

EE 452

International Monetary Economics

TOPIC 7 PART 3

GLOBALISATION & PARADIGM SHIFTS



Outline

- Three waves of globalisation
 - Catalysts
 - Major Impacts
- Globalisation and competitiveness
- The changing industrial paradigm
 - Industrial paradigm shifts in the current decade

Globalisation

Globalisation is the integration of economic, political, and cultural systems around the globe.

- Palmer (2002): “*Globalisation* is the diminution or elimination of state-enforced restrictions on exchanges across borders and the increasingly integrated and complex global system of production and exchange that has emerged as a result”

Globalisation Eras

Many social scientists tried to divide the events into different periods according to their various perspectives and interests.

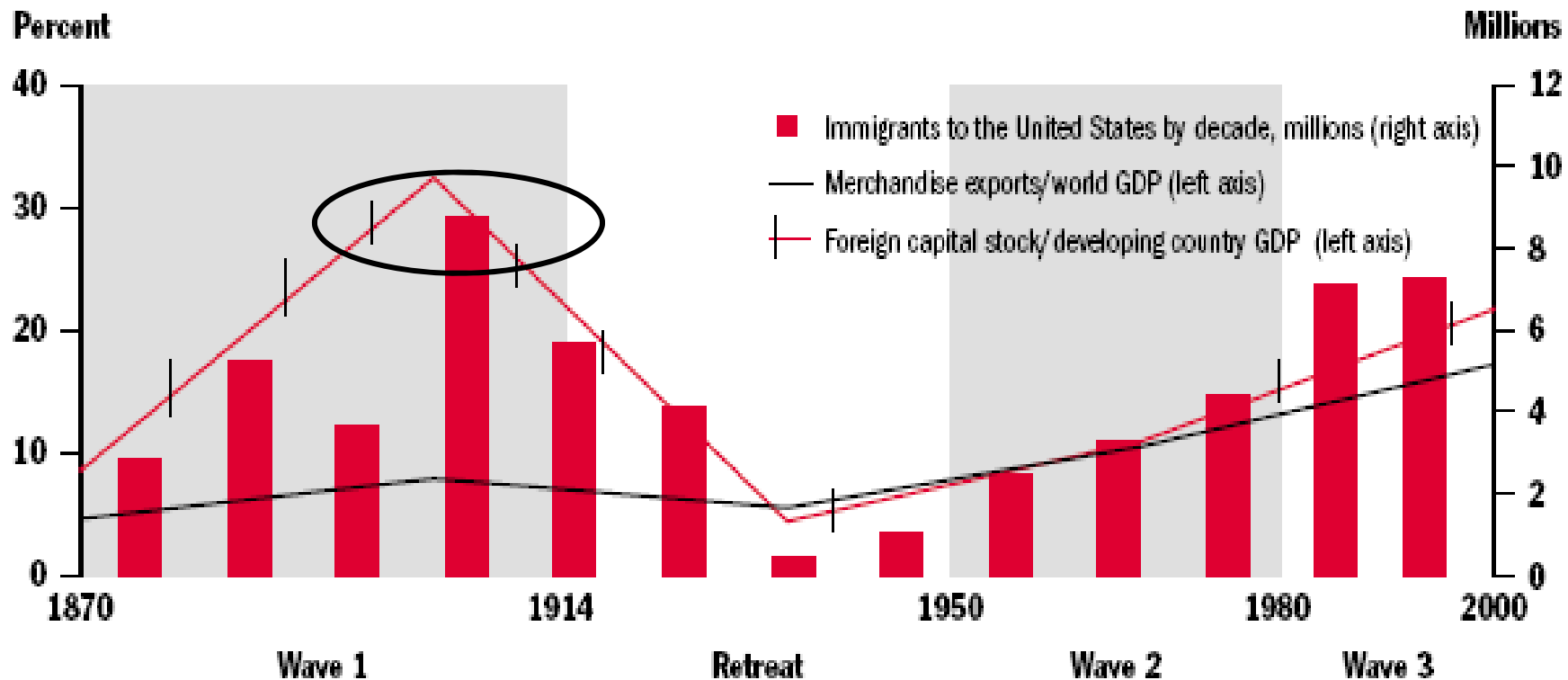
Globalisation

The phenomenon has been going around since 1870s, before World War I

- FDI and Immigration were actually highest in the *first wave* in the 19th century!
- However, due to World War I, globalisation back-lashed and came to a halt.

Globalisation has happened before...

Figure 1.1 Three waves of globalization



Source: Foreign capital stock/developing country GDP: Maddison (2001), table 3.3; Merchandise exports/world GDP: Maddison (2001), table F-5; Migration: Immigration and Naturalization Service (1998). **Source: World Bank, Data & Research**

First Wave of Globalisation

Lower transport costs (eg., switching from sailing to steamships and then railroads)

Reduction of tariff barriers

Abundant land in US, Australia, New Zealand opened up opportunities for utilisation of newly discovered resources.

- Capital invested in manufacturing in these lands
- People from Europe immigrate to work

First Wave of Globalisation

First wave ended as protectionist policies were imposed during 1914-1945 (post-World War I economic depression).

- Intention: To increase countries' domestic demand for their own products by reducing imports and increasing domestic production.

Second Wave of Globalisation

The second wave was the period from 1945-1980.

After World War II, **trade liberalisation** and **transportation costs** continued to fall...

By 1980, trade between developed countries in manufactured goods was free of barriers, but most developing countries still had trade barriers in place.

Second Wave of Globalisation

This led to reallocation of manufacturing within developed countries to lower-wage areas.

- The 2nd Unbundling (Baldwin, 2011)

Third Wave of Globalisation

From 1980 until 2010s, third wave of globalisation began.

Many developing countries have internationalised into the global market for the first time. Eg., China, India, Philippines

Share of total exports of developing countries' manufacturing goods between 1980 and 1988 increased from 25% to 80%.

Share of total exports of developing countries' services increased from 9% to 17%.

Third Wave of Globalisation

Changes in economic policies in many developing countries led to major trade liberalisation reforms and barriers reduction in foreign investment.

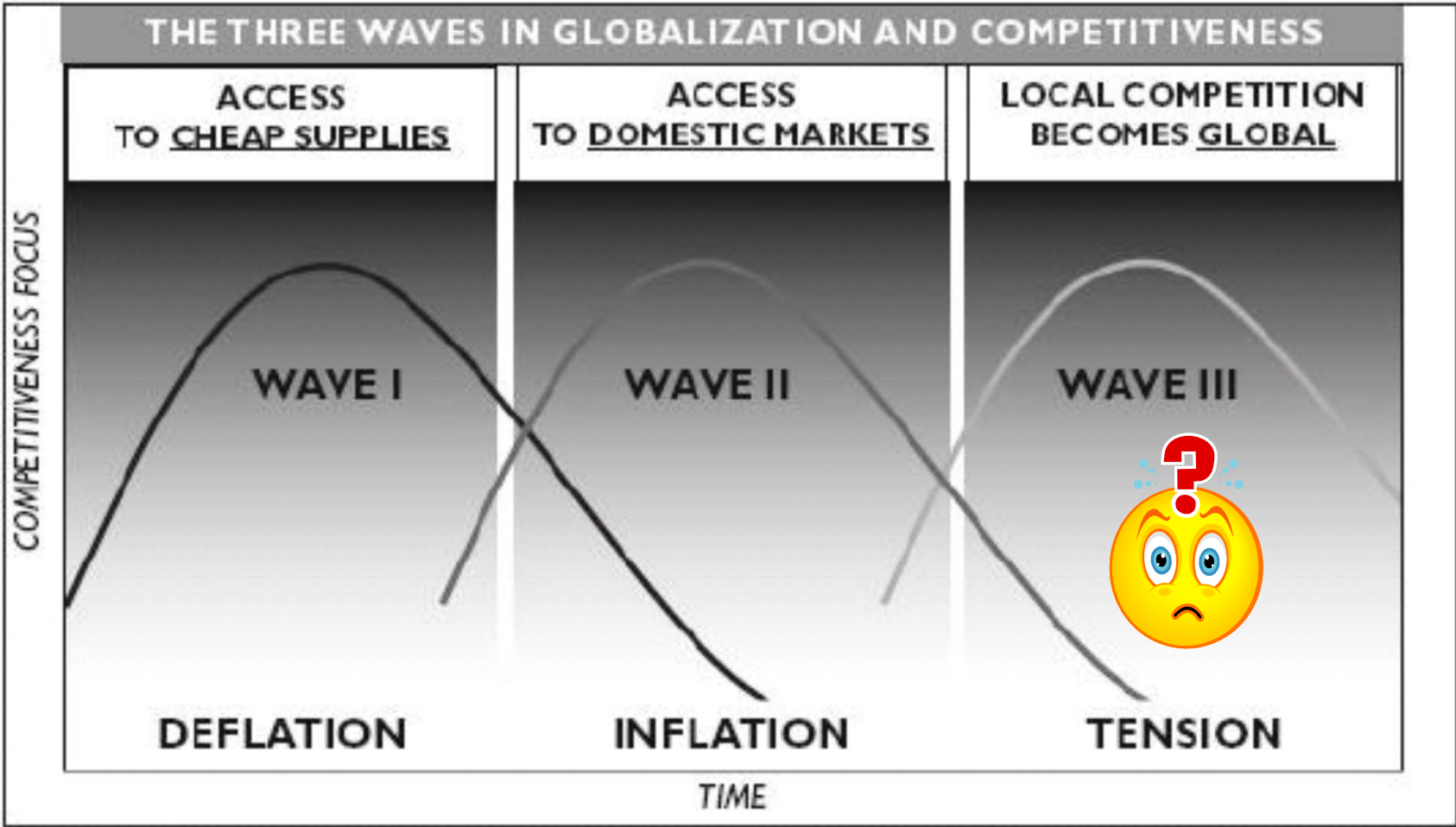
Continued progress in declining transport costs (eg., air freight)

New information technology (eg., digital information)

Globalisation and Competitiveness

International Institute for Management Development's *World Competitiveness Yearbook 2008* divides the relationship between globalisation and competitiveness into 3 waves since 1980s.

