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”

- “The spread of free-market capitalism to virtually every country in the world”

- “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

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’
- ‘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’
The contemporary experience of globalization has been associated with a decline in world poverty.

- The percent 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.

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

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

- US
- EU
- Japan
- Other advanced economies
- Other Asia
- Mexico
- Brazil
- Other LDCs
- Singapore
- HK
- China

Multinationals generally pay higher wages to workers in poor countries than local firms do.

<table>
<thead>
<tr>
<th>Host country income</th>
<th>Average wage paid by MNC affiliates (US$’000)</th>
<th>Average domestic manufacturing wage (US$’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>32.4</td>
<td>22.6</td>
</tr>
<tr>
<td>Middle</td>
<td>9.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Low</td>
<td>3.4</td>
<td>1.7</td>
</tr>
<tr>
<td>All</td>
<td>15.1</td>
<td>9.9</td>
</tr>
</tbody>
</table>

**Ratio of wages paid by MNC affiliates to domestic wages**

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

<table>
<thead>
<tr>
<th>Number of transnational companies (TNCs)</th>
<th>Value added as a pc of world GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
</tr>
<tr>
<td>Top 10</td>
<td>1.0</td>
</tr>
<tr>
<td>Top 20</td>
<td>1.8</td>
</tr>
<tr>
<td>Top 50</td>
<td>2.9</td>
</tr>
<tr>
<td>Top 100</td>
<td>3.5</td>
</tr>
</tbody>
</table>

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

**Tax revenues as a percentage of GDP: OECD countries**

Developing economies have been destabilized by massive swings in capital flows

Net private capital flows to developing countries

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

<table>
<thead>
<tr>
<th>Elimination of post-Uruguay Round agricultural trade distortions imposed by</th>
<th>Would produce annual welfare gains (US$bn) for</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rich countries</td>
</tr>
<tr>
<td>Rich countries</td>
<td>110.5</td>
</tr>
<tr>
<td>Developing countries</td>
<td>11.2</td>
</tr>
<tr>
<td>All countries</td>
<td>121.7</td>
</tr>
</tbody>
</table>

*Memo: gains from eliminating remaining distortions on non-agricultural trade*

18.0 71.7 89.7

Implementation of Cairns Group trade reforms would significantly benefit Australian farmers

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