

Gains and Losses from Globalization

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What is globalization ?

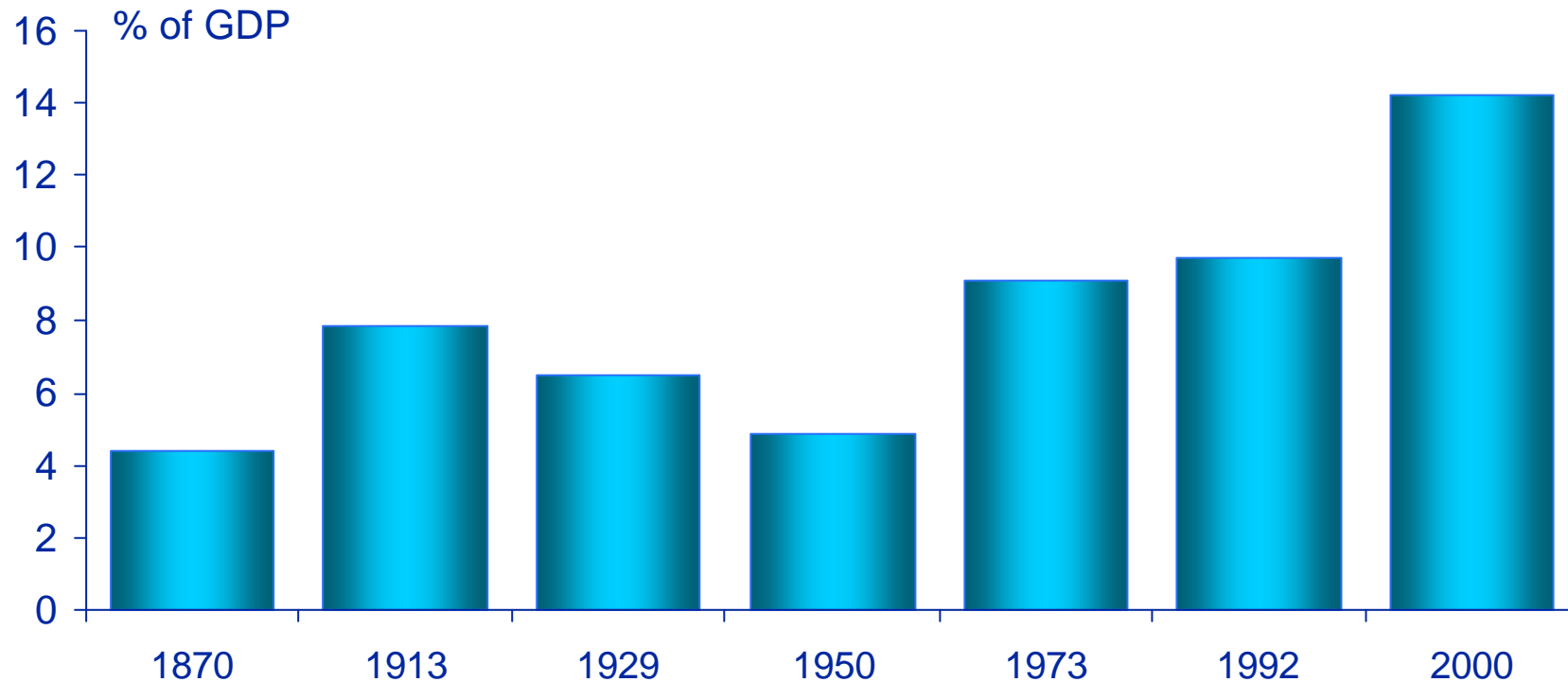
- “The closer integration of the countries and peoples of the world ... brought about by the enormous reduction of costs of transportation and communication and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge and (to a lesser extent) people across borders”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

History shows that globalization is not inevitable – it can be reversed if governments so choose

