

THE NEW WAVE OF GLOBALIZATION AND ITS ECONOMIC EFFECTS

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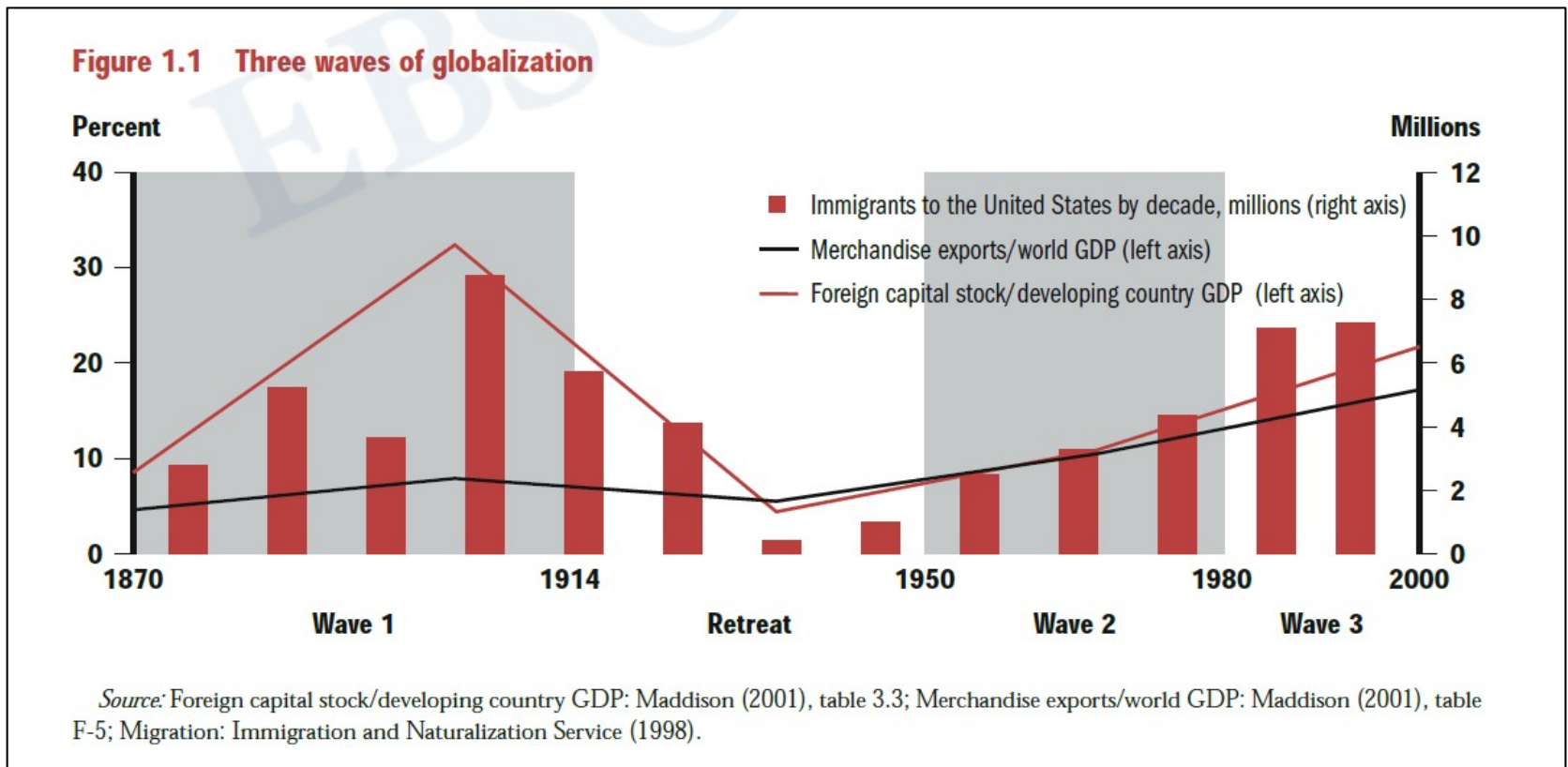


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TU101: Thailand, ASEAN, and the World

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

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

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?

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.

