

THE NEW WAVE OF GLOBALIZATION AND ITS ECONOMIC EFFECTS

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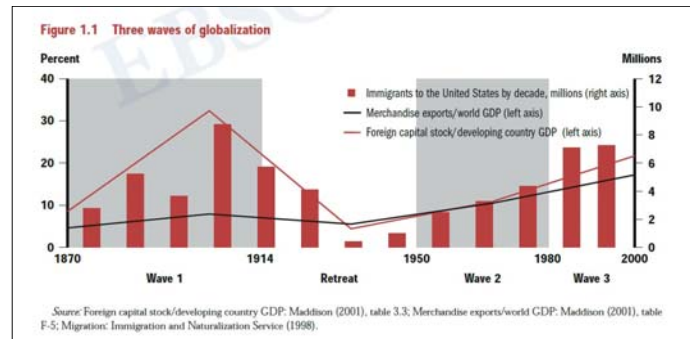


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TU101: Thailand, ASEAN, and the World

THREE WAVES OF GLOBALIZATION

- I. The 1st wave of globalization between 1870-1914
- II. The 2nd wave of globalization between 1945-1980
- III. The 3rd wave of globalization between 1980-present



I. THE 1ST WAVE OF GLOBALIZATION: 1870-1914

- A combination of falling of transportation costs
 - The switch from sail to steamship
 - Reductions in tariff barriers
- Leading to open up of abundant land usage
 - New technologies-railways
 - Creating the pattern of trade during the 1st wave of globalization
 - Land-intensive primary commodities

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I. THE 1ST WAVE OF GLOBALIZATION: 1870-1914

- The production from land-intensive primary commodities required people or **labors**
 - Increasing of migration from Europe to North America and Australia
 - Increasing of incomes and equality
 - Migration **flows from densely populated** China and India **to less densely populated** Sri Lanka, Burma, Thailand, the Philippines, and Vietnam
 - 10% of the world population

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I. THE 1ST WAVE OF GLOBALIZATION: 1870-1914

- The capital was another important factor for the production of primary commodities for export.
 - Financial Institutions were created.
- The results of the 1st wave of globalization created economic growth
 - Per capita incomes rose 1.3%
- Question: Did globalization lead to more or less equality between developed and developing countries?

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I. THE 1ST WAVE OF GLOBALIZATION: 1870-1914

Who did gain from the 1st wave of globalization?

- The exporting commodities' countries were among the rich ones such as Argentina, Australia, New Zealand, and the US, while the rest of countries were still poor.

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I. THE 1ST WAVE OF GLOBALIZATION: 1870-1914

Question: Did globalization lead to more or less equality between developed and developing countries?

- Mass migration was a major force to balance international incomes.
 - Raising wages within the countries. Ex the wages of Irish, Italian, and Norwegian increased by 32%, 20%, and 10%, respectively.
 - At the same time, it lowered the wages in Argentina, Canada, and the U.S.
- Nevertheless, globalization impacted on increasing inequality within countries
 - Depended on land's ownership

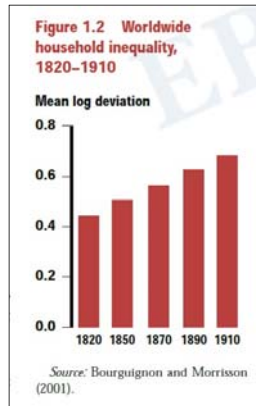
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I. THE 1ST WAVE OF GLOBALIZATION: 1870-1914

- Nevertheless, globalization impacted on increasing inequality within countries
 - Depended on land's ownership
 - Exporting from developing countries were land-intensive primary commodities.
 - That's why it benefited to landlords.
 - Ex. In Latin America → under colony
 - the power imbalance inherent in land ownership
 - increasing in trade meant increasing inequality

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I. THE 1ST WAVE OF GLOBALIZATION: 1870-1914



- World income inequality is measured by Mean log deviation (MLD)
- From the graph, the income inequality was increased from 1820-1910.
- That showed the gap of the world inequality was wider.

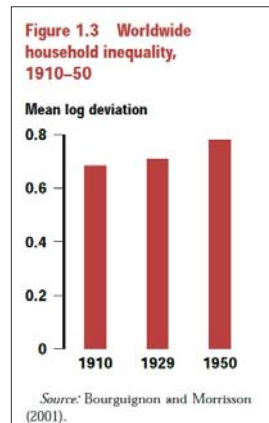
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a. THE RETREAT INTO NATIONALISM: 1914-45

- There was a great depression during the WWI (July 1914-Nov1918)
- Many countries responded by implementing protectionism.
- Protectionism refers to government actions and policies that restrict or restrain international trade, to protect local businesses and jobs from foreign competition.
- Hence, protectionism reduces international trade
- In case here, nationalism was created and brought to anti-immigration.
 - Immigration to the US declined from 15 million (1870-1914) to 6 million in 1914 and 1950.