Global merchandise exports as a % of global GDP



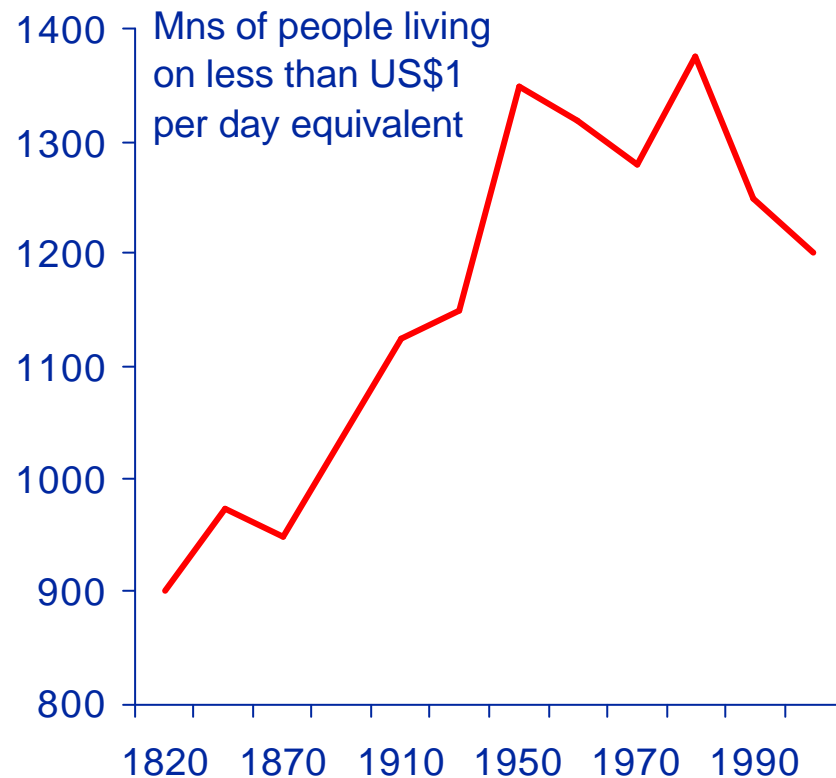
Sources: Angus Maddison, *Monitoring the World Economy 1820-1992* (OECD, 1995); World Trade Organization, *International Trade Statistics 2001*

Most of the available evidence suggests that globalization boosts economic growth

- 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*
- ‘Open economies have experienced average growth that is 2½ percentage points higher than the growth of closed economies’
 - Alan Greenspan, 12 November 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

The contemporary experience of globalization has been associated with a decline in world poverty