Globalisation and Competitiveness



Globalisation and Competitiveness: First Wave

The first wave happened during 1985-2000.

Countries worldwide tend to have **more open economy** along with the decline of communism.

World economy expanding considerably.

The idea of worldwide **comparative advantage** was one of the major ingredients that boosted up trade expansions during the period.

A Note on *Comparative Advantage*

*A country that can produce goods with lower opportunity costs than other countries is said to have a **comparative advantage** relative to other countries.*

Conceptually, under free trade, there should be potential “gain from trade” if each country exports goods which it has comparative advantage.

- It remains to be observed how truly free and fair trade can be attained in the real world...

Globalisation and Competitiveness: First Wave

With **comparative advantage**, and **attractive local investment policies** in developing countries, western companies saw opportunities for access to cheap supplies of inputs, eg., labour, raw materials as well as logistics.

- Reallocation of investment from homeland
- High levels of FDI and immigration
- Prices of goods decline globally.

Globalisation and Competitiveness: First Wave

Later part of the first wave saw interests not only in manpower, but also in **brainpower**.

- Graduates in many developing countries, eg., India and China are highly demanded by international companies.
- Competent, motivated and low-waged.

Said to be the period of “**deflation**” since companies can lower production costs, and so, set prices low.

- The “Great Moderation” (from Lecture 1)

Globalisation and Competitiveness: **Second Wave**

The second wave of globalisation and competitiveness would be from 2000 to 2020.

Priority shifts from seeking cheaper input supplies to **domestic markets access** of expanding economies, eg., Asia, Africa.

- Population increase
- Emergence of middle class

Globalisation and Competitiveness: **Second Wave**

Increase in raw materials and food prices.

World Bank estimates: by 2030, the world cereal consumption will increase by 50% and meat consumption will increase by as much as 85%

Costs of living increases

Said to be the period of “inflation” – totally opposite to what happened in the first wave.

Globalisation and Competitiveness: Third Wave

What will the Third Wave be like?

- Probably be the era of new competitors in currently emerging nations, such as local companies and brands.
- New entrepreneurs, eg., billionaires from China and India.
- From time to time, new companies and local brands flourish here and there all over the world.
 - Partnership with large international companies
 - Shared technology and management techniques
 - Close to zero marginal cost (in, for example, renewable energy)

Globalisation and Competitiveness: Third Wave

What will the Third Wave be like?

- Companies from emerging nations try to find a status in global economy.
- Remarkable change in the balance of world power.
 - Emerging nations will have louder voices and more influences to participate in decision-making process in international organisations (?)

Said to be the period of “competition and tension” (and co-operation?).



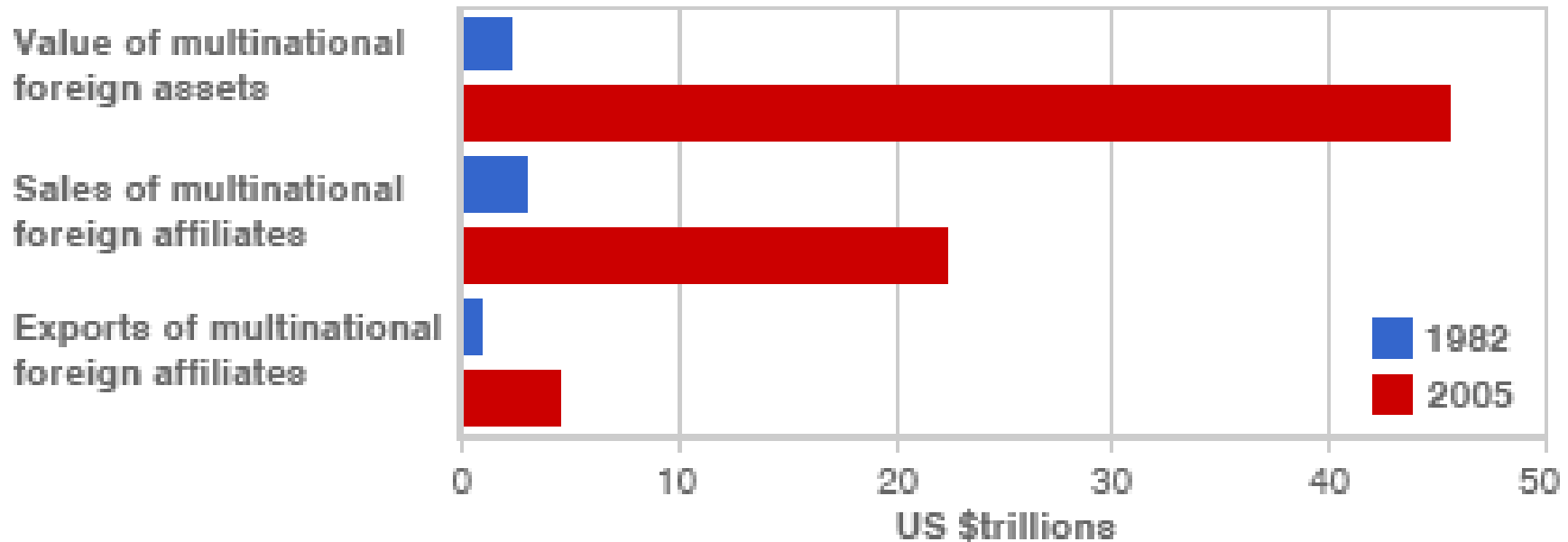
Catalysts of Globalisation

Multi-national or Transnational corporations

- Increasing trends in **outsourcing** and **off-shoring** especially to India and China
 - *When a local company contracts with another local company to perform specified functions, this is called “outsourcing”.*
 - *When a local company outsources to a company overseas, this is called “off-shoring”.*
- These set-ups enable them to take advantage of cheaper labour and give them better access to local markets.

