Trends in economic globalization

- Measurement
  - How far has globalization proceeded?
  - Is globalization a new phenomena?
- What causes globalization?
  - Technology that “shrinks” distance
  - Government policies that allow cross-border transactions

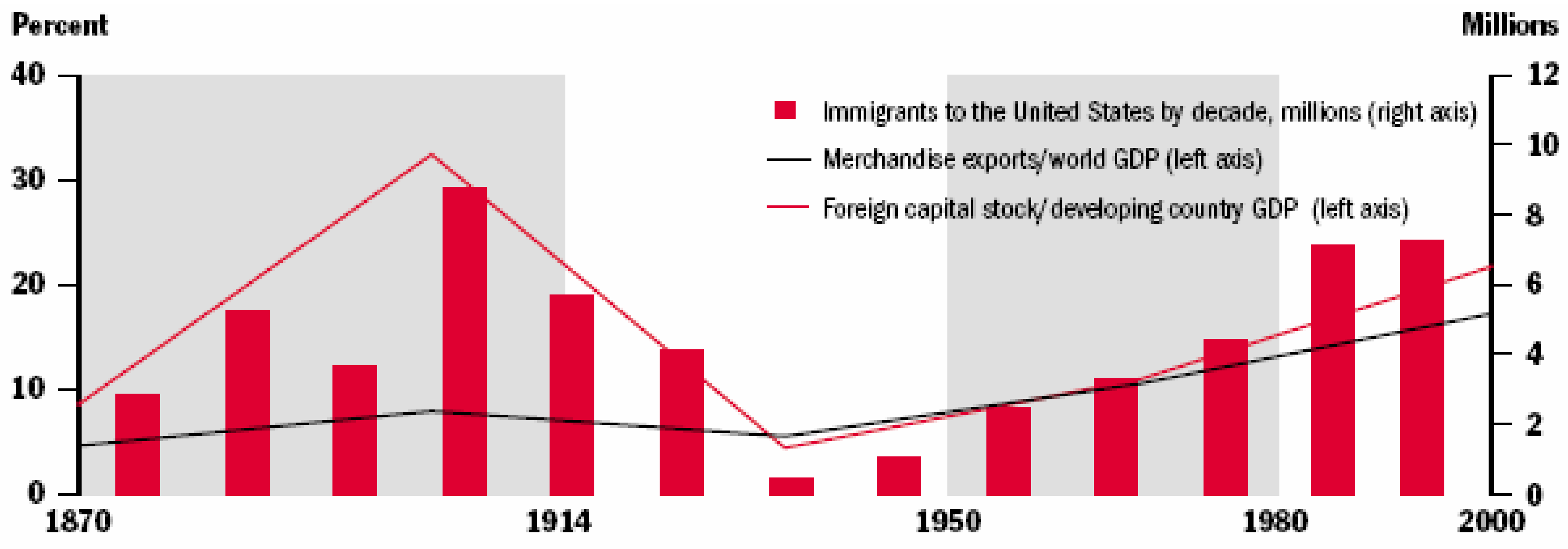
Measuring Globalization

- Two ways to measure it:

1. History. Compare today to previous era of globalization (1880-1913)

2. Complete Globalization. Compare today to hypothetical case of full, or "perfect," global integration

Historical Comparison of Globalization

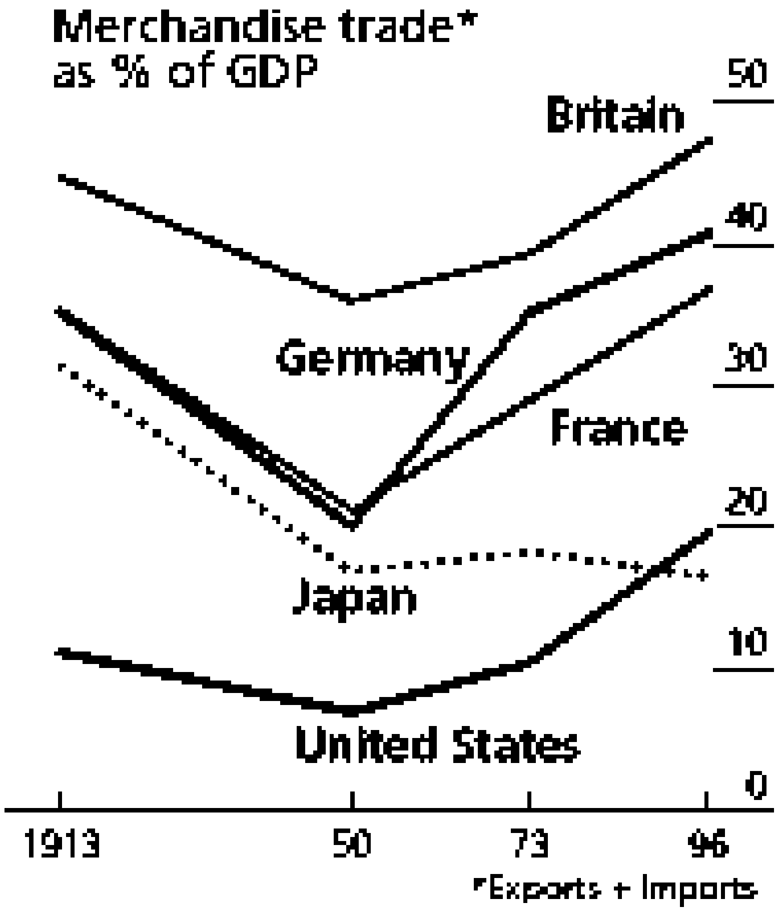


1870-1913 "Golden Age"

1914-1939 "Interwar Backlash"

1945-2008 "Post-War Globalization"

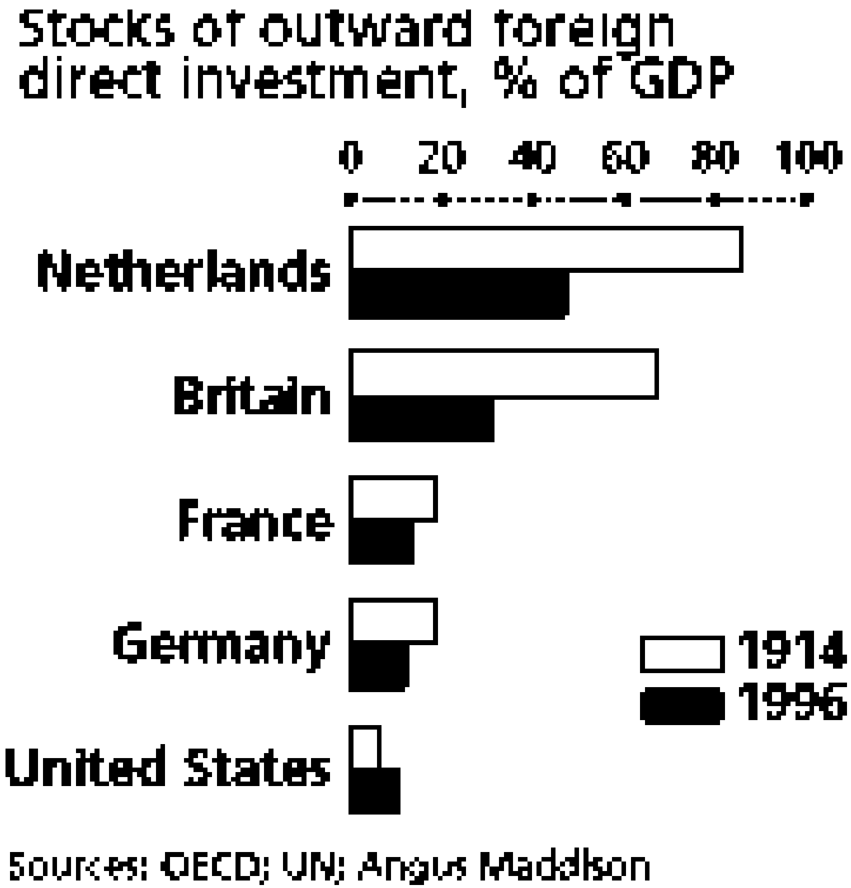
International Trade, Then and Now



- Int'l Trade, as measured by the *trade to GDP* ratio, fell and then increased sharply in most countries.