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

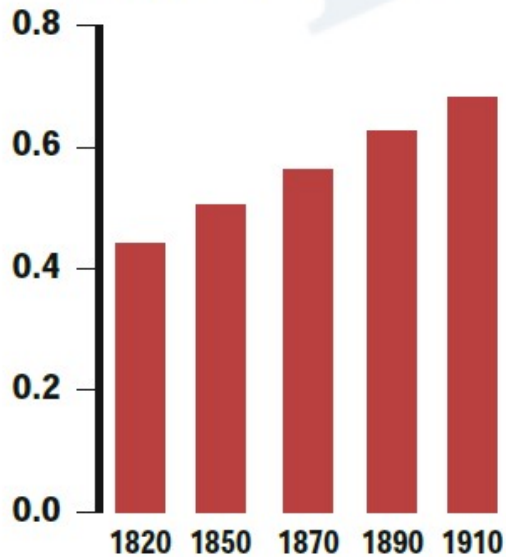
I. THE 1ST WAVE OF GLOBALIZATION: 1870-1914

- 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

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

Figure 1.2 Worldwide household inequality, 1820-1910

Mean log deviation



Source: Bourguignon and Morrisson (2001).

- 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.

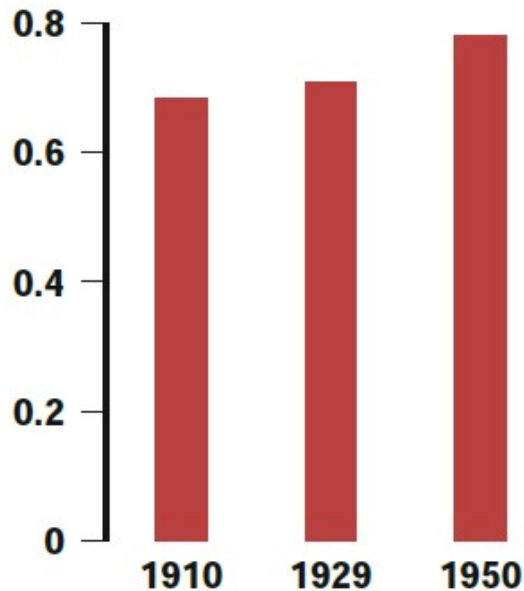
a. THE RETREAT INTO NATIONALISM: 1914-45

- 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.

a. THE RETREAT INTO NATIONALISM: 1914-45

Figure 1.3 Worldwide household inequality, 1910-50

Mean log deviation



Source: Bourguignon and Morrisson (2001).

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

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.

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

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

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

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

a. ECONOMIES OF AGGLOMERATION

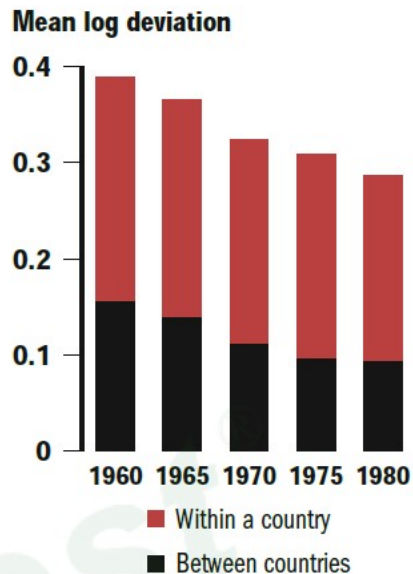
- Most of developing countries didn't participate in economic integration of global manufacturing and service trade.
 - Trade barriers in developed countries
 - Poor investment climates in developing countries
 - Anti-trade policies in developing countries
- These reasons made them depended on only primary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

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.