World poverty 1820-1998

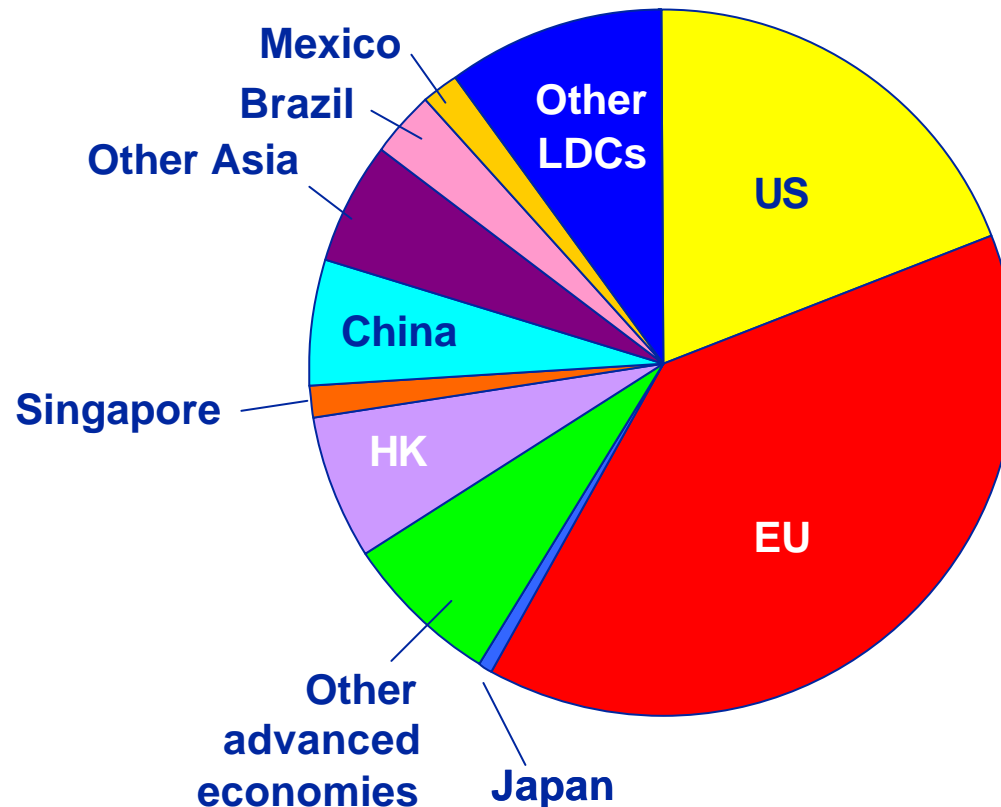


- The pc of the world's population living on less than US\$2 a day has fallen from 56% in 1980 to 23% in 2000
- The ratio of the incomes of the richest 20% to the poorest 20% of countries has declined from 18:1 to 16:1 over the past 10 years
- Other statistical measures of global inequality show a declining 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.

Three-quarters of all foreign direct investment goes to rich countries

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

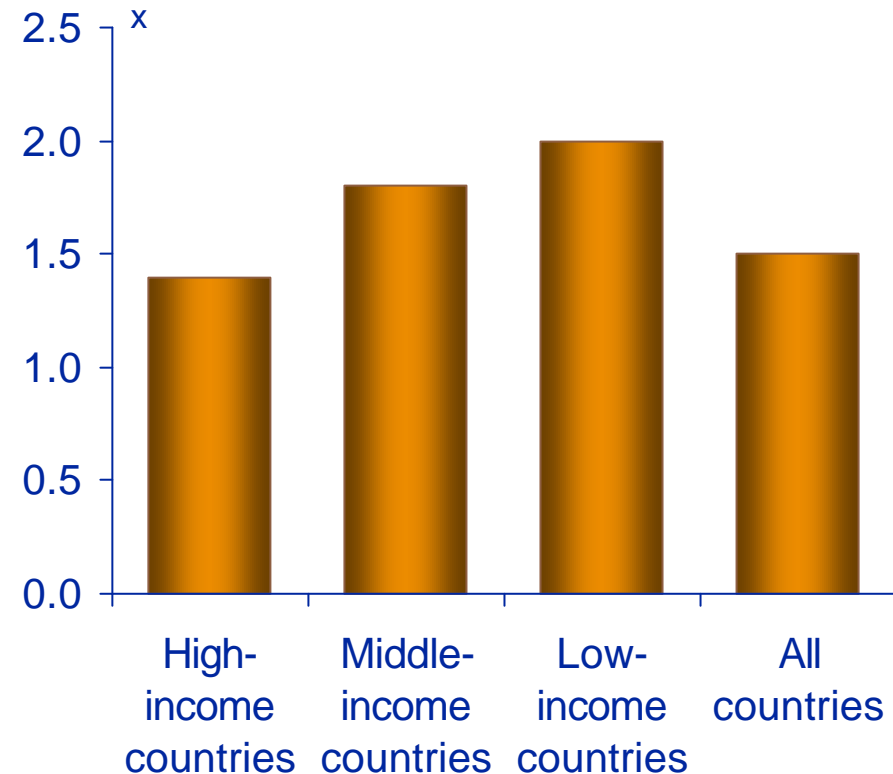


Source: UNCTAD, *World Investment Report 2002*, pp. 310-313.

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 manufacturing 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.

