Globalization: Keeping the Gains

Presentation to a series of workshops arranged by

Department of Foreign Affairs and Trade
Trade Advocacy and Outreach Section

Saul Eslake
Chief Economist
ANZ Bank

E-mail: economics@anz.com

What is globalization ?

- "The closer integration of the countries and peoples of the world … brought about by the enormous reduction of costs of transportation and communication and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge and (to a lesser extent) people across borders"

  — Joseph Stiglitz, *Globalization and its Discontents* (2002)

- "The spread of free-market capitalism to virtually every country in the world"

  — Thomas Friedman, *The Lexus and the Olive Tree* (1999)

- "Westernization and the acceptance of Western business standards and political systems around the world"

  — Mahathir Mohammed, Prime Minister of Malaysia (1999)

- "… what happens when technology allows people to pursue their own goals and they are given the liberty to do so"

  — *The Economist* (29 September 2001)

What's driving globalization?

- Improvements in transport, communication and information technologies
  - which have the effect of increasing the range of, speed with and distance over which goods (and, increasingly, services) can be transmitted from one place to another
  - and / or reducing the cost of such transmissions
- Changes in individual tastes and preferences
  - in the direction of favouring greater choice and diversity in the range and origin of goods and services
  - facilitated by improvements in education and communications
- Conscious changes in government policy
  - generally in the direction of reducing or eliminating barriers to cross-border movements of goods, services and capital (though not labour)
  - usually as a result of first-hand experience of the costs of erecting and maintaining such barriers
- Changes in corporate strategies
  - greater emphasis on growing profits through cost reduction rather than price increases

Globalization isn't really new (1)

'And it came to pass in those days, that there went out a decree from Caesar Augustus, that all the world should be taxed'

- Luke 2: 1

'In the place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant land and climes.

In the place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations'

- Marx & Engels, *The Communist Manifesto* (1848), p. 84

Globalization isn't really new (2)

'The inhabitant of London could order by telephone sipping his morning tea in bed, the various products of the whole earth, in such quantities as he might see fit, and reasonably expect their early delivery on his doorstep.

He could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages ...

He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport of other formality, could dispatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient.'

- John Maynard Keynes, describing 'the age which was come to an end in 1914', in *The Economic Consequences of the Peace* (1919)

Globalization isn't really new (3)

'Recall the state of affairs in the capitalist countries two and a half years ago.

Growth of industrial production and trade in nearly all capitalist countries … A halo around the United States as the land of the most full-blooded capitalism. Triumphant hymns of prosperity. Grovelling to the dollar. Panegyrics in honour of the new technology, in honour of capitalist rationalization …

And what is the picture today? Today there is an economic crisis in nearly all of the industrial countries of capitalism.'

- Josef Stalin, Report to the 16th Congress of the Communist Party of the Soviet Union, June 1930

In some ways it's striking how little globalization has progressed in the last 30 years, not how much

- **Most trade is conducted within nations, not between them**
  - a typical Western country is on average 2½ times more likely to buy goods and services from itself rather than a trading partner (after controlling for factors such as distance and technology)
  - more than half of world trade takes place within three regions (North America, Western Europe and East Asia) rather than between them or with other regions
- **There are substantial differences between nations in the prices of essentially similar products**
- **Most savings are invested in domestic markets, not abroad**
  - overseas assets make up a very small proportion of most portfolios
  - Britain's overseas assets were a much larger proportion of its GDP in 1913 than Japan's are today
- **There is far less mobility of people today than a century ago**
  - for example, net immigration to the US during the 1990s added the equivalent of 4% to the population in that decade, compared with 9% in the 1890s

Most of the available evidence suggests that globalization boosts economic growth