Catalysts of Globalisation

GROWTH OF MULTINATIONAL FOREIGN OPERATIONS



SOURCE: UNCTAD

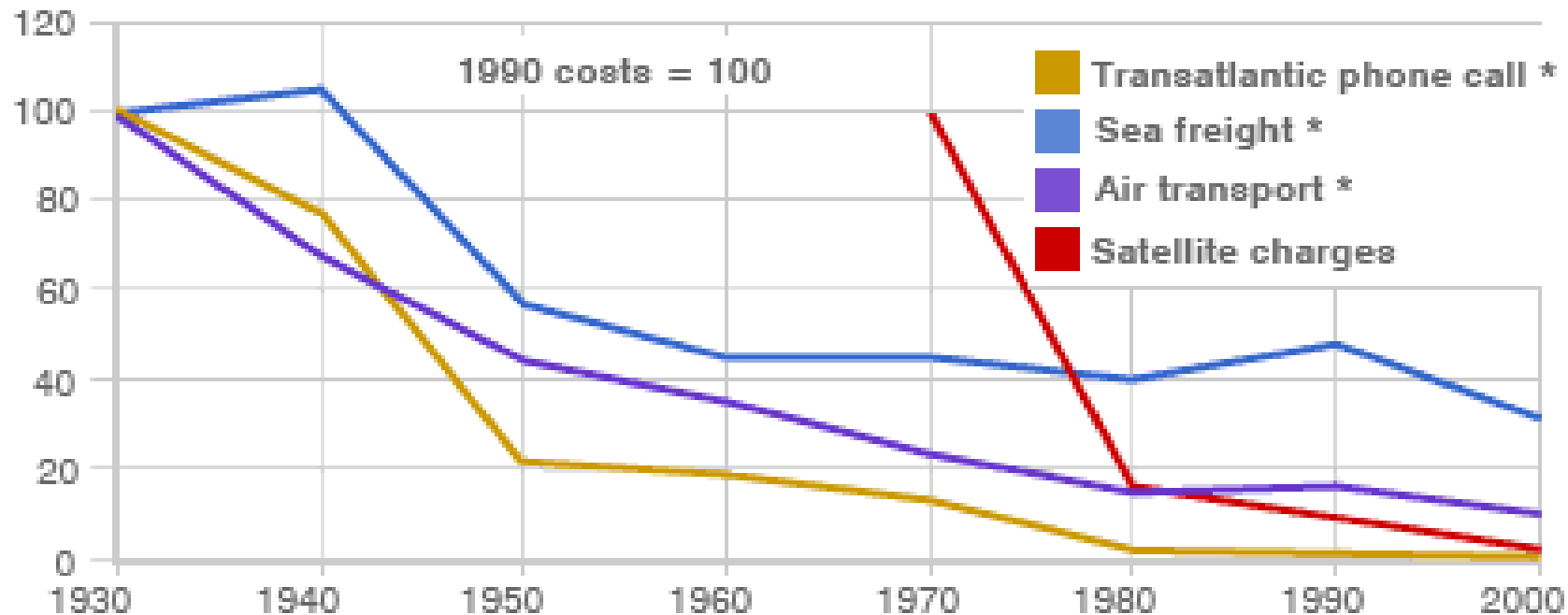
Catalysts of Globalisation

Technological innovations

- Technological innovation and globalisation tend to reinforce each other.
 - Technology enables business to go globalised.
 - Globalisation makes technology more profitable.
- Decline in cost of travel, transport and communicating information has lowered the cost of making transactions or moving goods around the world (natural barriers to trade).

Catalysts of Globalisation

FALLING TRANSPORT AND COMMUNICATION COSTS



* Cost of three minute telephone call from New York to London

* Average ocean freight and port charges per short ton of import and export cargo

* Average air transport revenue per passenger mile

SOURCE: HM Treasury

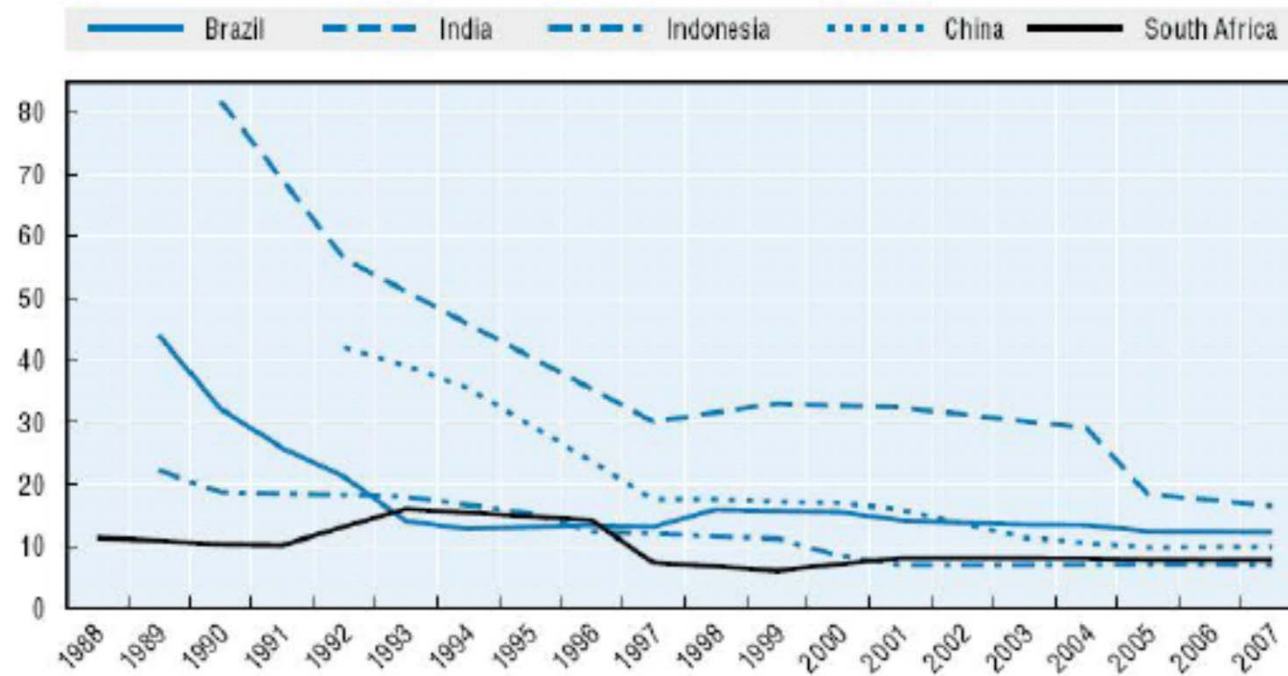
Catalysts of Globalisation

Liberalisation of foreign economic policies

- Role of International Organisations
 - WTO (the former GATT) - lowering (man-made) tariff barriers to trade through global Trade Talks – Uruguay & Doha Round
 - IMF & World Bank
 - Both promote “market friendly” approach to economic development through **Washington Consensus** – 10 broad sets of neo-liberal policy prescriptions recommended to countries that take loans.

Catalysts of Globalisation

Figure 9.2: Average applied import tariff on non-agricultural products in some countries



Source: OECD's Policy Brief, March 2009

Catalysts of Globalisation

It can be observed that each country's tariff keeps declining due to its changing foreign economic policies in favour of the approach suggested by international organisations.

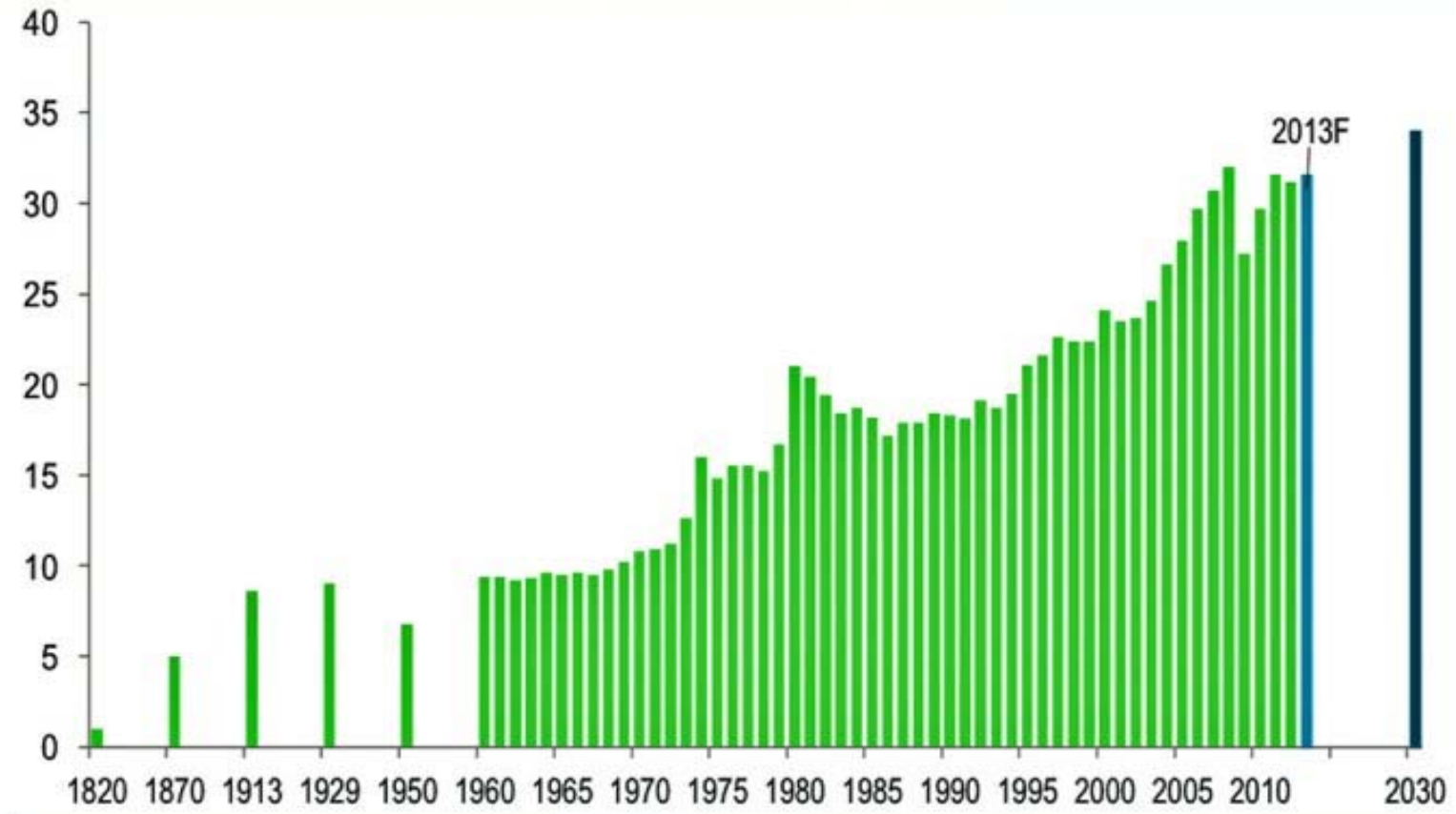
Impacts of Globalisation

Aspects

- Trade and Economic Aspects
- Financial Aspects
- Political Aspects
- Cultural Aspects

Figure 12: The world is more open than ever

World exports-to-GDP ratio



Source: Angus Maddison, IMF WEO, Standard Chartered Research

TRADE AND ECONOMIC ASPECTS

Increased World Trade

- World exports to world GDP ratio rose from a little under 10% in 1970 to a little under 35% in 2010.