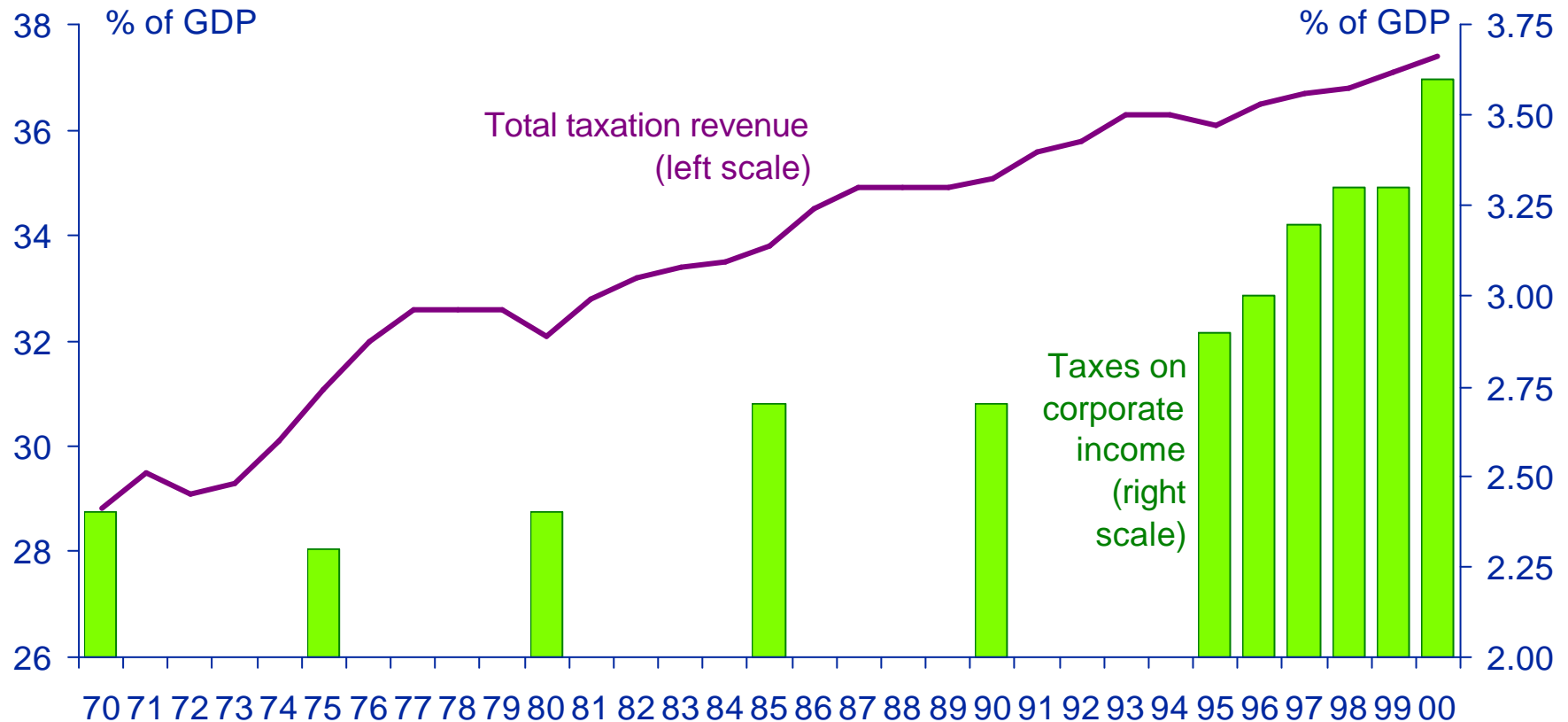
The share of the very largest TNCs in global value added has actually declined over the past decade

Number of transnational companies (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.