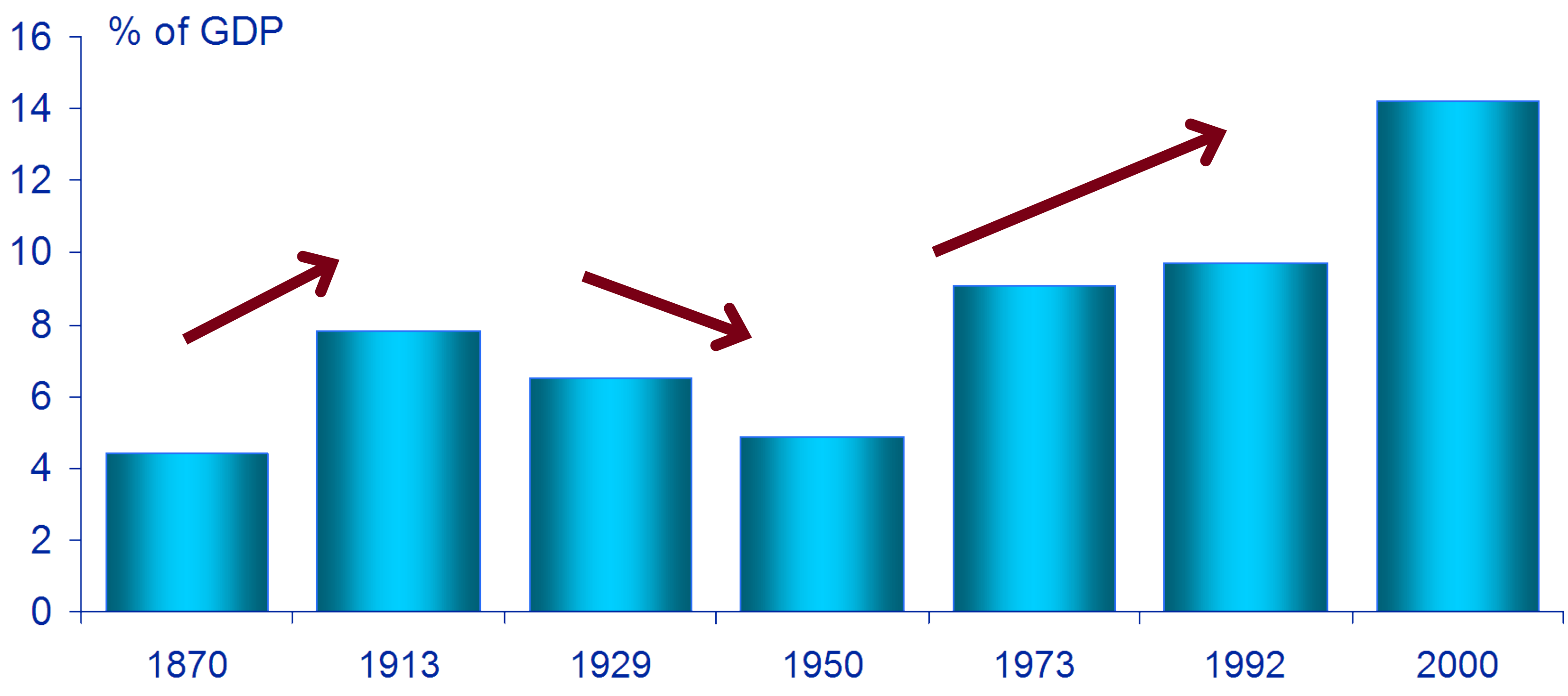
- ‘Open economies have experienced average growth that is 2½ percentage points higher than the growth of closed economies’
  - — Alan Greenspan, 12 November 2002
- Developing countries which have increased their trade shares of GDP since 1980 have grown almost four times as fast as those which have not
  - — World Bank, *Globalization, Growth and Poverty* 2002
- ‘Opening up to international trade has helped many countries grow far more quickly than they would otherwise have done … Because of globalization, many people in the world now live longer than before and their standard of living is far better’
  - — Joseph Stiglitz, *Globalization and its Discontents*, 2002
- ‘No country has developed successfully by turning its back on international trade and long-term capital flows. Very few countries have grown over long periods of time without experiencing an increase in the share of foreign trade in their national product’
  - — Dani Rodrik, *The Global Governance of Trade as if Development Really Mattered,* October 2001

Five myths about contemporary globalization

1. Globalization is inevitable and irreversible
2. Globalization means a ‘race to the bottom’ in labour or environmental standards
3. Globalization is widening the gap between rich and poor nations
4. Globalization is undermining the power of national governments to raise taxes
5. Globalization is boosting the power of multi-national companies at the expense of sovereign governments

Conscious policy decisions resulted in 'de-globalization' between the two World Wars

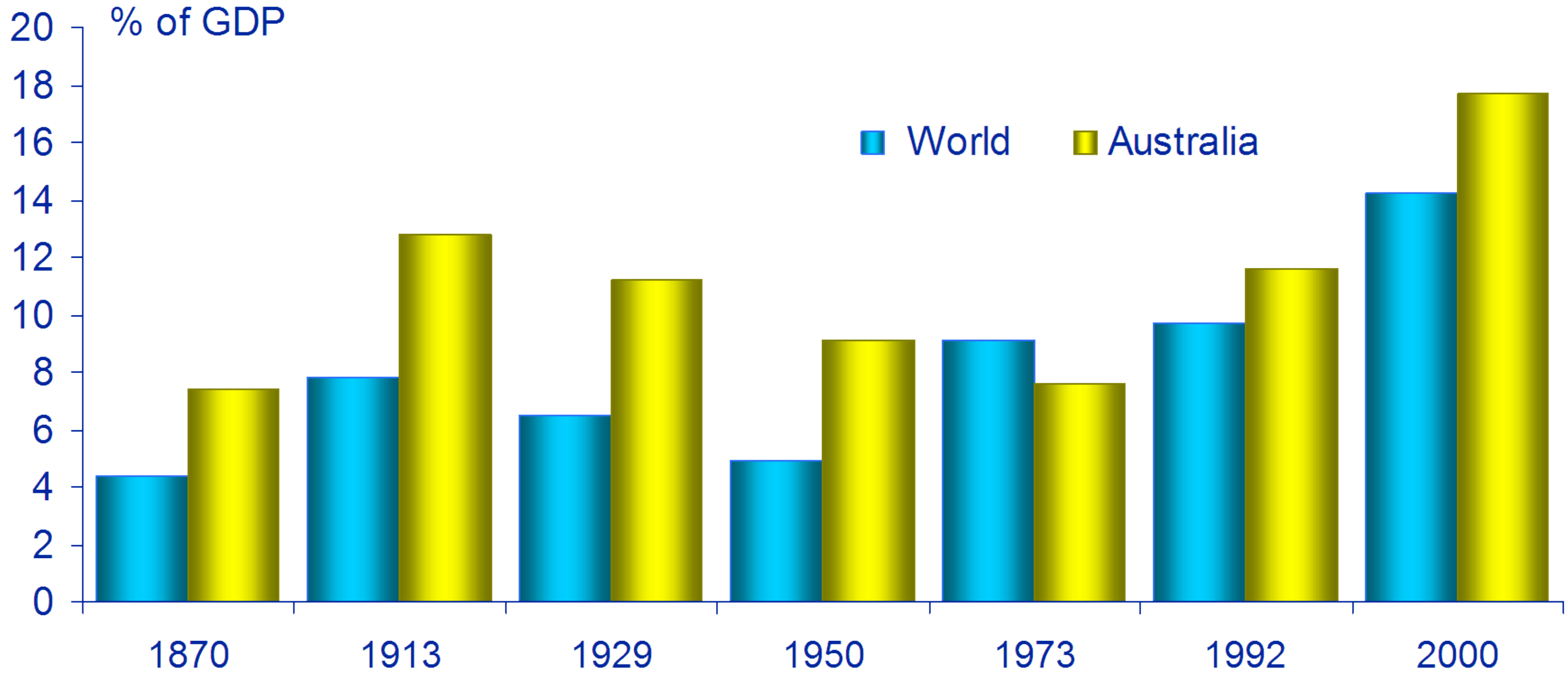
Global merchandise exports as a % of global GDP