Increased Foreign Direct Investments

- FDI in developing countries has increased from 2.2 billion USD in 1970 to 180 billion USD in 2009.

Globalisation of Production Process

- Breaking up of production process into parts and performing those functions in different countries
 - Example: HealthScribe Inc. – breakthrough
 - Handle outsourced medical transcription for American doctors and hospitals which is time and cost efficient. The cost of doing the transcription in India was about one-fifth the cost per line of doing it in US. The process usually takes 2 weeks to be completed, with outsourcing, it now takes only 2 hours!

TRADE AND ECONOMIC ASPECTS

Another example:

- Garments designed in the US
- Manufactured under contract in China by a company registered in Hong Kong using raw materials from all around the world
- Garments then transported to the UK in container ships carrying a flag of convenience and crewed by Filipino seafarers
- Payroll and other data tasks carried out in Asia
- At the end, the profits are accounted in a tax heaven (to avoid tax)

TRADE AND ECONOMIC ASPECTS

Economic growth & prosperity

- For countries like India and China, globalisation has led to a virtuous cycle of **economic growth** and **falling poverty rates**.
- Together with the individual countries' **liberalising reforms**, globalisation has helped maximise economic growth and reduce absolute poverty mainly through surges in foreign trade and foreign direct investments.
- This rapid economic growth is largely owed to China's liberalising reforms in the 1970s (from Lecture 9) and WTO membership (2001) as well.

TRADE AND ECONOMIC ASPECTS

Eradication of Poverty

- Decline in poverty in **absolute terms**
 - According to the World Bank, in 1990 there were roughly 375m people in China living in extreme poverty, by 2001, the number is 212m.
 - In South Asia- India, Pakistan, Bangladesh- the number went from 462m in 1990 to 216 million in 2015.
 - However, income inequality is a separate set of problem.

FINANCIAL ASPECTS

Capital account liberalisation

- Increase in global capital mobility → Increased Investments
- Portfolio Investments like Bonds, Equities and Other debt instruments
- However, this **openness** is at times offset by the **instability** and **volatility** in the international finance markets.
- Example: Sub-prime mortgage crisis (2008) or the spread of 1997 financial crisis
- Still, financial openness catalyses indirect benefits that can have a significant effect on growth, such as financial market development, improved governance, and incentives for greater macro economic policy discipline.

FINANCIAL ASPECTS

24-hour global trading in a seemingly limitless array of financial instruments

- Financial innovations and financial instruments
- Near-zero transaction costs of financial trading

POLITICAL ASPECTS

Trends

- **Movement to Democracy**
- Democratic Elections
- According to the 2002 *United Nations Human Development Report*, since 1980, 81 countries have taken “significant” steps towards democracy with 33 military regimes replaced by civilian governments. Of the world's nearly 200 countries, 140 now hold multi-party elections.
- Media and Press
- The spread of daily newspapers in developing countries has risen to 60 copies per 1,000 people, from 29 in 1970-96, and the number of televisions has increased 16-fold.
- **Interdependency**
- International Organisations – UN, G20, etc.
- Economic and Political Integration
- European Union

CULTURAL ASPECTS

Cultural diffusion

- The Internet, satellites, and cable TV are sweeping away cultural boundaries.
- There is far more mixing of people and cultures from all over the world, enabling more sharing of ideas, experiences, and lifestyles.
- People can experience foods, music, and other products not previously available in their countries.
 - Eg., McDonalds, Starbucks, Hollywood, Hip-hop music, J-pops, K-pops, etc.



McDonalds in the Middle East



Starbucks Coffee in a tea-drinking culture



McDonalds in the Moscow



Starbucks Coffee in Korea



J-Pops and K-Pops all over Asia

The Spread of Thai-brand energy drink, Krating-Daeng (Red Bull), to Europe



Impacts on primitive local communities

Issues of WTO and agricultural farmers in developing countries

Marginalisation of the rural poor

- Rising income disparity
 - Case of China - inequality between urban and rural areas rose steadily over the 1990s. The ratio of urban-rural per capita income (urban disposable income to rural net income) increased from 1.86 1985 to 3.11 in 2002.
- Rural poor still being left out of globalisation

Issues of small-scale local retailers and hypermarkets

Some Measures of Globalisation

Globalisation Index: Small, rich and stable countries alike tend to be more globalised.

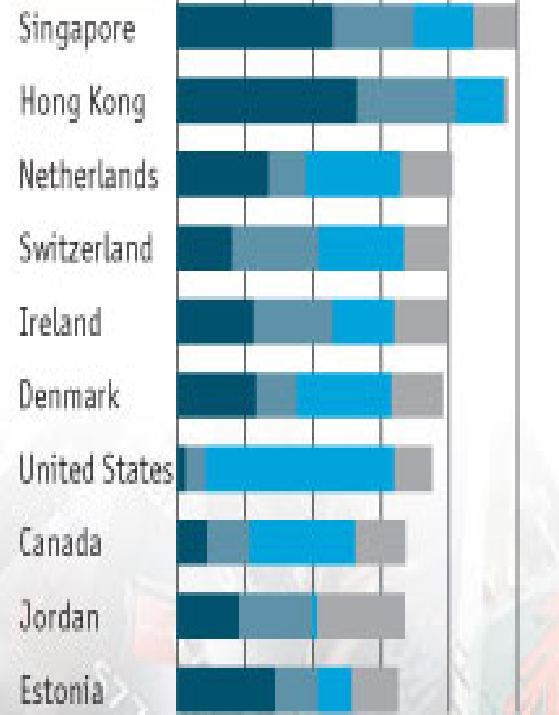
- Index of 72 countries composed by *A.T. Kearney*, a consultancy, and *Foreign Policy* magazine.
- Index uses 12 measures which cover:
 - economic integration – International trade and FDI
 - personal contact – Telephone, travel and remittances
 - political engagement - Participation in treaties, organisations and peacekeeping
 - technological connectivity - No. of internet users, hosts and secure servers.
- Other indices includes KOF index of globalisation. For more information: <http://globalization.kof.ethz.ch>

Globalisation score

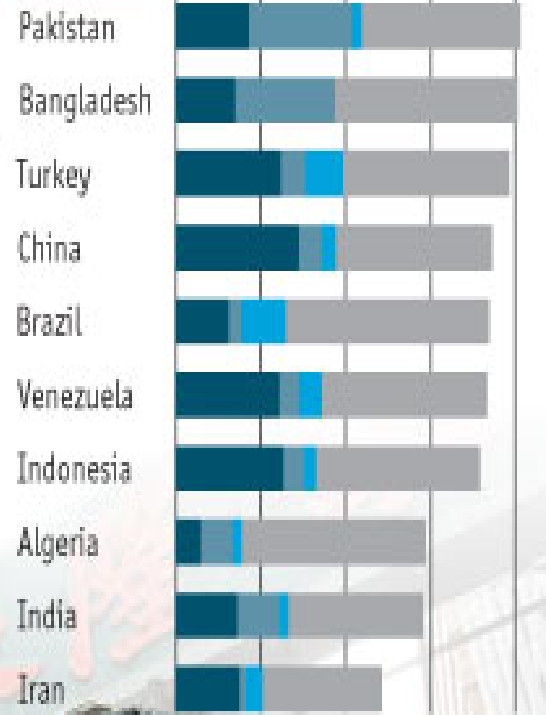
2005

■ Economic ■ Personal ■ Technological ■ Political

Top ten



Bottom ten



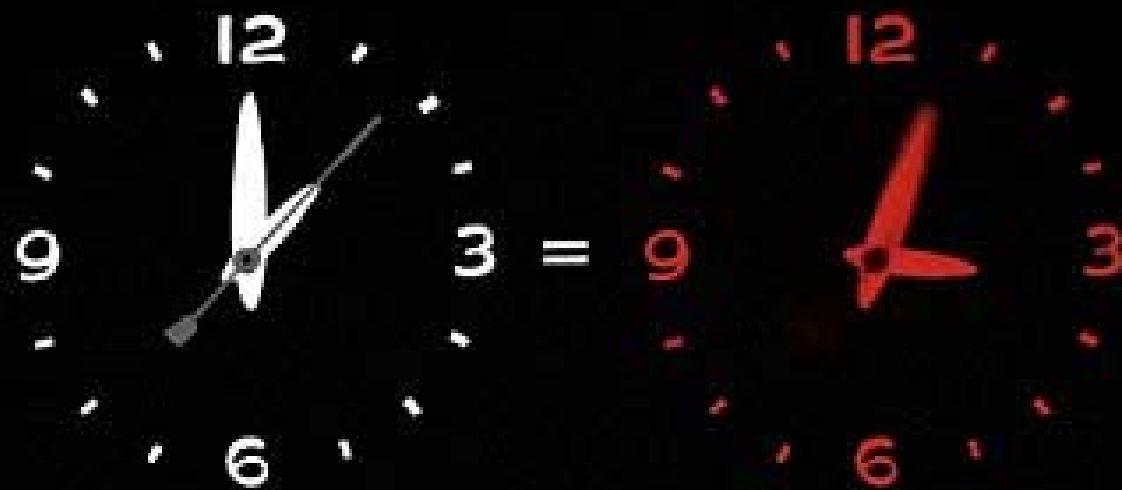
Small is beautiful, The Economist, Oct. 24th 2007