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

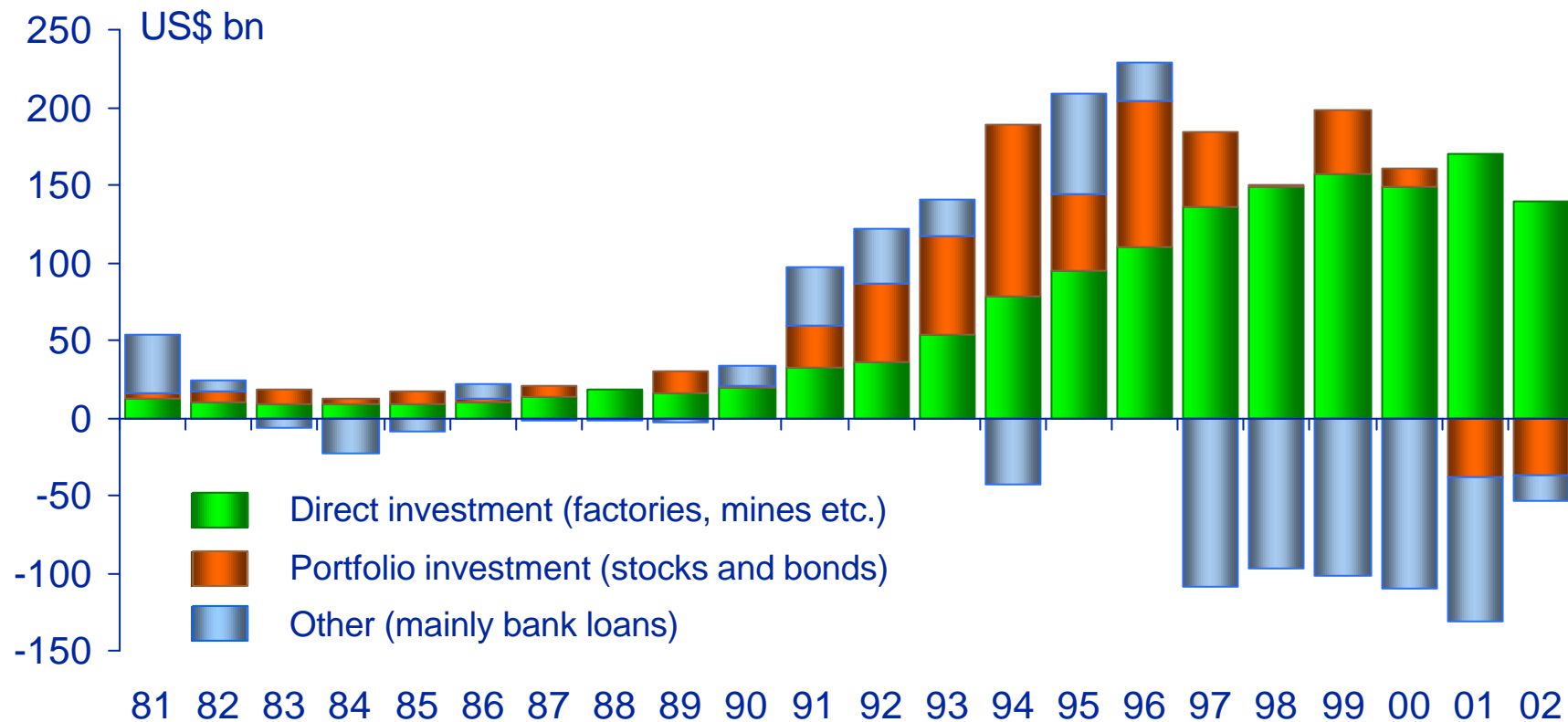
Tax revenues as a percentage of GDP: OECD countries



