthetic properties (shape, colour) and advertising activities. The structure of international trade turnover in 1985-2018 is shown in Figure 1.



Source: <https://stat.gov.pl/obszary-tematyczne/roczniki-statystyczne/roczniki-statystyczne/rocznik-statystyczny-handlu-zagranicznego-2019,9,13.html> - data pobrania 15.11.2020 r.)

**Figure 1.** Structure of foreign trade turnover by groups of countries (current prices)

Due to the variety of tastes and preferences, domestic variants are supplemented with imports, and part of the domestic production is exported. This is how intra-industry trade and horizontal specialization based on economies of scale appear (Owczarzak 2004, p. 34).

In the nineties, the intra-industry division was slowed down, mainly due to the following reasons:

- reducing the benefits of large-scale production (in conditions of rapid technological changes and high flexibility of industrial structures, the benefits of large-scale and narrow specialization were increasingly giving way to the benefits of producers from diversified production);



- weakening consumer demand for supply diversity;
- poorer development of trade between economies of countries with similar consumer preferences;
- rapid development of international trade and achieving a high level of intra-industry specialization (Błaszczuk 1999, p. 57).

In the modern world economy, the intra-industry specialization again gains an advantage over the inter-industry specialization. This is due to the dominance in world trade of developed countries, whose trade is dominated by products from the same sector of the economy.

This specialization is characteristic of the links between highly developed countries and is therefore called the North-North exchange. Despite this, statistics show that intra-industry trade is also conducted by developing countries. Its scale proves that not only integration groups but also a similar level of development are significant for the development of this trade.

One of the areas of the economy that is based on the development of intra-industry exchange is undoubtedly the automotive sector. Trade in this industry plays a very important role for the economic development of the EU (Dąbrowski 2015) as a whole.

### III. CONCLUSIONS

There are various factors that determine the economic situation in a given country and its level of development. The level of technology, skilled workforce and infrastructure are just some of them. Structural changes taking place in the world economy also play an important role. Countries that find it difficult to adapt to these changes have a disadvantageous position in the international division of labour.

Participation in the IDL has many benefits for a given country. It allows to reduce the average production costs, increase the production capacity of a given country and thus improve the efficiency of management. Therefore, since specialization enables the achievement of benefits from the international division of labour thanks to the improvement of management efficiency, it is a factor of economic growth for a given country (Bożyk 1972, p. 7).

Today, however, in the new reality the COVID-19 pandemic (over 50 million people worldwide are infected with the virus) (<https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html?fbclid=IwAR0oKIKJlc-zeNZGFbVEN0-O58daoCDaKicXwC10cjFWgCZqTPgavseTfI#/bda7594740fd40299423467b48e9ecf6> - download date November 15, 2020) has caused and will continue to cause major disruptions to the global economy. It also has a negative impact on international trade, on reduction of its volume, but may also change the geographical structure in the future.

Actions undertaken by countries to prevent the further spread of COVID-19 and protect citizens have disrupted or stopped many business and trade relationships. Disruptions in international transport - particularly in air transport - bans or restrictions as well as the collapse of production in individual countries cause an unprecedented decline in the volume of world trade and trade in goods on such a scale. The World Trade Organization statistics which are already available show that the volume of trade in goods in the first half of 2020 decreased worldwide by approximately 18.5% (<https://ies.lublin.pl/komentarze/wymiana-handlowa-polski-potencjalny-wplyw-pande-mii-216-119-2020> - download date 15/11/2020)

At the moment, health or economic effects that will be brought by the ongoing and increasing pandemic are not known, although there is a discussion about the vaccine by the pharmaceutical giant Pfizer and its 90% effectiveness. The current disruptions in the supply chains may reorganize their operation in the future.

Enterprises will analyze and assess the risks arising in individual cases and eliminate



potential threats through their diversification and, consequently, reorientation. There may be a reduction in dependence on Chinese production and a shift towards regional supply chains. It may be an opportunity for Poland and Central European countries to intensify intra-regional production and trade ties between countries, as there is still potential in trade relations within this region.

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