Sources: Angus Maddison, *Monitoring the World Economy 1820-1992* (OECD, 1995); World Trade Organization, *International Trade Statistics* 2001

Australia ‘opted out’ of the 1948-73 rounds of globalization among OECD economies

Merchandise exports as a % of GDP



Sources: Angus Maddison, *Monitoring the World Economy 1820-1992* (OECD, 1995); World Trade Organization, *International Trade Statistics* 2001; ABS; Economics@ANZ.

Australia's own experience with 'de-globalization' suggests it's not a very good idea

Australia's ranking in cross-country measures of living standards

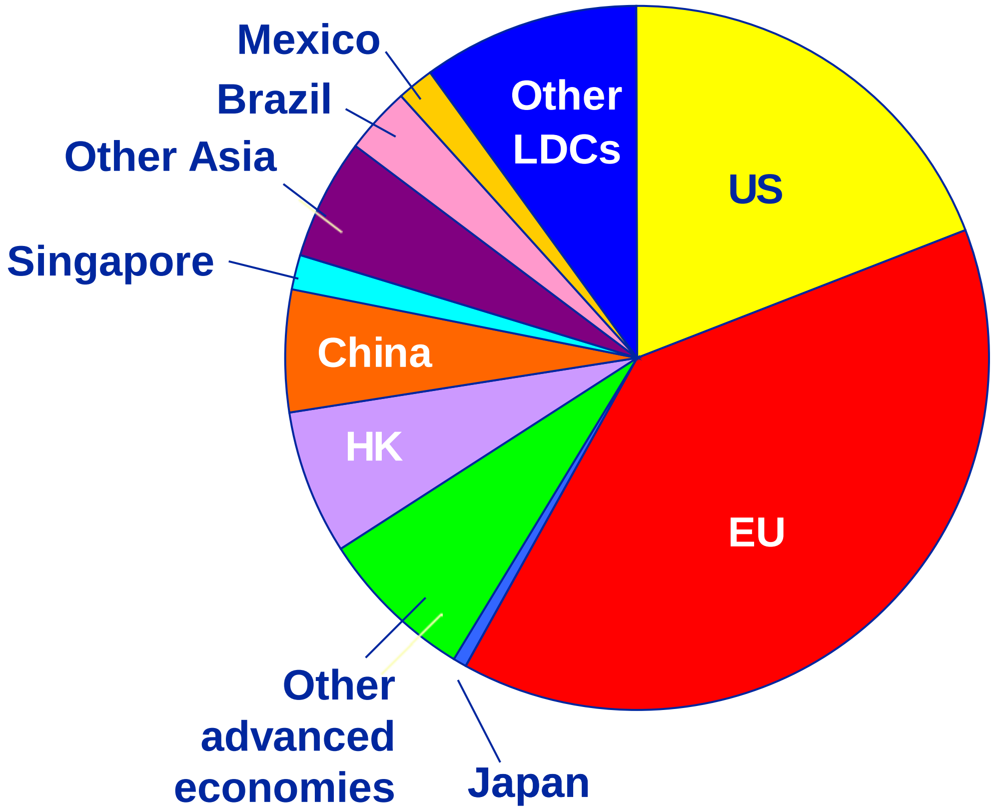
Real GDP per head		UN 'Human Development index'	
1870	1st	1870	1st
1913	1st	1913	2nd
1950	4th	1950	2nd
1975	9th	1975	12th
1990	15th	1990	14th
2001	7th	2001	5th

Note: The 'Human Development Index' has 3 components: 'income' (GDP per capita), 'longevity' (life expectancy at birth), and 'knowledge' (literacy and school enrolment). Rankings based on 26-29 countries; HDI does not include New Zealand for 1870 (when it would otherwise have ranked 1st).

Sources: University of Groningen GGDC; Nicholas Crafts, *Globalization and Growth in the Twentieth Century* (March 2000); UN Development Program, *Human Development Report* 2002.