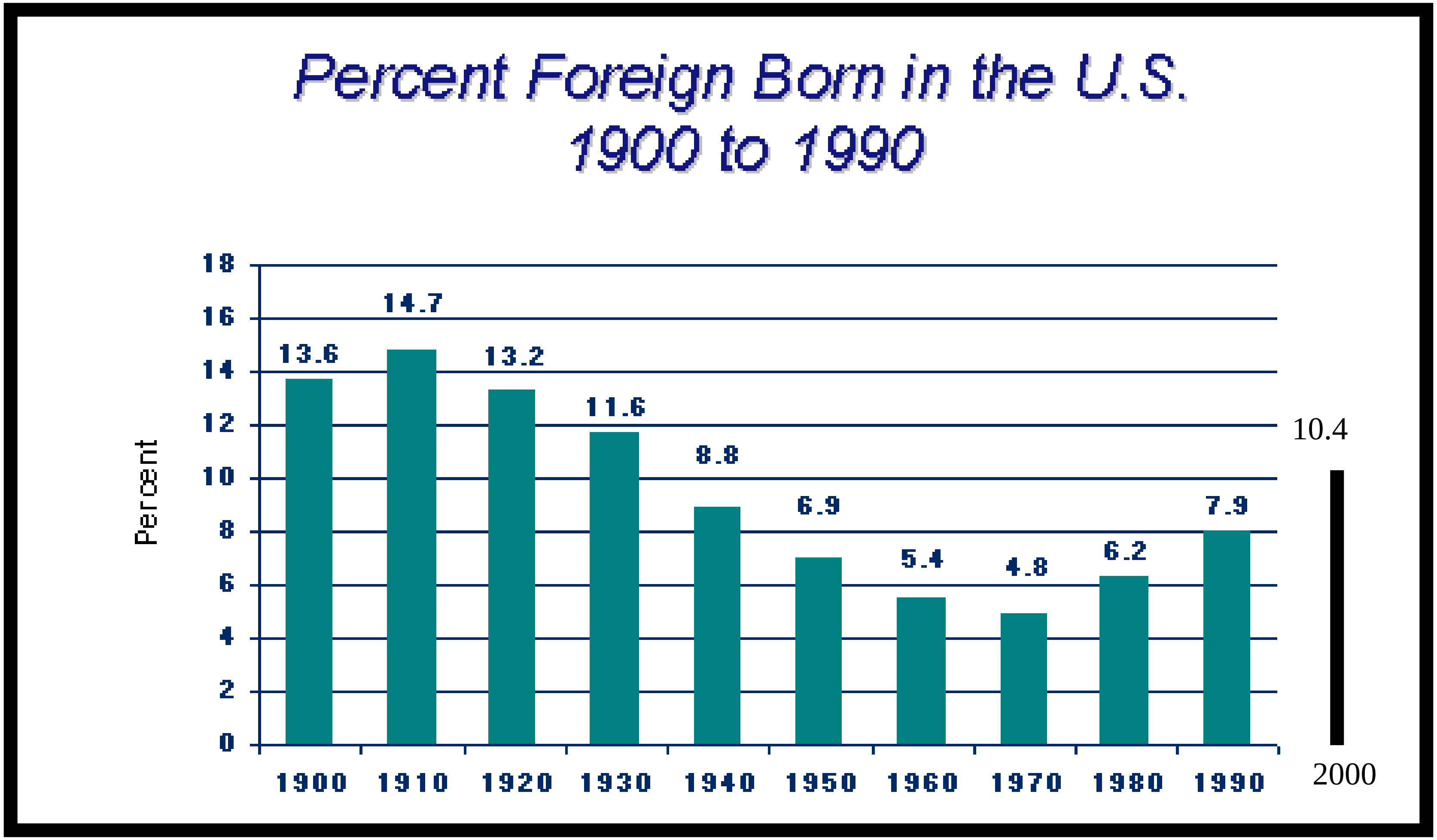
- But Britain and France are only slightly more open to trade today than they were in 1913, and Japan is less open now

Foreign Investment, Then and Now



Most countries engage in <u>less</u> foreign direct investment (what multinational corporations do) today than in 1914

Immigration, then and now



Foreign Born = immigrants (legal permanent residents), temporary migrants (e.g., students), humanitarian migrants (e.g., refugees), and unauthorized migrants (people illegally residing in the U.S.).