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

Developing economies have been destabilized by massive swings in capital flows

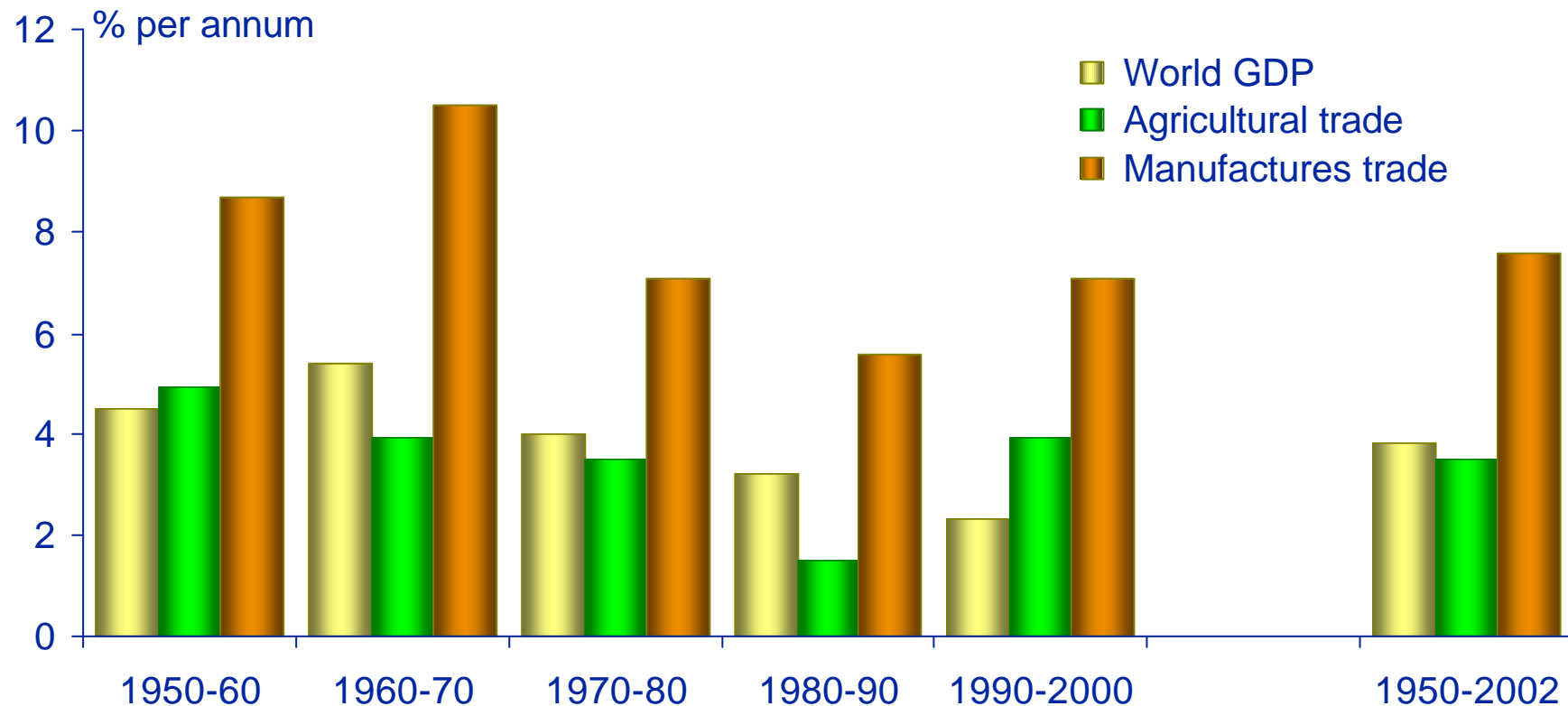
Net private capital flows to developing countries



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

Agriculture has been the 'poor relation' in terms of growth in international trade