Nearly two-thirds of all foreign investment is in advanced economies

Stock of inward foreign direct investment as a proportion of world total 2001



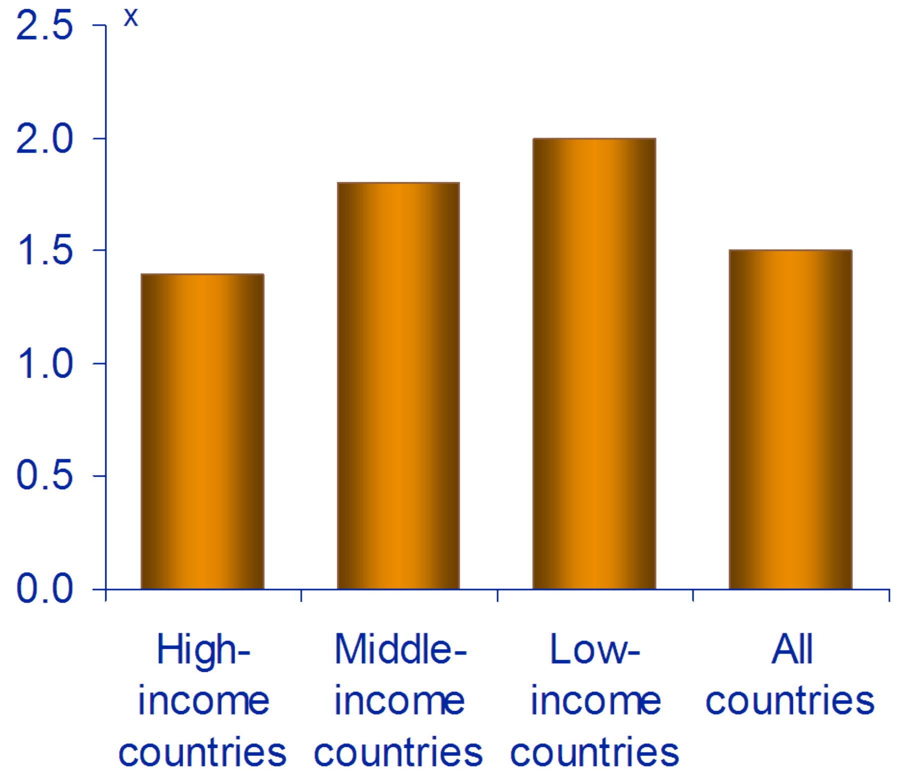
- Rich countries account for 66% of the stock of inward FDI (74% if Hong Kong and Singapore are counted as 'rich countries'
- This percentage has declined by about 8 pc points since 1980
- Three countries - China, Brazil and Mexico - account for 40% of all FDI outside the 'rich' world (incl. HK and Singapore)

Source: UNCTAD, *World Investment Report 2002*, pp. 310-313.

Multinationals generally pay higher wages to workers in poor countries than local firms do

Host country income	Average wage paid by MNC affiliates (US$'000)	Average domestic manufac-turing wage (US$'000)
High	32.4	22.6
Middle	9.5	5.4
Low	3.4	1.7
All	15.1	9.9

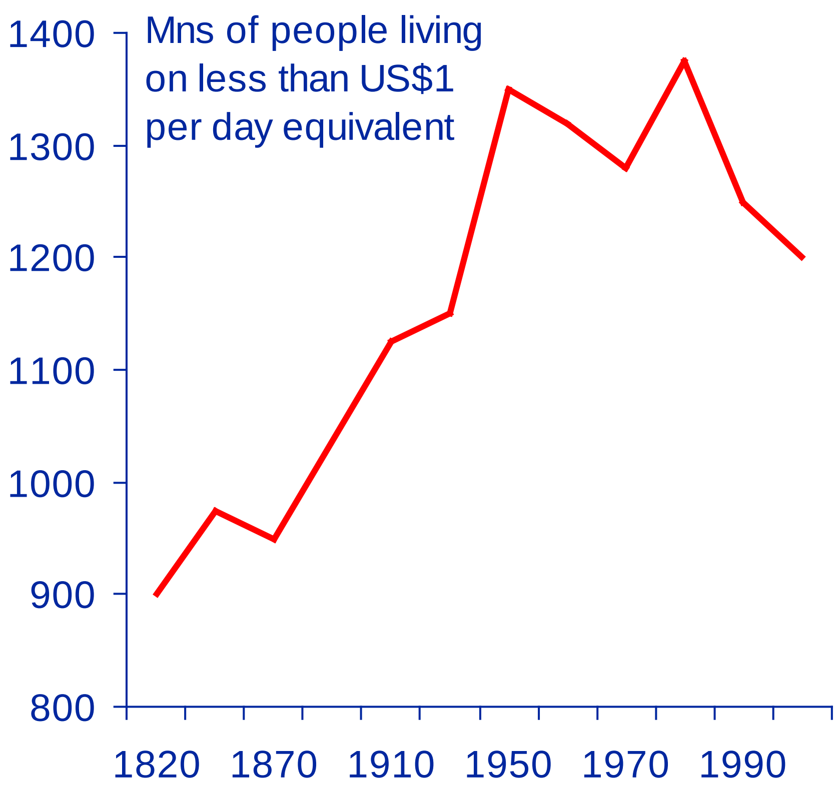
Ratio of wages paid by MNC affiliates to domestic wages



Sources: E.M. Graham, *Fighting the Wrong Enemy: Anti-Global Activists and Multinational Enterprises*, Institute for International Economics (2001); cited in *The Economist*, 29 September 2001.

There's now a lot of evidence suggesting that global poverty and inequality have declined