THE INDUSTRIAL PARADIGM SHIFT IN THE COMING DECADES

Emergence of “Collaborative of Commons”

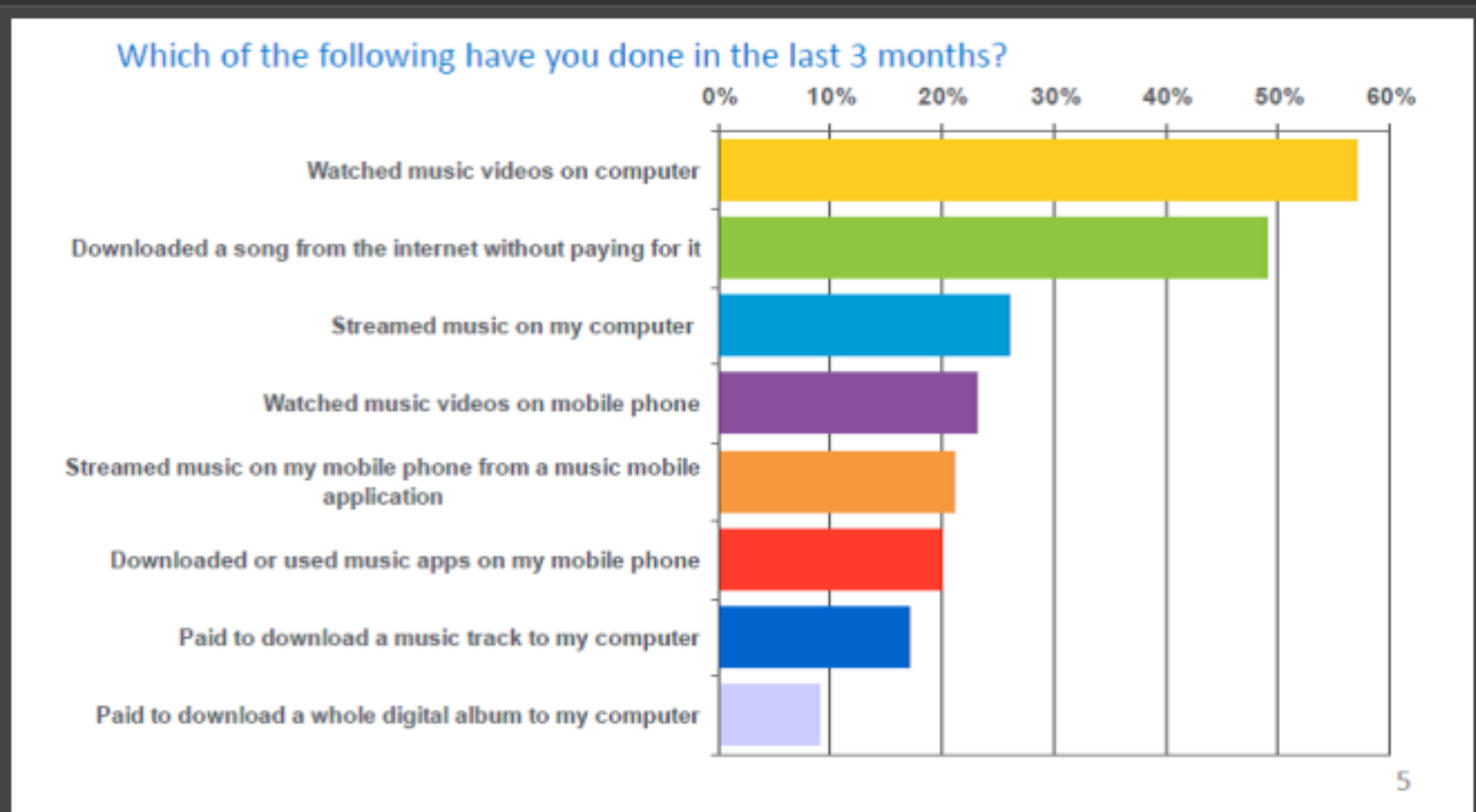
-Jeremy Rifkin (2011)

- Zero marginal cost phenomena
 - Eg., Information goods and entertainment industries
 - Music industry
 - Young people share their music through Youtube
 - Newspaper businesses
 - Young people share their own blogs



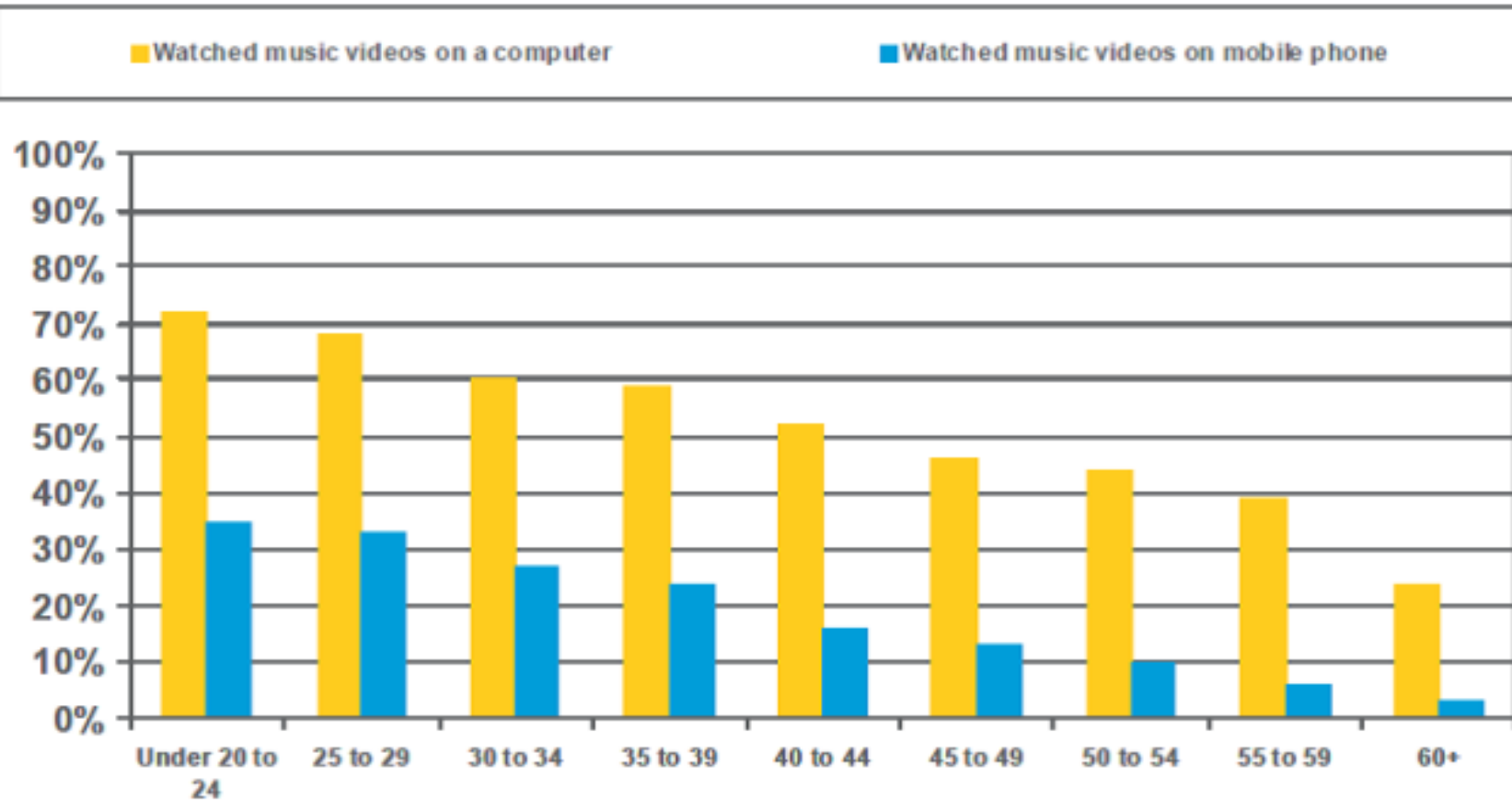
EVERY SECOND
ONE HOUR OF VIDEO
IS UPLOADED TO YOUTUBE

Digital consumption habit



Source: Nielsen & MIDEM, 2011, The hyper-fragmented world of music: Marketing considerations and revenue maximation, p. 5.