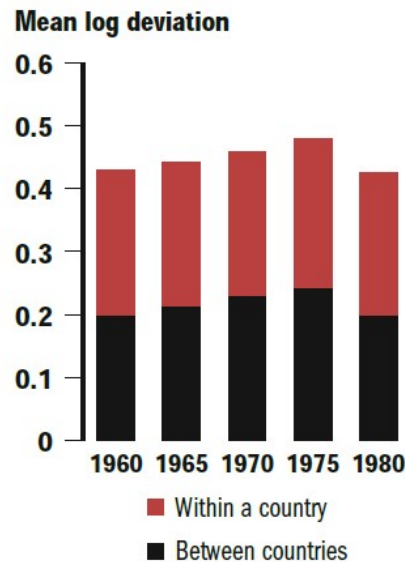
b. THE EFFECT ON INEQUALITY AND POVERTY

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

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

Three distinctions

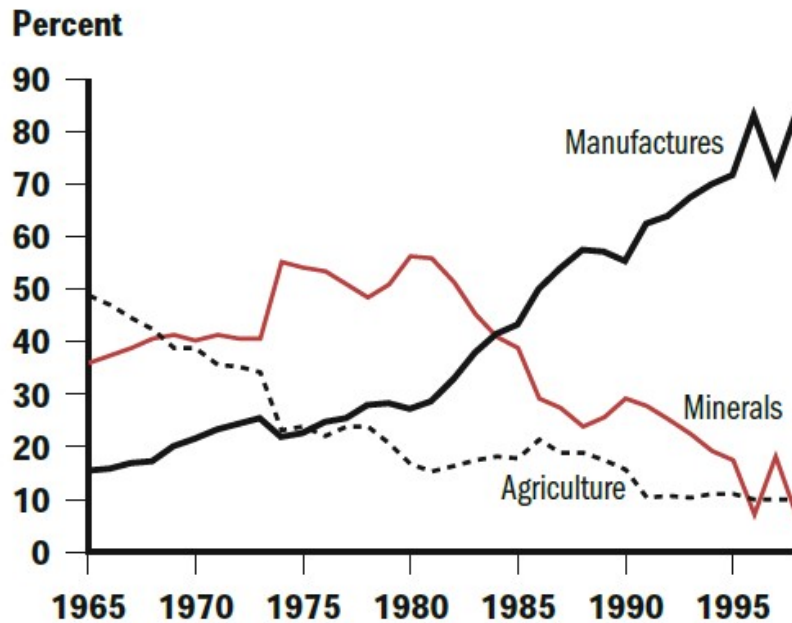
- A large group of developing countries broke into global markets.
- Other developing countries became increasingly marginalized in the world economy and suffered declining incomes and rising poverty.
- International migration and capital movements have become substantial.

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

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).

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

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

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.

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

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 scare resources in the global market, the late comers have nothing to offer to world demand for manufactures.

WHO'S RIGHT?

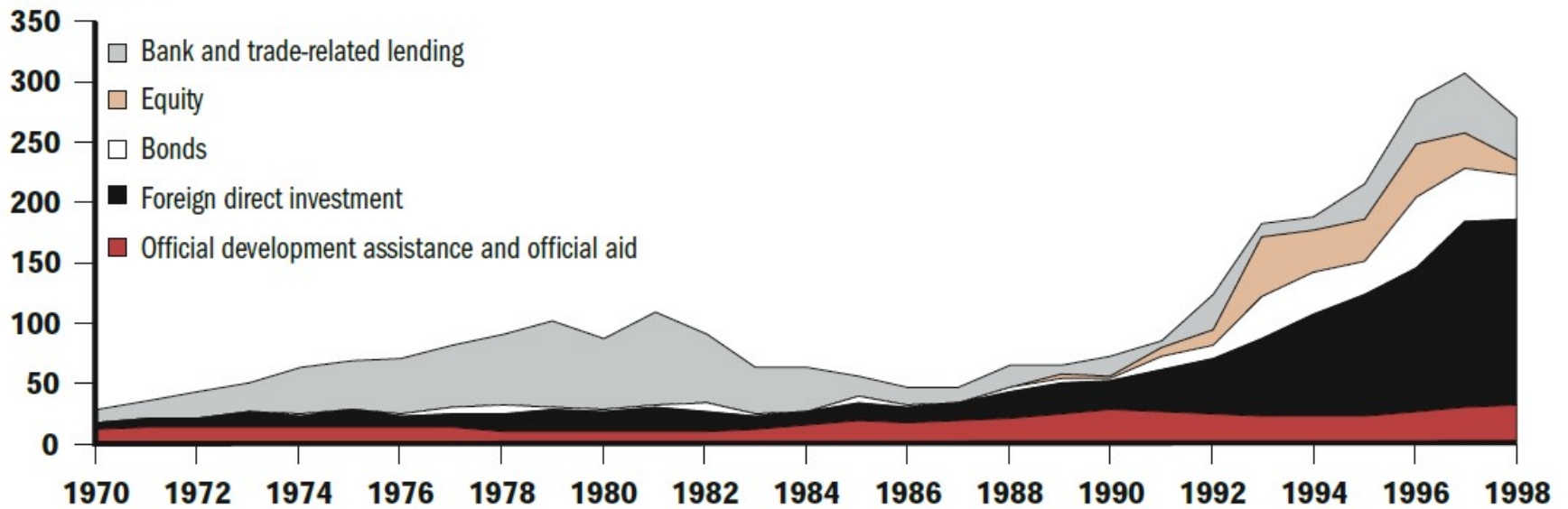
- Discussion

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.