World poverty 1820-1998

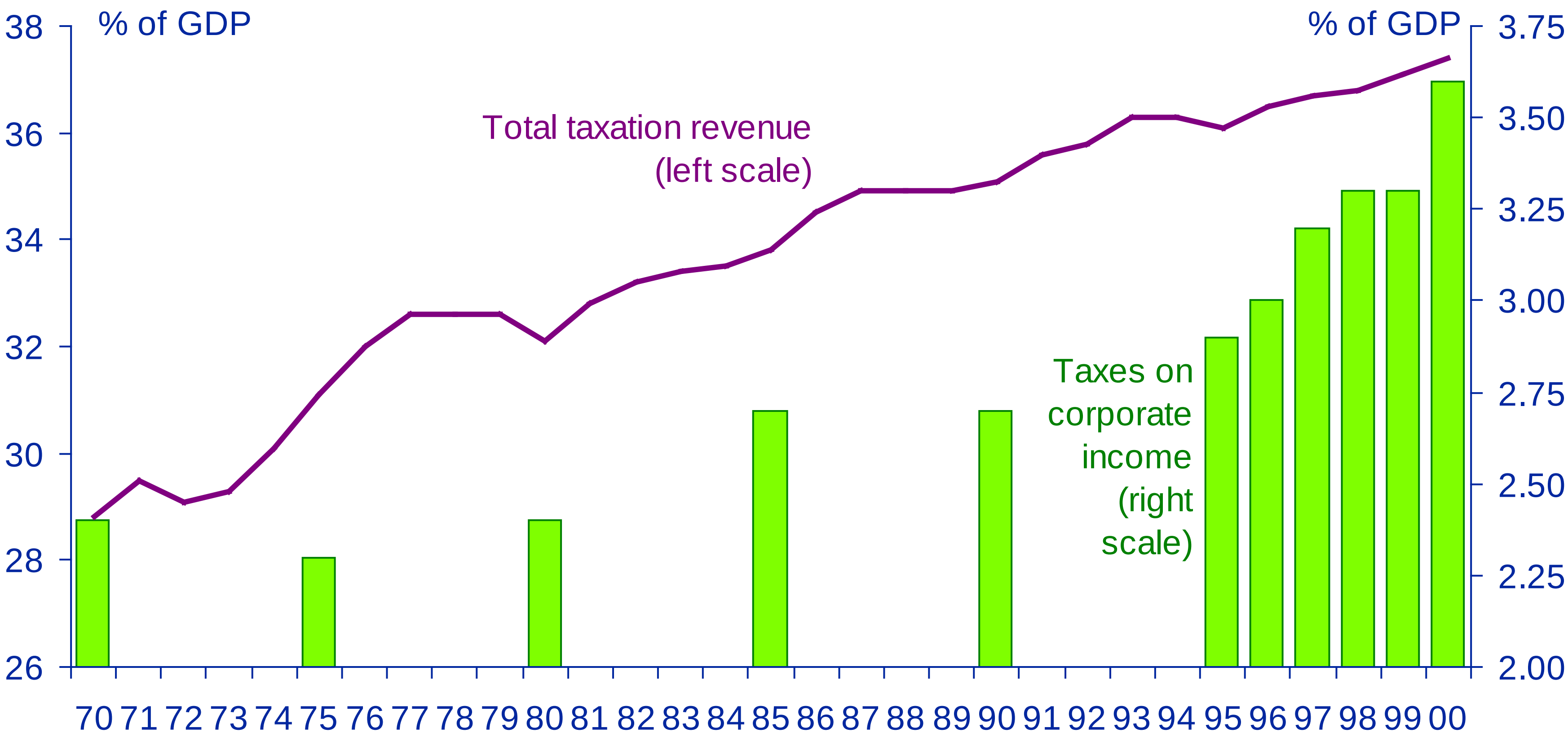


- The pc of the world's population living on less than US$1 a day has fallen from 28.5% in 1987 to 26.2% in 1998
- The ratio of the incomes of the richest 20% to the poorest 20% of countries has declined from 18:1 to 16:1 over the past 10 years
- Other statistical measures of global inequality show a declining trend since about 1980
- The above developments reflect a significant break with the trend of the previous 100-150 years

Sources: World Bank, *Global Economic Prospects and the Developing Countries* (2002), p.31; and David Dollar, 'Global Economic Integration and Global Inequality', in David Gruen & Terry O'Brien (eds), *Globalization, Living Standards and Inequality*, RBA and Treasury (2002), pp. 9 - 36.

Globalization has not undermined the capacity of OECD governments to collect taxes

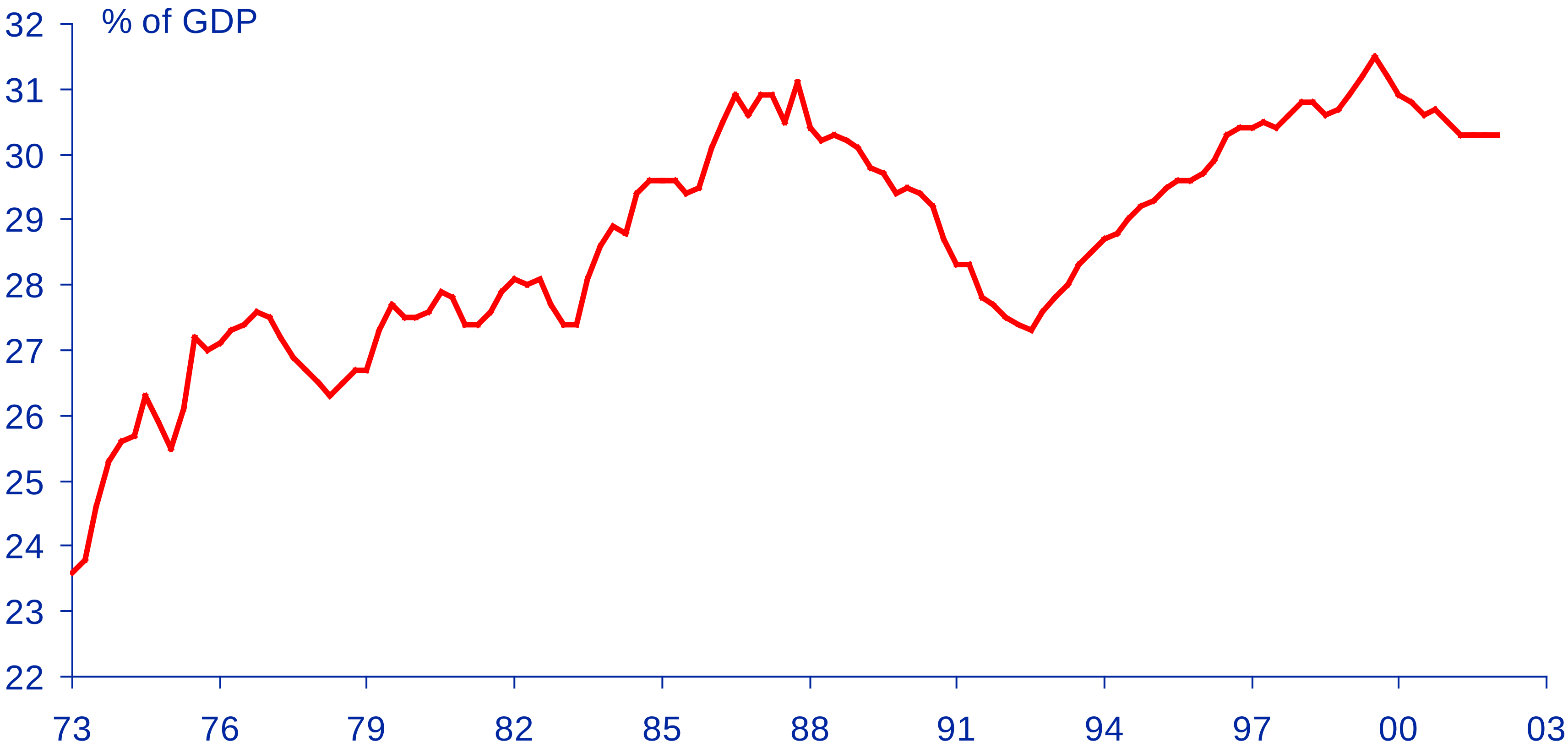
Tax revenues as a percentage of GDP: OECD countries