Consumption of music videos by age group



Source: Nielsen & MIDEM, 2011, The hyper-fragmented world of music: Marketing considerations and revenue maximation, p. 8.

ARE YOU COMING TO BED?

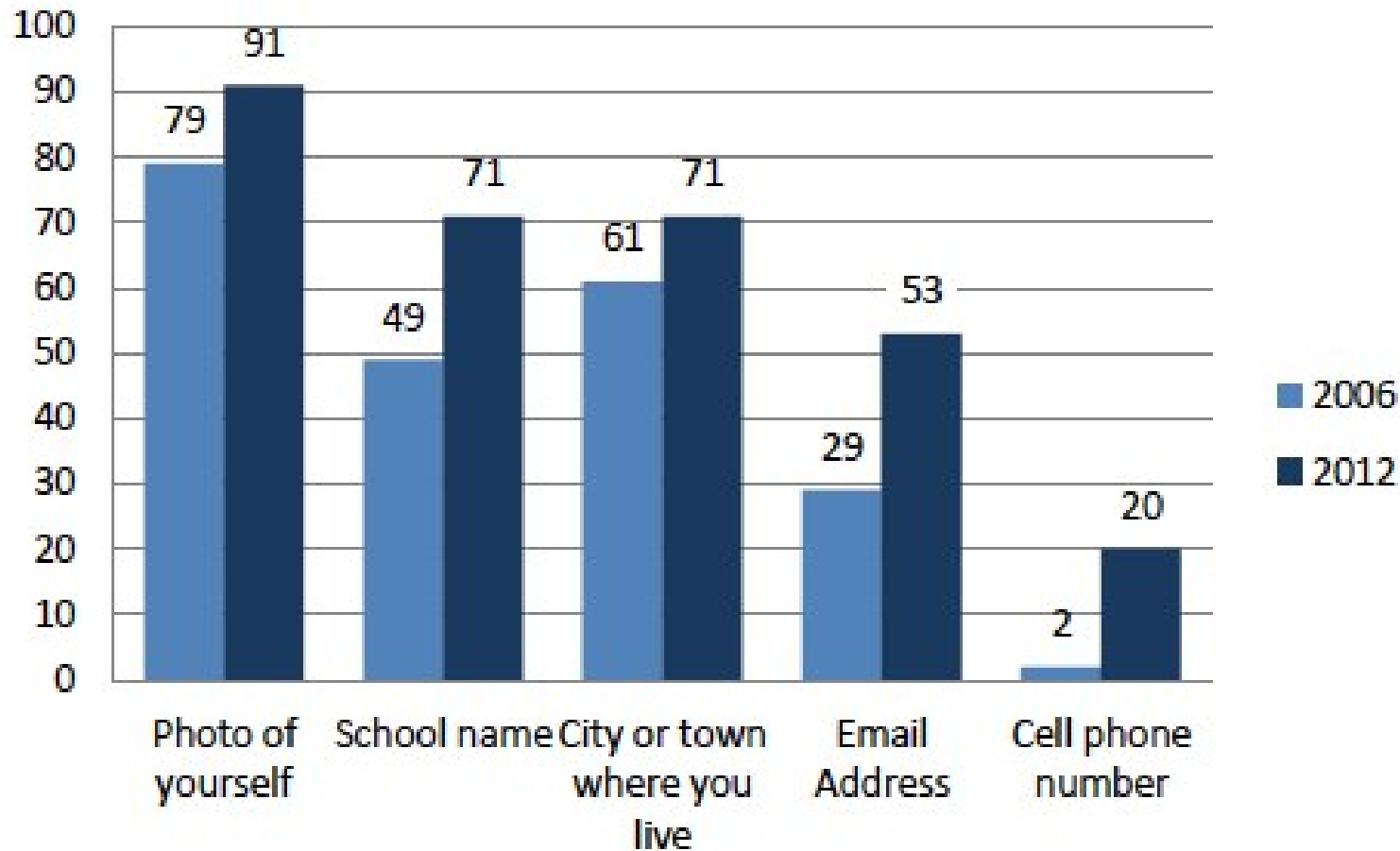
I CAN'T. THIS
IS IMPORTANT.

WHAT?

SOMEONE IS WRONG
ON THE INTERNET.



Social media profiles: What teens post – 2006 vs. 2012



Source: Pew Internet Parent/Teen Privacy Survey, July 26-September 30, 2012. n=802

obsessed WITH facebook.

AS OF 2011, THERE ARE 500,000,000 ACTIVE FACEBOOK USERS.
APROX. 1 IN EVERY 13 PEOPLE ON EARTH.
HALF OF THEM ARE LOGGED IN ON ANY GIVEN DAY.

48% OF 18 TO 34 YEAR OLDS



48% OF YOUNG AMERICANS
SAID THEY FIND OUT ABOUT

NEWS
THROUGH FACEBOOK.



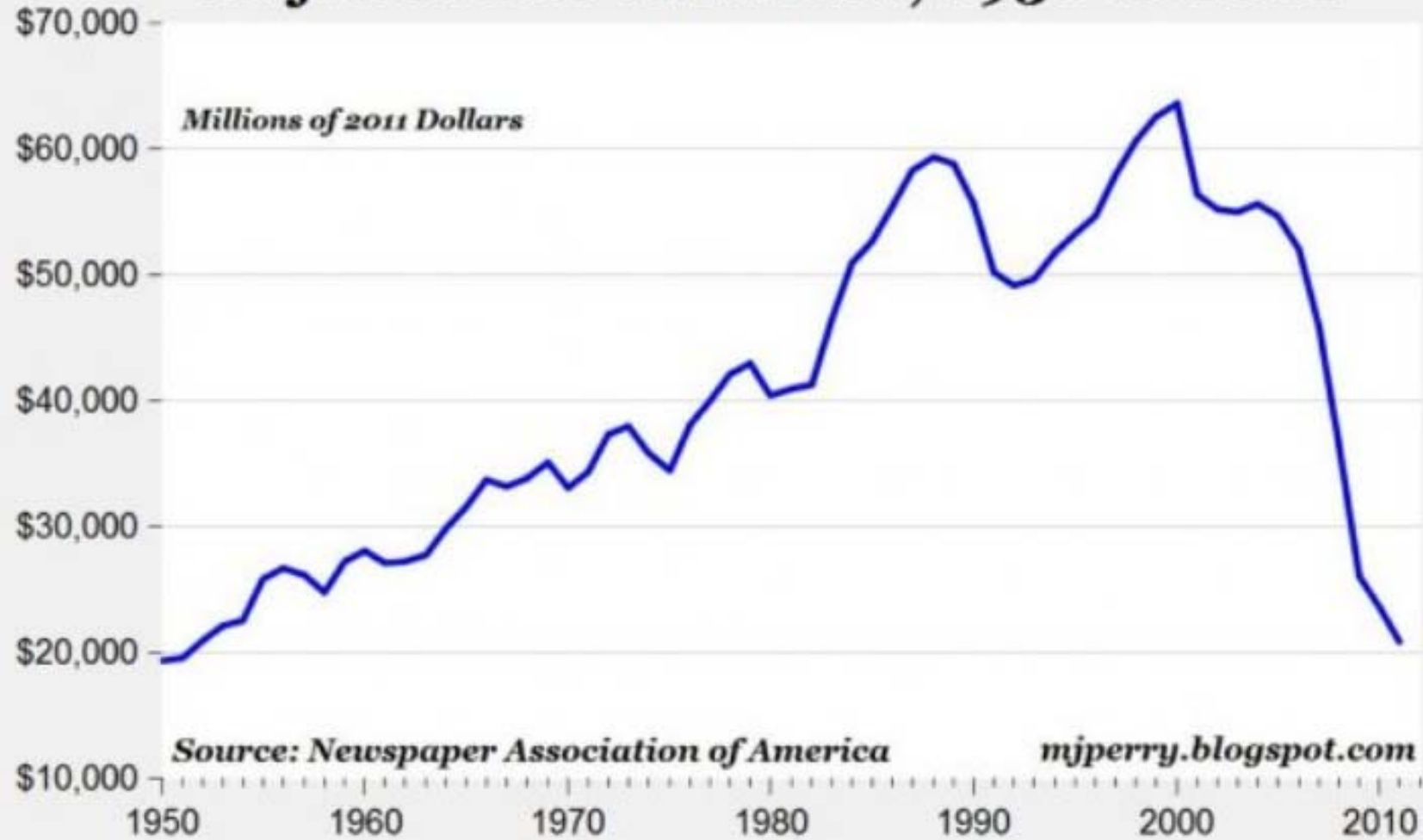
**A RECORD-BREAKING
750 MILLION PHOTOS
WERE UPLOADED TO FACEBOOK
OVER NEW YEAR'S WEEKEND.**