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a. THE RETREAT INTO NATIONALISM: 1914-45



- The retreat into nationalism didn't reverse the trend to greater world inequality.
- However, the public health around the world was improved.

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II. THE 2ND WAVE OF GLOBALIZATION: 1945-1980

- The retreat of nationalism from the 1st wave of globalization failed to balance the world equality.
- Hence, it enforced to internationalism in the 2nd wave of globalization.
- The process was led by the United Nation (UN)
 - to persuade governments to cooperate
 - to reduce the trade barriers
- But the process of trade liberalization was selective in term of which countries participated and which products were included.

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II. THE 2ND WAVE OF GLOBALIZATION: 1945-1980

- By 1980, Free trade among the developed countries were created.
 - Free trade in manufacturing goods.
- But for those developing countries, the trade barriers still applied for agriculture and manufactures that compete with the same categorized products in developed countries.
- The partial reduction in trade barriers was supported by continued reduction in transportation costs.
 - Sea freight charge was reduced between 1950-1970

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II. THE 2ND WAVE OF GLOBALIZATION: 1945-1980

What did happen to the rich countries during the 2nd wave of globalization?

- The lifting of barriers expanded the exchange of manufacturers
- International specialization became important
- Allowing economic integrated among countries
- Increasing economic of scales
- Creating the economic linkage between the rich countries with the rest of the countries

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a. ECONOMIES OF AGGLOMERATION

- It created a specialization of manufacturing from the rich country.
- Most trade between developed country determined by the cost saving from integration and scale.
- Cluster → specialization and raising productivity
 - Network of manufacturing firms
 - Acquired input locally
 - Thus, reducing the cost of transportation, of coordination, of monitoring, and of contracting

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a. ECONOMIES OF AGGLOMERATION

- Negative side for who did not integrate
 - The world was divided
 - The network of manufacturing resulted to cluster of the wages of the regions between who participated and who didn't
- The relocation of the manufacturing firms for integration depended on the gap of the production cost.
 - Prefer to relocate and link with the network of production when it could reduce the cost of production

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a. ECONOMIES OF AGGLOMERATION

- Most of developing countries didn't participate in economic integration of global manufacturing and service trade.
 - Trade barriers in developed countries
 - Poor investment climates in developing countries
 - Anti-trade policies in developing countries
- These reasons made them depended on only primary commodities.

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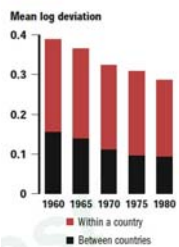
b. THE EFFECT ON INEQUALITY AND POVERTY

- The 2nd wave globalization effected on two trading systems.
 1. The old North-South system
 - Describing the relationship between the rich and industrialized countries on the one hand and the poor, less industrialized countries on the other hand.
 2. The new intra-North System
 - Lower-income industrial countries caught up with higher-income ones.

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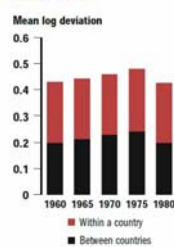
b. THE EFFECT ON INEQUALITY AND POVERTY

Figure 1.5 Household inequality in rich countries, 1960-80



Source: Clark, Dollar, and Kraay (2001).

Figure 1.6 Household inequality in the developing world, 1960-80



Source: Clark, Dollar, and Kraay (2001).

- The social program was created during the 2nd wave globalization.
 - The growth policies for redistribution and social protection within developed society (only OECD countries).
 - Reducing inequality
 - Reducing poverty
 - Improving life expectancy
 - Rising school enrollment

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III. THE 3RD WAVE OF GLOBALIZATION: 1980-PRESENT

Three distinctions

- A large group of developing countries broke into global markets.
- Other developing countries became increasingly marginalized in the world economy and suffered declining incomes and rising poverty.
- International migration and capital movements have become substantial.

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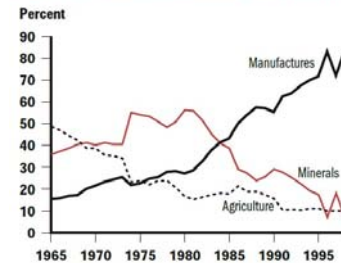
a. THE CHANGING STRUCTURE OF TRADE: THE RISE OF THE NEW GLOBALIZERS

- Developing countries use their comparative advantage in labor-intensive manufactures and services.
 - Abundant of labors
 - Rising of export manufacture from 25% in 1980 to 80% in 1998
- The important changes in pattern of developing countries exports
 - Shifting into manufactures trade. Ex. China, India
 - Increasing in export of services

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a. THE CHANGING STRUCTURE OF TRADE: THE RISE OF THE NEW GLOBALIZERS

Figure 1.8 Shares in merchandise exports in developing country exports



← What accounted for this shift?

