THE GAINS AND LOSSES FROM GLOBALIZATION

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by

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Globalization has become one of the catch-cries of our time. A Google-search throws up 1.7 million on-line references to it in 0.15 seconds: less than 'soccer', which scored 10.3 million; or 'terrorism', with 5.14 million; but more than 'third world debt', for which Google finds 1.3 million references, or 'global warming', which throws up a mere 947,000. It's something which most of us have heard of, and on which many have strong opinions, for or against. And it's something which means different things to different people, which greatly complicates the task of determining whether it is a 'good' or a 'bad' thing.

To an economist such as Joseph Stiglitz, who partly as a result of his experiences as chief economist of the World Bank has become a stern critic of various aspects of globalization, it is '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 international borders' (Stiglitz, 2002, 9).

To Thomas Friedman, the foreign correspondent of the *New York Times*, globalization is simply 'the spread of free market capitalism to virtually every country in the world'. As he makes clear in his book *The Lexus and the Olive Tree* (Friedman, 1999, 8), that is precisely why, in his view, globalization is such a good thing. To others who take a different view of free market capitalism, of course, that is precisely why globalization is a bad thing. Malaysia's Prime Minister Dr Mahathir Mohammed sees globalization as 'Westernization and the acceptance of Western business standards and political systems around the world' (Harris 2002). Like a lot of things which Dr Mahathir says, this borders on being racist, and it is at best a half-truth (look at Japan, for example); but it undeniably encapsulates a view shared by many.

Two years ago *The Economist* magazine described globalization simply as 'what happens when technology allows people to pursue their own goals and they are given the liberty to do so' (*The Economist*, 2001, 4). That statement neatly captures three of the key factors which are shaping the experience of globalization over the past two decades or so.

First, improvements in transport, communications and information technologies are having the effect of increasing the *range* of goods (and, increasingly, services) which can be transmitted from one place to another; increasing the *distance* over which such transmissions can occur; increasing the *speed* with which they occur; and reducing the *cost* of so doing.

Second, individual and societal tastes and preferences are evolving in the direction of favouring greater choice and diversity in the range and origin of the goods and services which we buy and of the experiences which we seek. That evolution is of course facilitated by improvements in education and in communications technologies. And it tends to be self-reinforcing.

Third, governments have consciously chosen to reduce barriers and impediments which they (or their predecessors) have erected to cross-border movements of goods, services and capital. Artificial barriers to trade resulting from government policy interventions such as tariffs and quotas have fallen by 80-90% since 1945 (Mussa, 2000, 26).

And over the past decade, governments have taken nearly 1,400 separate decisions affecting foreign investment, of which 1,315 have been to liberalize foreign investment rules, and only 78 to tighten them (UNCTAD, 2002, 7).

Those choices are usually the result of first hand experience of the costs of maintaining such barriers; or of observation of the benefits accruing to others who have removed their own.

There are exceptions, of course. Some countries (such as North Korea and Burma) have chosen to maintain nearly all of their artificial barriers to the movement of goods, services and capital across their borders. Some (such as China) continue to maintain significant controls on cross-border capital flows or, as in Malaysia's case, to re-introduce controls. Most countries maintain tight controls over cross-border movements of labour. And, as everyone attending this congress will be acutely aware, many barriers and impediments remain to the free movement of agricultural commodities across international borders.

There's a fourth factor which has been important in the late 20th, early 21st century experience of globalization – the emergence of corporate strategies which seek profit growth through cost reduction, including the out-sourcing of materials, components and service supply functions, and economies of scale, rather than through price increases. To some extent, this is a reflection of the success of governments and central banks in restoring overall price stability after the 'great inflation' of the 1970s and 1980s.

While the word 'globalization' may be new, the concept itself is not. Globalization is the logical extension of the tendency towards increased specialization and trade which has been going on more or less continually since humans first appeared on the surface of the earth.

Over two thousand years ago, in ancient Greece, Xenophon and Plato wrote of the advantages accruing to a large city, as opposed to a small one, in the pursuit of opportunities for specialization and trade. Over the past eight hundred years, individuals such as Marco Polo and multi-national corporations such as the British and Dutch East India companies have been agents of globalization.

The period between 1870 and 1914 was also an era of globalization. It was a period in which new technologies, such as the telegraph, the steamship and refrigeration, allowed movements of goods (such as meat) around the world in ways which were not previously possible. It was a period in which, following the abolition of Britain's Corn Laws in the 1840s, many governments consciously sought to lower barriers to trade. It was a period during which the share of trade in global GDP doubled. It was also, to be sure, an era of colonialism, unequal treaties and gunboat diplomacy. And this period also saw a 'backlash' against globalization, in the form of growing restrictions on migration and increases in tariffs, as the world's major powers headed towards the calamity of World War I.