The Washington Post



Dustin Hoffman and Robert Redford investigate Watergate in *All The President's Men*. The Washington Post is one of many media companies losing money for their work through the internet. Photograph: Ronald Grant

Print Newspaper Advertising Revenue Adjusted for Inflation, 1950 to 2011

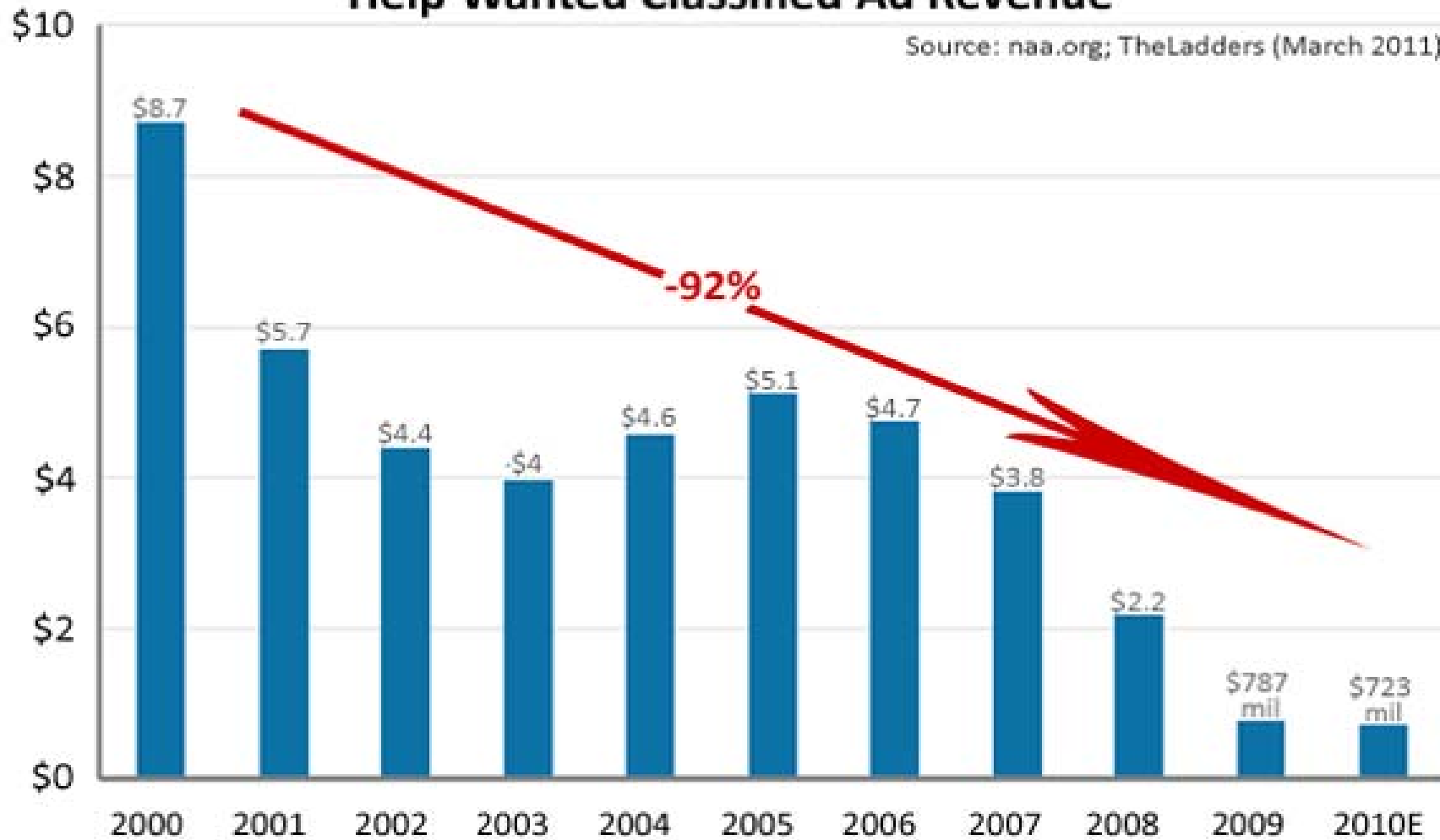




In Billions

U.S. Newspaper Industry's Help Wanted Classified Ad Revenue

Source: naa.org; TheLadders (March 2011)



Emergence of “Collaborative of Commons”

-Jeremy Rifkin (2011)

- Economists say there is ‘Firewall’ and these activities will not break this wall.
 - What about internet?
 - Reality: the world is connected, there have been smart sensors to connect roads and traffic patterns, real time data, new electricity grid tells the price of electricity used, consumers traffic what they buy, etc.
 - Estimated: By 2020- IBM 50 billion sensors, 2030 forecast 100 trillion sensors connecting human world, natural world.

Internet platform

- Exciting Fact: connecting nervous system of human race across the planet
- Nervous Fact: What about security?
 - If we can't address this issue, we can't enjoy the advancement of internet.
- With your own technology, you can begin to mine the data and apps to create your own algorithm and dramatically increase your own productivity. This is just like we now share information through mobile phones.

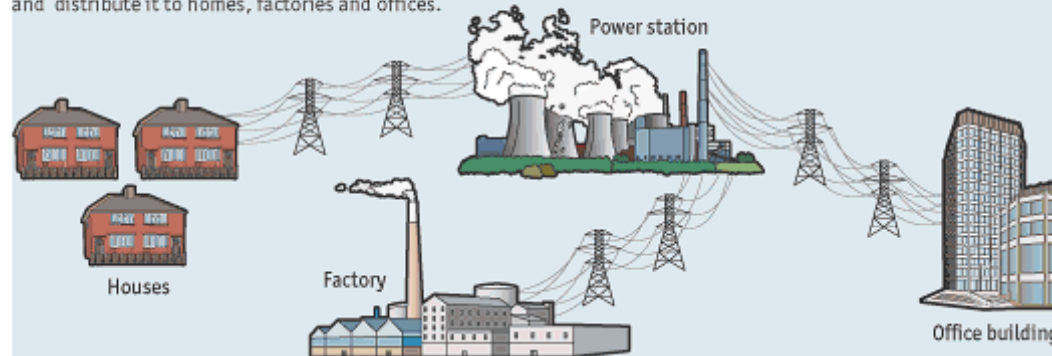
Energy Internet

- We can produce our own and share our own renewable energy for free.
- We now have millions of small players producer cooperatives, consumer cooperatives, SMEs, neighbourhood associations, households, producing their own energy at zero marginal costs.
- Harvesting technology was exponential costs. 1970: US\$60, now 66 Cent– solar energy cost.

The shape of grids to come?

Conventional electrical grid

Centralised power stations generate electricity and distribute it to homes, factories and offices.