Source: OECD, *Revenue Statistics 1965-2001* (Paris, 2002), pp. 63-4 and 69.

Globalization has not undermined the capacity of Australian governments to collect taxes

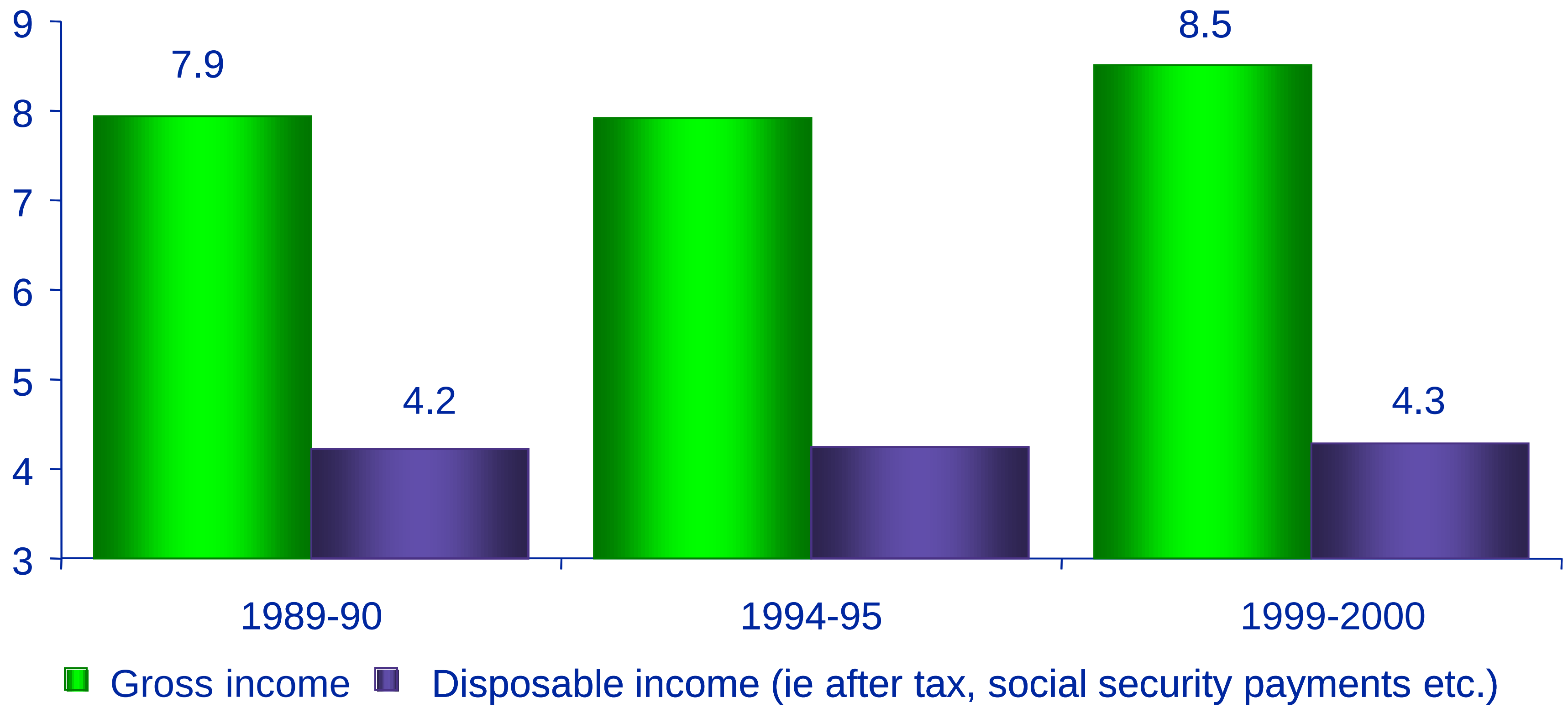
Tax revenues as a percentage of GDP



Note: data shown as a four-quarter moving total. *Sources:* ABS; Economics@ANZ.

Inequality in the distribution of after-tax income has not materially worsened in the past decade

Ratio of the income of the richest 10% of Australian households to the poorest 10%, 1990-2000



Source: Peter Saunders, *The Distribution of Household Income in Australia*, in ABS, *Australian Economic Indicators*, June 2001.

The share of the very largest TNCs in global value added has actually declined over the past decade

Number of TNCs	Value added as a pc of world GDP	
	1990	2000
Top 10	1.0	0.9
Top 20	1.8	1.5
Top 50	2.9	2.8
Top 100	3.5	4.3

Source: UNCTAD, *World Investment Report 2002* (New York 2002), p. 91.