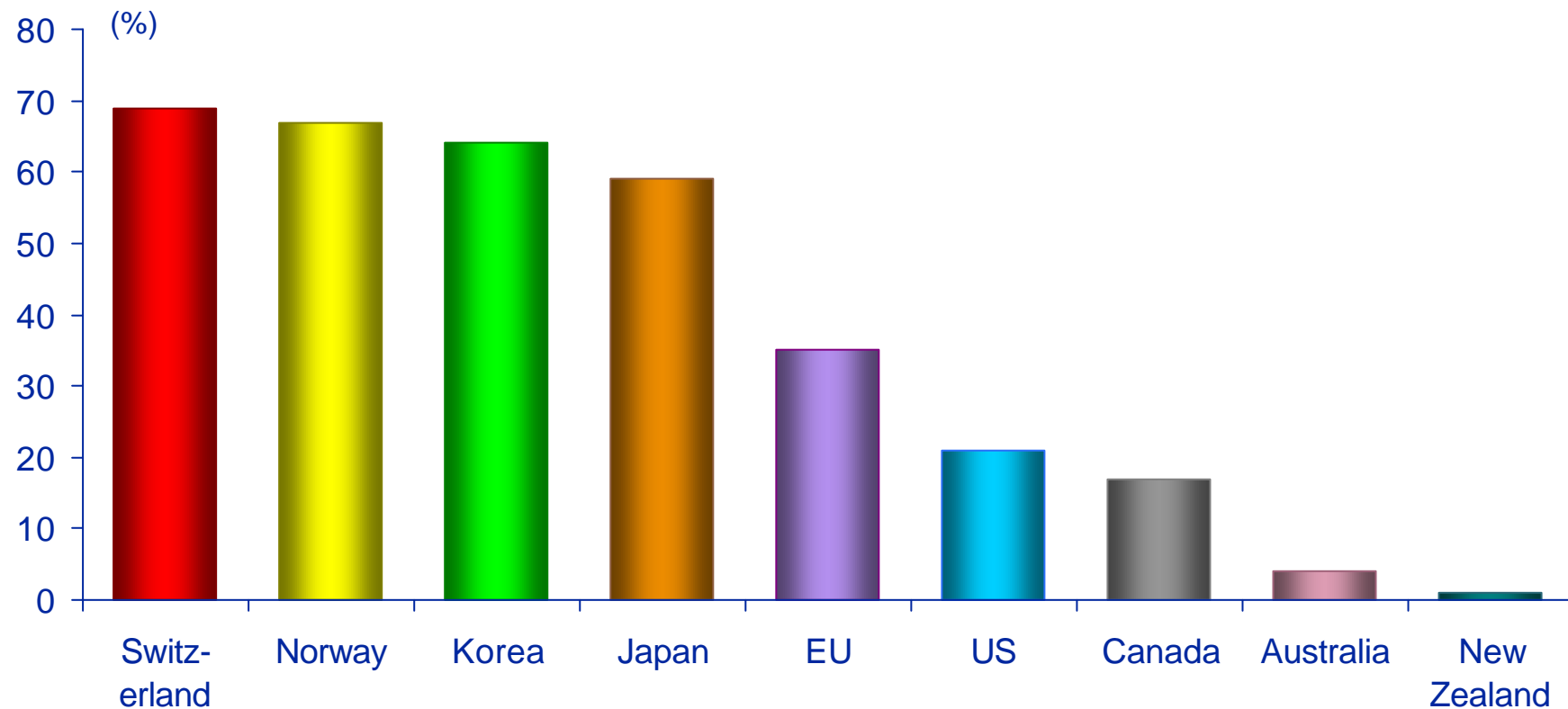
Average growth rate of merchandise trade by volume, 1950-2001



Source: World Trade Organization Trade Statistics database; Economics@ANZ.

Global agricultural trade remains corrupted by high levels of subsidies and other distortions

Taxpayer and consumer support for agricultural producers as a percentage of farm receipts, 2001



Source: OECD, *Agricultural Policies in OECD Countries, 2002*, Annex Table 2..

Elimination of agricultural trade distortions would benefit the world economy by US\$165bn annually

Elimination of post-Uruguay Round agricultural trade distortions imposed by -	Would produce annual welfare gains (US\$bn) for -		
	Rich countries	Developing countries	All countries
Rich countries	110.5	11.6	122.1
Developing countries	11.2	31.4	42.6
All countries	121.7	43.0	164.7
<i>Memo: gains from eliminating remaining distortions on non-agricultural trade</i>	18.0	71.7	89.7

Source: World Bank, *Globalization, Growth and Poverty* (2002), p. 58.

Implementation of Cairns Group trade reforms would significantly benefit Australian farmers

	Average farm cash income (A\$ / farm)	Increase from reforms (A\$ / farm)
Wheat and other crops	206,600	26,500
Mixed livestock-crops	118,300	10,700
Sheep	57,200	6,100
Beef	70,900	8,200
Sheep-beef	60,800	7,600
All broad-acre farms	105,900	11,800
Dairy	10,570	17,700

Source: Neil Andrews and others, 'Agricultural Trade Reform', *Australian Commodities* (ABARE), June quarter 2003, p. 258.