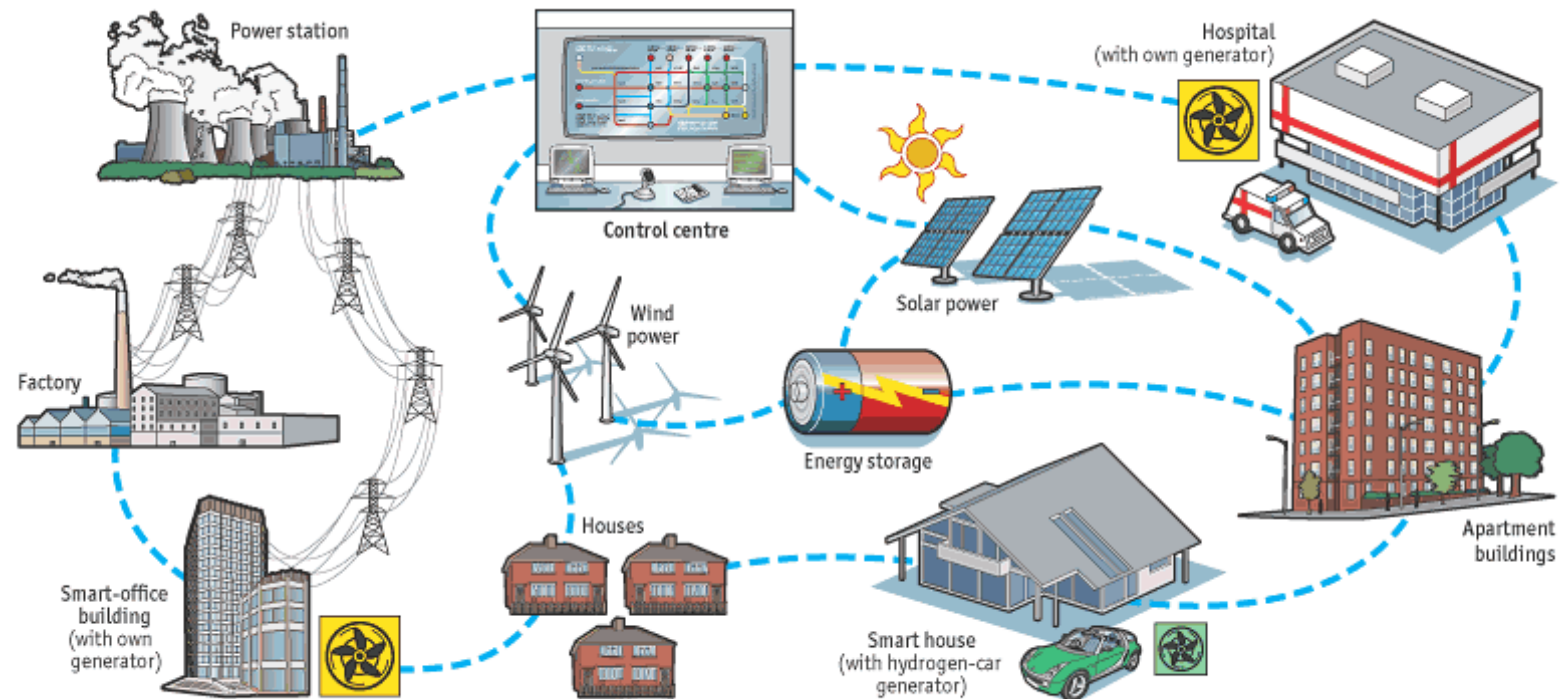


Energy internet

Many small generating facilities, including those based on alternative energy sources such as wind and solar power, are orchestrated using real-time monitoring and control systems.

Offices or hospitals generate their own power and sell the excess back to the grid. Hydrogen-powered cars can act as generators when not in use. Energy-storage technologies smooth out fluctuations in supply from wind and solar power.

Distributing power generation in this way reduces transmission losses, operating costs and the environmental impact of overhead power lines.



Sources: *The Economist*; ABB

Some stylised facts

- Germany, 25% of electricity is green.
- Sun, wind, thermal energy is *free*.
- Then, you can share the energy throughout the internet.
- There is a big push back by industries to stop young people from sharing.
- Economists had said $MC=MP$ is optimal. Unless businesses shift their industrial paradigm, this concept may no longer apply in the new paradigm. Never expected that they will be zero.

Eventually

- Energy industries need to:
 - Sell less, make more profit
 - Energy management (just like IMB and other information businesses did some decades ago.)
 - That is, paradigm shift!

So what alternative system for the future?

- Economists:

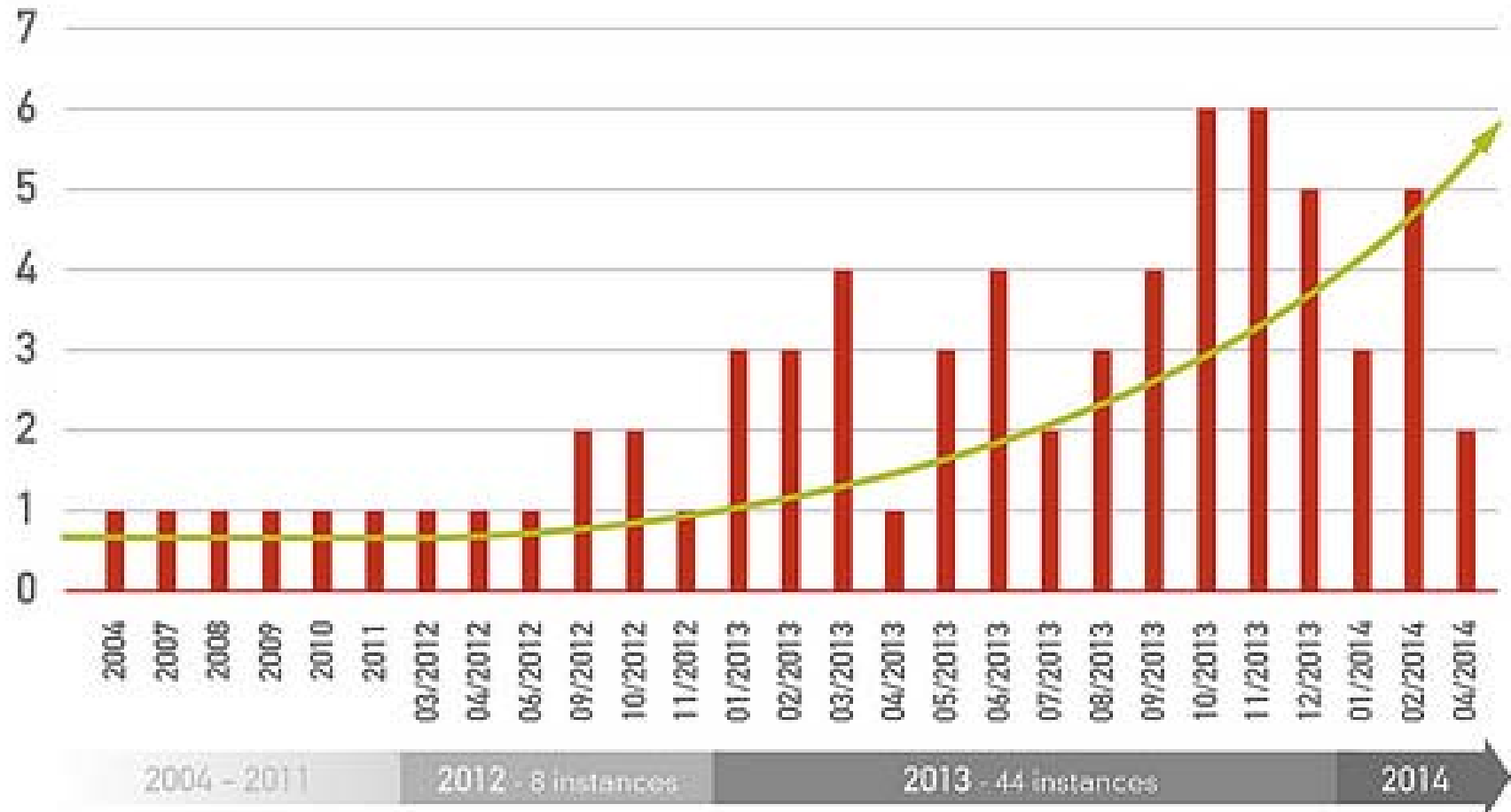
- Private enterprise
- Government
- Or some combination between the two.

What they ignored is what is in another sector of their life. It is called the “social economy”, social commons

- some formalised as non-profit orgs.- but even bigger
- it is what we engaged in playfully, willingly to produce and share things together.
- It is not counted by mainstream economists because there is no profit.
- 2.2 trillion dollar revenue industry. (John Hopkins survey non-profit industry around the world)
- In 2010, social commons grew at 42% revenue growth faster than market place, the private enterprise system GDP grew 15% in UK and 5% in Canada.

Corporations in the Collaborative Economy

Frequency of adoption by month/year in the sharing economy, maker movement, crowd funding, and co-innovation



Source: Crowd Companies April, 2014



Social commons

- Improved social lives.
- What brings out social commons out of the shadow is the internet–community, energy and logistics --- millions of small players can come together and bypass all the middlemen and produce and share information, energy, goods and services at a marginal cost of zero.
- So what is the incentive? Co-operatives providing food, banks, we seem to make prosperous economy but it doesn't require the profit.
- What we see here is that it is emerging across internet platform.
- It is not just we are sharing energy and entertainment. A lot of young people share cars.
 - Reduce pollution – less car, etc.
 - Sustained productivity (extreme sustainability and extreme productivity) – minimum of energy, labour, time and capital – near zero marginal costs.

Crowdfunding

Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the internet. One early-stage equity expert described it as “the practice of raising funds from two or more people over the internet towards a common Service, Project, Product, Investment, Cause, and Experience or SPPICE.”

The crowdfunding model is fueled by three types of actors: the project initiator who proposes the idea and/or project to be funded; individuals or groups who support the idea; and a moderating organization (the "platform") that brings the parties together to launch the idea.

In 2013, the crowdfunding industry grew to be over \$5.1 billion worldwide

Sharing

- Young people are sharing networks, toys, kids exchange toys.
- capitalist system to collaborative commons
- capitalism won't disappear, but it will be an adapted version.

But the company that survive will become niche players.

By 2050, collaborative commons will be the prime.
Capitalism will be side ways.

- We share, that's the nature of human nature- to share.
- Providing, sharing more and using less is a new journey.

Interesting Reads