The subsequent thirty years demonstrates that there is nothing inevitable about globalization. From the early 1920s through the mid-1930s governments increased trade barriers dramatically, magnifying the depth and spread of the Great Depression and arguably, at least in the Pacific, contributing to the outbreak of World War II.

As a result of conscious decisions by governments to impede trade, and the disruptions caused by war, the share of trade in global economic activity fell from just under 8% in 1913 to less than 5% by 1950 (Maddison 1995, 38).

The contemporary experience of globalization has been for the most part more benign. Trade barriers have come down as the result of mutual agreements between nations, or through unilateral liberalization – in each case, that is, through sovereign governments exercising their discretion – not through imperial conquest or blackmail.

The evidence clearly shows that globalization has been a positive force for economic growth. Developing countries which have increased their trade shares of GDP since 1980 have grown almost four times as those which have not (World Bank, 2002). The growth rate of 'open' economies has been, on average, 2½ percentage points higher than that of 'closed' economies (Greenspan, 2002). As the Harvard University economist and globalization sceptic Dani Rodrik acknowledges, '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' (Rodrik 2001, 23).

Globalization has also contributed to a reduction in the incidence of poverty. The ratio of the incomes of the richest 20% of countries to the poorest 20% has declined from 18:1 to 16:1 over the past decade (Dollar 2002). The proportion of the world's population living below the World Bank's poverty benchmark of US$2 per day (adjusted for differences in purchasing power) dropped from 56% in 1980 to 23% in 2000 (*The Economist* 2003, 5). Though the absolute level of global poverty remains deeply distressing, especially in Africa, these developments represent a decisive break with the trend of the previous century and a half towards ever greater levels of inequality.

Contrary to what is often alleged, globalization has not entailed a 'race to the bottom' in terms of labour or environmental standards. 75% of all foreign direct investment goes to rich countries, not to poor ones with lax labour or environmental regulation (UNCTAD 2002, 310-3).

As the British Trades Union Congress noted in a report published last year, "if multinationals were really looking for the cheapest locations for production they would all be rushing to develop facilities in sub-Saharan Africa where wages are the lowest in the world. The fact that none of these phenomena can be observed shows that globalization is having none of these effects" (TUC, 2002, 6). In fact the wages multi-nationals pay their workers in low-income countries are typically double what those paid by locally-owned firms in those countries (Graham 2001).

Nor has globalization resulted in multi-nationals increasing their power at the expense of sovereign governments. In fact the proportion of global economic activity accounted for by the world's largest transnational corporations has actually declined slightly over the past decade, according to UNCTAD (2002, 91). Meanwhile the share of national incomes collected by governments in rich countries, including from corporate profits, has continued to rise, reaching a record level at the end of the past decade. Countries such as Sweden have been able to maintain their generous social welfare systems financed by above-average levels of taxation despite being more dependent on international trade than most Western economies.

None of this is to say that globalization has not imposed costs as well has brought benefits, or even that those benefits have been equally distributed.

Many countries, often with the encouragement of the IMF or the US Treasury, opened up their financial systems to international capital flows without first ensuring that their own institutions were adequately capitalized, supervised or weaned off State-directed lending. The results, across East Asia, Latin America and Russia during the late 1990s was successive tidal waves of capital inflows and outflows, leaving economic devastation in their wake whilst in many cases lenders or investors from rich countries were bailed out at taxpayers' expense.

Similarly, the past decade has seen many botched privatizations in developing countries, resulting in the transfer of publicly-owned assets to private or foreign interests at prices which did not reflect their value to the countries concerned, and often resulting in sharp price increases or deteriorations in levels of service. Although privatization is neither a pre-requisite nor an inevitable consequence of globalization, the fact that they have often gone together and that privatization has been promoted by institutions such as the World Bank has heightened hostility to globalization in many countries, and undermined confidence in government processes.

Larger and faster movements of people and goods may have contributed to the faster spread of human and animal diseases, as perhaps suggested by the recent SARS epidemic. But such episodes have ample precedent throughout human history, as a moment's recollection of how the bubonic plague and syphilis came to Europe, or how smallpox spread among the indigenous populations of the Americas and Australia, will readily illustrate. The SARS experience also highlights the importance of advances in knowledge, communications technologies and international co-operation in responding to outbreaks of disease. And as I will argue later, recent animal disease outbreaks owe more to intensive farming techniques encouraged by agricultural subsidies than to international trade in animals or animal products.

Globalization has often imposed hardship on businesses (and their employees) who have lost out to foreign competition (although for economies as a whole these losses are usually outweighed by the gains to consumers). All too often governments have failed to provide adequate compensation, income support, adjustment assistance or retraining opportunities for those adversely affected in this way.