Source: Martin (2001).

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a. THE CHANGING STRUCTURE OF TRADE: THE RISE OF THE NEW GLOBALIZERS

- What accounted for the shift in merchandise exports of the developing countries?
 - Changing economic policy
 - Tariffs on manufactured goods in developed countries decline.
 - Many developing countries undertook trade liberalizations and liberalized trade barriers to FDI which improve investment climate
 - Developing in transport and communication
 - Production networks
 - Supply chains

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a. THE CHANGING STRUCTURE OF TRADE: THE RISE OF THE NEW GLOBALIZERS

- Improving in non-income dimensions
 - Increasing equality in the spread of basic education
 - Increasing equality in health standards
 - Better on an index of property rights and the rule of law

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b. MARGINALIZATION:

Why has the experience of many poor countries been the opposite of the globalizers?

1) *The join the Club view*

- Weak globalizers have failed to control their comparative advantage in abundant labor because of poor economic policies.

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b. MARGINALIZATION:

Why has the experience of many poor countries been the opposite of the globalizers?

2) The "Geographic Disadvantage" view.

- Many of the countries that have failed to enter global manufacturing markets suffer from fundamental disadvantages of location.
 - High transportation cost

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b. MARGINALIZATION:

Why has the experience of many poor countries been the opposite of the globalizers?

3) The "Missed the Boat" view.

- Accept the view of the Join the club
- If any of these countries have good policies then it would participate into world manufacturing and services.
- However, with the scarce resources in the global market, the late comers have nothing to offer to world demand for manufactures.

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WHO'S RIGHT?

- Discussion

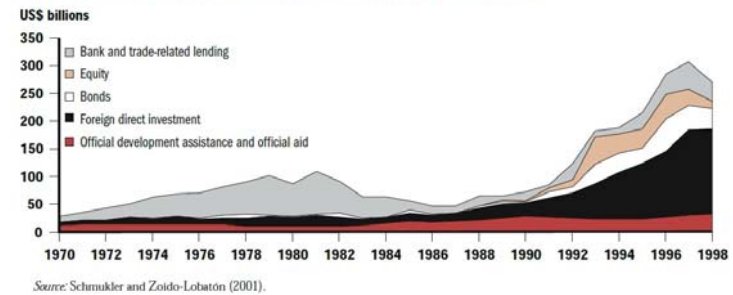
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THE RE-EMERGENCE OF INTERNATIONAL CAPITAL FLOWS

- The capital were gradually flowed from high-income countries to the lower one.
- FDI grew continuously throughout the 1990s.
- Mergers and acquisitions were increased.
- FDI brings advanced technology and access to international markets.

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Figure 1.13 Net capital flows to developing countries by type of flow, 1970-98



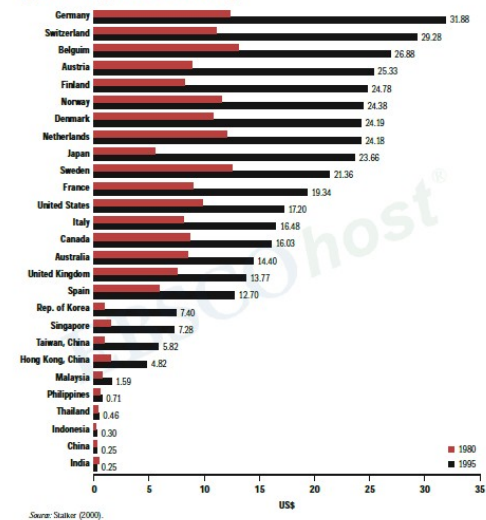
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MIGRATION PRESSURES ARE BUILDING

- People migrate out from poor area as well as both rural-urban migration within countries and international migration.
- There are huge gains to individual workers who migrate to more developing countries.
- However, the migration pressure is depended on the entry restrictions that migrant face.
 - Mexican migrants living to the US
 - CLMVT migrants
- Migrants can facilitate the other flows of globalization – trade, capital, and ideas.
 - Indian immigration to the US high-tech sectors

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Figure 1.14 Hourly labor costs in manufacturing



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WHAT HAVE BEEN THE EFFECTS OF THE THIRD WAVE GLOBALIZATION ON INCOME DISTRIBUTION AND POVERTY?

- Discussion

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WHAT HAVE BEEN THE EFFECTS OF THE THIRD WAVE GLOBALIZATION ON INCOME DISTRIBUTION AND POVERTY?

- Inequality decreasing in general
- For OECD countries, within-country inequality has increased.(counted China as 1/3 of the world population
 - Ex. China during modernization
- There is no relationship between the openness and changes in inequality, whether openness is measured by the share of trade in income.
- The rapid growth also has no relationship with the changes in inequality.
- However, the global poverty declined.
- Hence, globalization can be a force for poverty reduction.

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