The largest corporation, measured by value added, would rank between Chile and Pakistan

Value added (US $ bn), 2000

Rank	Name	Value added
1	USA	9,810
2	Japan	4,765
3	Germany	1,866
4	UK	1,427
5	France	1,294
6	China	1,080
7	Italy	1,074
8	Canada	701
9	Brazil	595
10	Mexico	575
11	Spain	561
12	Korea	457
13	India	547
14	Australia	388
15	Holland	370

Rank	Name	Value added
20	Sweden	229
30	Sth Africa	126
40	Singapore	92
44	Chile	71
45	Exxon Mobil	63
46	Pakistan	62
47	GM	56
54	Hungary	46
55	Ford	44
56	Daimler	42
57	Nigeria	41
58	GE	39
59	Toyota	38
62	Shell	36
63	Morocco	33

Rank	Name	Value added
65	Siemens	32
66	Vietnam	31
68	BP	30
69	Walmart	30
70	IBM	27
71	Volkswagen	24
72	Cuba	24
73	Hitachi	24
74	TotalFina	23
76	Matsushita	22
77	Mitsui	20
79	Oman	20
80	Sony	20
81	Mitsubishi	20
82	Uruguay	20

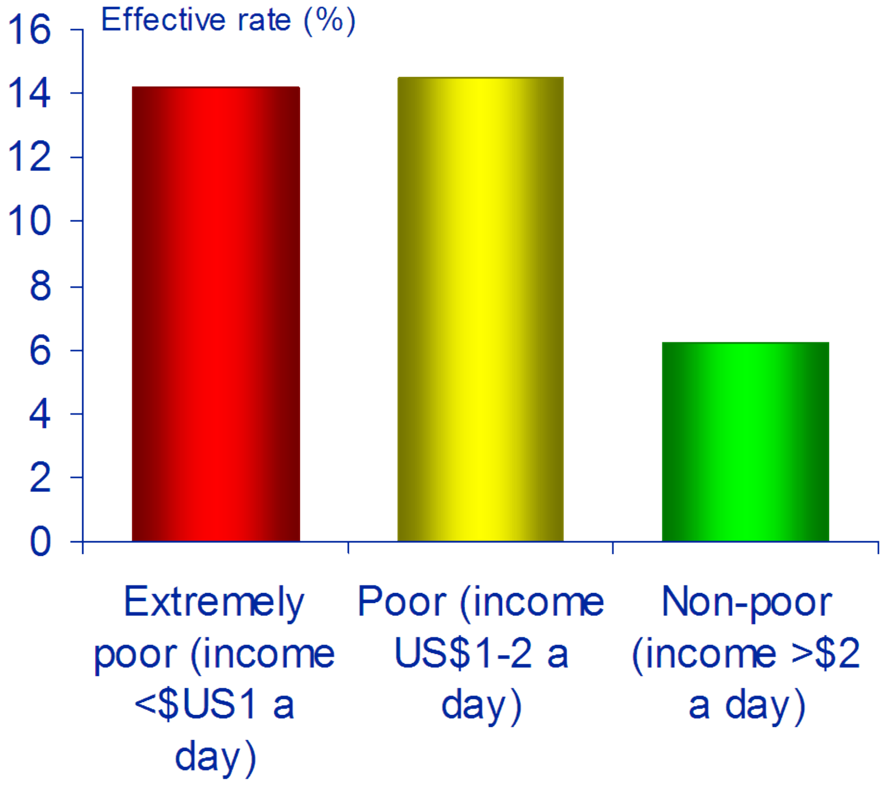
Source: UNCTAD, *World Investment Report 2002* (New York 2002), p. 90. Data at market exchange rates.

Four criticisms of contemporary globalization which have at least some truth

1. **Not all countries have benefited from globalization**
   – true, although in most cases (sub-Saharan Africa, Middle East, Burma and North Korea) this reflects choices made by their own governments
2. **Trade liberalization has been unfair to developing countries**
   – rich countries have continued to maintain very high barriers to developing country exports of agricultural products and textiles, clothing and footwear - precisely the areas in which developing countries have the greatest potential for export growth
   – other developments in the Uruguay Round (eg TRIPs) have made it more expensive for developing countries to purchase needed drugs
3. **Volatile capital flows have destabilized developing economies**
   – successive financial crises over the past decade have led to severe recessions in Latin America, Asia and Russia whilst in many cases rich-country lenders/investors have been ‘bailed out’
4. **Globalization creates ‘losers’ as well as ‘winners’**
   – exposure to international competition can lead to lower wages or higher unemployment among low-skilled workers in rich countries – but to a much smaller extent than caused by technological change