Perhaps most of all, globalization as it has proceeded thus far has been in many respects unfair to the majority of developing countries. Rich country governments have, for the most part, pursued trade and investment liberalization in areas where their own producers enjoy a comparative advantage, whilst resisting liberalization in areas where they do not or where liberalization would require them to confront politically influential interests in their own electorates.

The stand-out area in this regard is, of course, agriculture, where hypocrisy reigns supreme. Take the following excerpt from the Bush Administration's national security strategy, enunciated in September last year:

> "The concept of 'free trade' arose as a moral principle even before it became a pillar of economics. If you can make something that others value, you

> should be able to sell it to them. If others make something that you value, you should be able to buy it. (*Financial Times*, 21-22 September 2002).

A fine moral principle indeed. But one which apparently doesn't apply to non-US producers of, nor American consumers of sugar, beef, cotton, dairy products and other agricultural products. Nor, needless to say, to non-European and non-Japanese agricultural exporters, or to European and Japanese consumers. Of course, European and Japanese governments don't preach such fine principles in the trade area, so on that score they are perhaps less hypocritical than their American counterparts. European governments in particular have in recent years sought to portray themselves as champions of the needs of the world's poor: but these concerns have yet to result in any significant shift in European trade policies.

At the end of the 20th century, the volume of world trade in manufactured goods was 42 times higher than it had been in 1950; world GDP was over six times higher; but the volume of agricultural trade was less than six times higher than it had been in 1950 (Legrain 2002, 217).

Agriculture has been the poor relation when it comes to international efforts to advance the economic benefits from more open and less distorted international markets (ABARE 1999). Agriculture was not brought into the scope of the General Agreement on Tariffs and Trade, the predecessor of the WTO, until the Uruguay Round which came into effect in 1994. That round, for the first time, saw develop countries commit to reductions in agricultural export subsidies, cuts (albeit with many exemptions) in domestic price supports, the conversion of non-tariff barriers (such as quotas) into tariffs, and reductions in the level of tariffs on agricultural imports.

Implementation of these commitments has seen the cost of producer support (at the expense of taxpayers and consumers) in rich countries fall from 38% of total farm receipts in 1986-88 (the base year for the Uruguay Round) to 31% in 2001. (OECD 2002).

Nonetheless, support for agriculture in rich countries – in the form of production and export subsidies, import restrictions and artificially high prices – still costs taxpayers and consumers in those countries US$311bn in 2001 (OECD 2002, 4). Tariffs on rich country imports of agricultural products from developing countries average 22%, compared with 3½% on imports of manufactured goods (IMF 2001, 25). The average EU cow gets US$2 a day in subsidies – more than a quarter of the world's population has to live on.

Developing countries are not themselves immune from hypocrisy on this score: their tariffs on imports of agricultural goods from other developing countries average 25%, more than double the average tariff rate they impose on imports of manufactured goods.

I should emphasize that anger at these policies should be directed not at the farmers who benefit from them, but at the governments which devise and implement them. As the late D. Gale Johnson of the University of Chicago observed in *World Agriculture in Disarray*:

> "Farmers everywhere are capable of producing the right things in the right place in the right amounts and in low cost in terms of resources if they receive the proper economic signals" (Johnson, 1991).

By contrast, agricultural policies in the US, the EU and smaller European economies, Japan and Korea provide perverse economic signals and produce perverse outcomes.

In particular, and contrary to what many farmers in those countries appear to believe, they do little to maintain the viability of small family-owned farms. Rather, benefits accrue disproportionately to large producers:

- in the United States, the top 4% of all farms, those earning over US$500,000 pa, received 20% of the support, while 66% of the support went to the 19% of farms earning over US$250,000 per annum (ABARE, 2000).

- over the five years 1996-2000, 22,000 residents of such prime agricultural producing areas as New York City, Washington DC, Chicago and Los Angeles collected over US$250mn in agricultural subsidies (EWG, 2002).

- in the European Union, the top 17% of farms (those with incomes above €160,000 pa) receive 50% of total support, while the smallest 20% of farmers receive only 3% of the support (ABARE, 2000).

- less than 10% of total EU spending under the Common Agricultural Policy goes on rural development, which is supposedly one of the CAP's key objectives.

Agricultural subsidies get capitalized into the price of land: according to the US Department of Agriculture, raising land prices by about 25% in 2000 (USDA, 2001). The same occurs in Europe. High land prices encourage intensive farming techniques and practices which damage the environment (for example through excessive fertilizer and pesticide use) and human health (through the sort of feeding practices which led to the outbreak of BSE in Europe).