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

US\$ billions

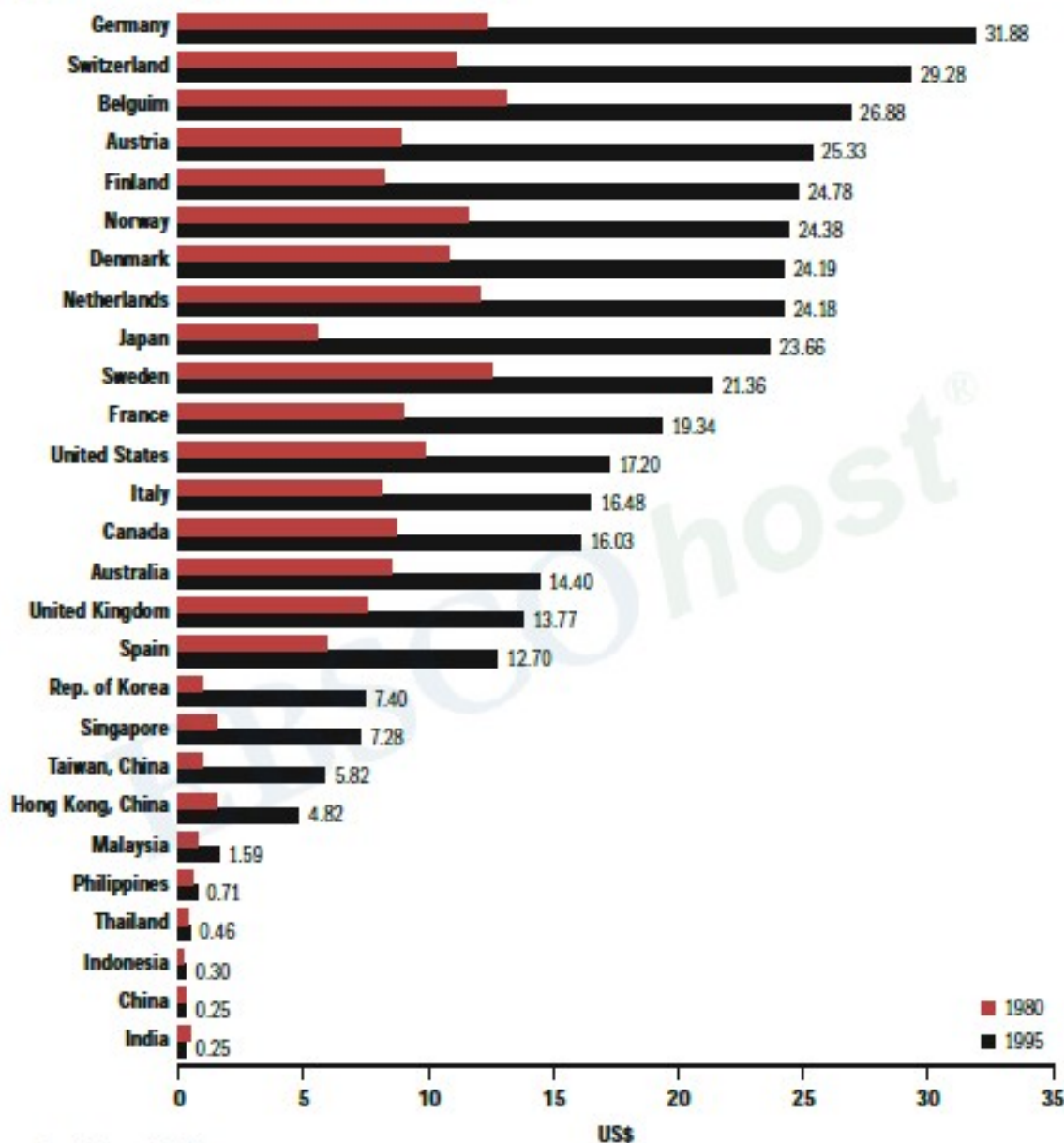


Source: Schmukler and Zoido-Lobaton (2001).

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

Figure 1.14 Hourly labor costs in manufacturing



Source: Statler (2000).

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

- Discussion

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.