Many aspects of trade liberalization have been unfair to developing countries

Tariffs faced by exporters, by country income group, 1997-98



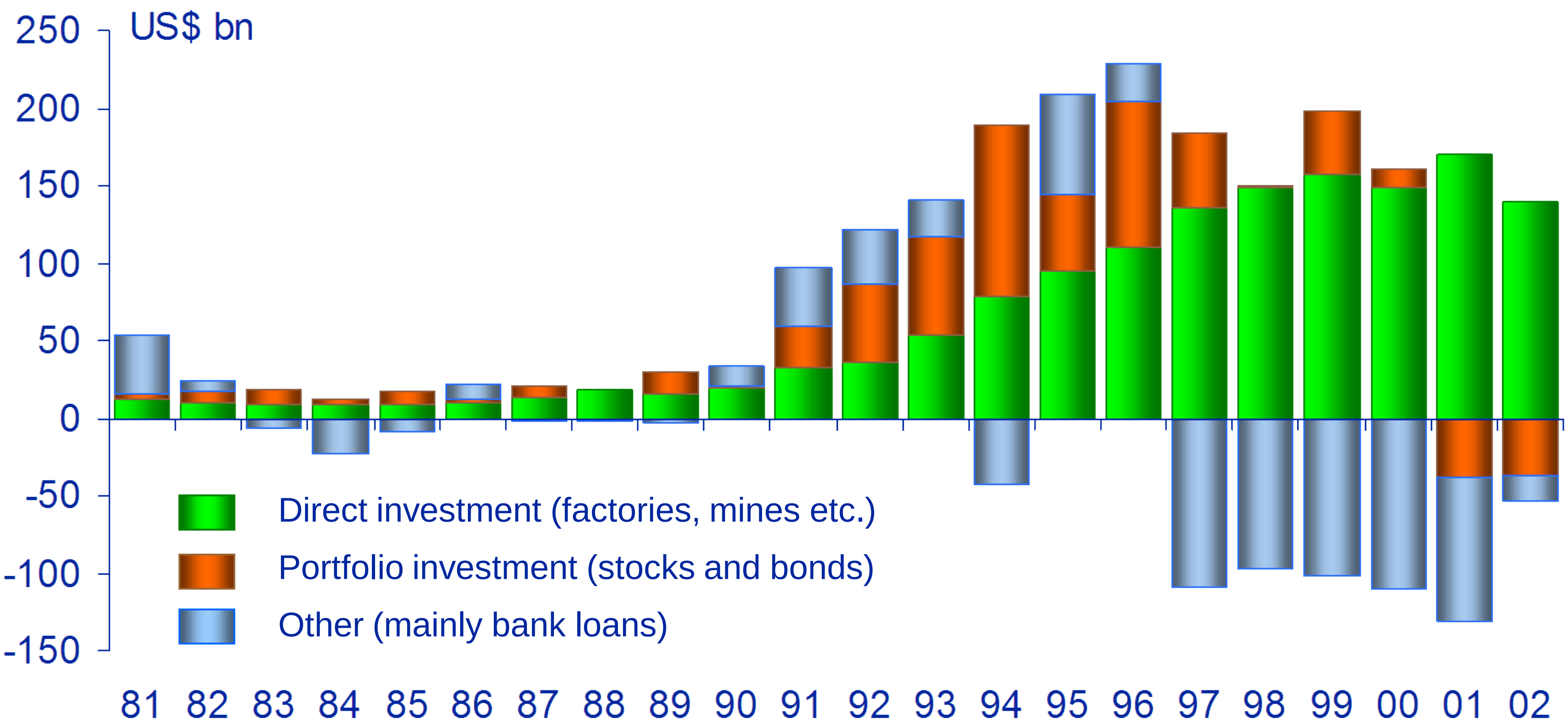
Source: World Bank, *Global Economic Prospects and the Developing Countries* (2002), p. 57.

Some more examples

- **Rich country protection costs developing countries more than US$100bn a year**
  - **IMF *World Economic Outlook 2001***
- **Support for agriculture in OECD countries cost taxpayers and consumers $327bn in 2000 - more than five times what they spend on official development assistance**
  - **World Bank *Global Economic Prospects 2002***
- **The average EU cow receives US$2 a day in subsidies - more than the income of half the world's population**
  - **Catholic Agency for Overseas Development (Cafod) 2002**

Volatility in capital flows to developing countries has been enormously destabilizing

Net private capital flows to developing countries



Source: IMF, *World Economic Outlook* database (April 2003).

Globalization has been a very minor contributor to the decline in demand for low-skilled workers

Factor	Contribution to change in the share of manufacturing in total OECD employment, 1970-1994 (p.c. points)
Internal factors	-8.4
'North-South' trade	-1.6
Other trade	+0.1
Other factors	+1.2
Total	-8.7

Source: Rowthorne and Ramaswamy, *Growth, Trade and Deindustrialization,* IMF Staff Papers, March 1999.

'Unskilled workers are more likely to be hurt by increased exposure to international competition than skilled workers.

This could take the form of lower wages or higher unemployment or a combination of both.

There is uncertainty about the magnitude, but the best available evidence suggests they are likely to be small.'

– OECD *Employment Outlook* 1997

Globalization is, on the whole, a 'good thing' – but it can be made better and fairer

- When and where it has been permitted, globalization has usually resulted in faster economic growth, improving living standards and a reduction in poverty
- But more can and should be done to enhance the potential gains from globalization, spread them more fairly and reduce its risks
- Rich countries should
  - eliminate barriers to imports from developing countries
  - eliminate subsidies to the production or export of products which compete with developing country exports
  - stop using intellectual property rules to deprive developing countries from access to medicines, or reaping rewards from plant species
  - spend more on education and foreign aid
- Developing countries should
  - reduce their own trade barriers
  - strengthen their financial systems, and resist pressure for premature liberalization of cross-border financial flows
  - spend less on subsidies and the military, and more on basic education, public health and infrastructure

Conclusion

‘Over thousands of years, globalization has contributed to the progress of the world, through travel, trade, migration, spread of cultural influences, and dissemination of knowledge and understanding. To have stopped globalization would have done irreparable harm to the progress of humanity’

‘The economic predicament of the poor across the world cannot be reversed by withholding from them the great advantages of technology, the well-established efficiency of international trade and exchange, and the social as well as economic merits of living in open rather than closed societies’

‘Rather, the main issue is how to make good use of the remarkable benefits of economic intercourse and technological progress in a way that pays adequate attention to the interests of the deprived and the underdog’

Armartya Sen, ‘Global Doubts as Global Solutions’
Alfred Deakin Lecture, Melbourne, May 2001