It is highly significant, in my view, that the response of developing countries to these policies which harm them so much is to demand more globalization, not less. They want fairer globalization, to be sure: but they do not endorse the demands of the protestors from rich countries who seek to prevent globalization from being discussed at all, except on their terms, that it be rolled back.

I often think that if those protesters were really sincere in their claims to be acting on behalf of the poor of the developing world, they would be instead demonstrating outside the embassies and consulates of the US, EU and Japan, demanding that these countries dismantle their discriminatory trade barriers and subsidies. Of course, they never do.

Removal of all post-Uruguay Round barriers to trade in agricultural products would produce welfare gains for the world as a whole of around US$165bn – nearly two-thirds of the total gains to be had from eliminating the remaining barriers to all forms of merchandise trade (World Bank 2002, 58).

The Cairns Group of 17 agricultural exporting countries (which Australia chairs) has proposed the elimination of export subsidies and all trade-distorting domestic price supports, together with reductions in tariffs according to the so-called 'Swiss formula' which reduces higher tariffs proportionately more than lower tariffs.

ABARE estimates that implementation of these proposals would boost Australia's GDP by $2.1bn (about ¼%) in 2010. Australian broad-acre farm incomes would rise by nearly $12,000 per annum, or about 11%, on average; while land prices would rise by about 17% (Andrews et al. 2003, 258).

Thus, having been kept at the margins of globalization for most of the post-war era, agriculture is now critical to the outcome of at least two sets of negotiations over further trade liberalization: those over a US-Australia Free Trade Agreement, and those taking place under the World Trade Organization's 'Doha Round'.

As representatives of Australian farmers, and the Australian Government, have made clear, without significant improvements in access for Australian agricultural products to the US market, there will be no free trade agreement with the US.

And without meaningful reforms to the 'three pillars' of market access, export subsidies and domestic price supports in the US, Europe, Japan and other highly protectionist nations, developing countries who now account for more than half the WTO's membership have made it clear that the Doha Round will fail.

In that respect, next month's Fifth WTO Ministerial Conference in Cancún, Mexico, looms as a critical event, especially given the failure to meet the 31st March deadline for agreement on negotiating principles.

In the lead-up to this Conference there appears to have been some movement on the part of some of the major protagonists:

- the US has proposed the elimination of export subsidies and proportionate reductions in tariffs and trade-distorting domestic support mechanisms over a five year period (as envisaged by the mandate agreed at Doha), followed by the 'eventual elimination' of all tariffs and trade-distorting domestic support for agriculture over a subsequent (unspecified) period.

- the EU has recently agreed to CAP reforms which accept reductions in tariffs (albeit by smaller percentages, for them, than proposed by the US) and which ostensibly seek to relate support payments to environmental and food quality outcomes rather than production – although the proposals remain replete with artificial mechanisms and exemptions, especially for beef and dairy products

Of course the US proposals would require it to undo much of what has been legislatively entrenched by last year's Farm Bill; while the EU continues to press hard on other protectionist ruses, such as geographical indications (GIs) and the interface between trade and environmental agreements. Japan has offered least of all; and its blatant abuse of the safe-guard provisions in the Uruguay Round to impose substantially higher tariffs on beef imports suggests that it may remain more intransigent than the other two main players.

Where and when it has been permitted, globalization has, on balance, been a ‘good thing’. It has usually resulted in faster economic growth, improving living standards and a reduction in poverty.

But those outcomes are not guaranteed, and they cannot be obtained by trade and investment liberalization alone, in isolation from other reforms, robust domestic institutions and mechanisms to ensure that costs and benefits are widely distributed rather than narrowly concentrated. Trade and investment liberalization are not a substitute for aid; nor do they imply a diminished role for governments. Rich and poor country governments alike need to do more to enhance the potential gains from globalization, spread them more fairly and reduce its risks.

Globalization in general, and trade liberalization in particular, are not ends in themselves. Globalization is a ‘good thing’ in principle because it is – but in practice only to the extent that it actually is – consistent with human aspirations for greater freedom and for improvements in their well-being and that of their fellow citizens and descendants.

Agriculture has, particularly in the rich countries of the northern hemisphere, been sheltered from many of the processes of globalization, which largely explains why there have been fewer globalization success stories for agriculture than for other forms of economic activity and why fear-mongering populists such as José Bové and his counterparts in other countries continue to attract a measure of support. Insular politics, self-interest, posturing and compromise bedevil agricultural trade negotiations no less now than at the outset of the Uruguay Round in 1986.

As far as trade is concerned, it is by no means yet clear whether farming is indeed at the edge of a new era, or the block on which progress towards the further globalization which is in the interests of so much of the world’s population will shortly stumble.

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