Measure against hypothetical case of “complete” globalization

- How would today’s level of globalization stack up to a world where there are zero barriers and zero costs to trade and investment?
- Theory says “**Law of One Price**” would prevail
  - In a world in which there are no frictions whatsoever to impede trade, **prices should equalize**. Why?
  - **Arbitrage**. People would profit by exploiting price differences in different markets until price differences are gone

Deviations from “Law of One Price”

- Evidence is clear that large deviations from law of one price still exist.

- “**Home-Country Bias in Trade**.” Take Trade between Canada and the US:

Home-Bias in Trade

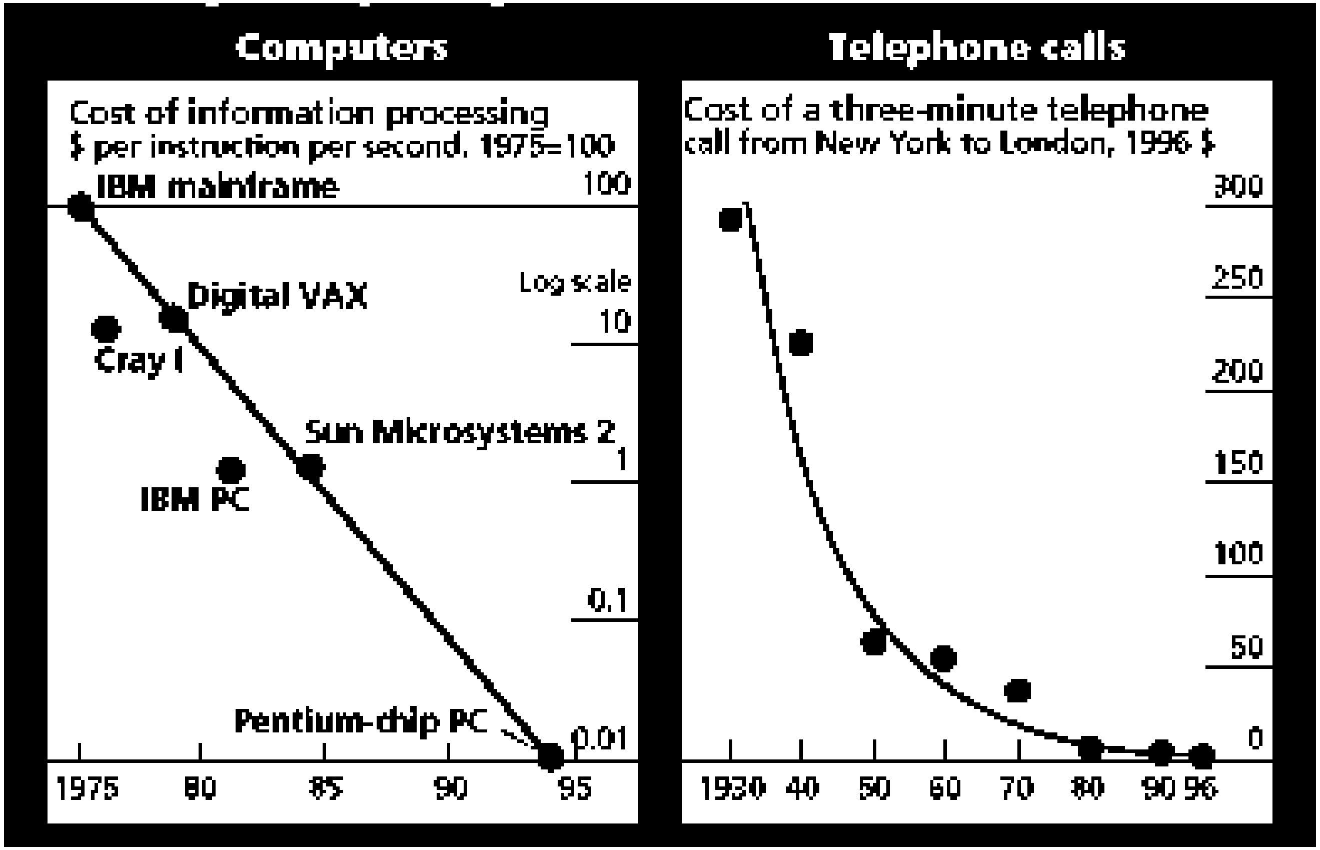
Trade between a Canadian province and a U.S. state is <u>12 to 20 times less</u> than domestic trade between two Canadian provinces

(after adjusting for distance, income levels, etc)

Two Causes of Globalization

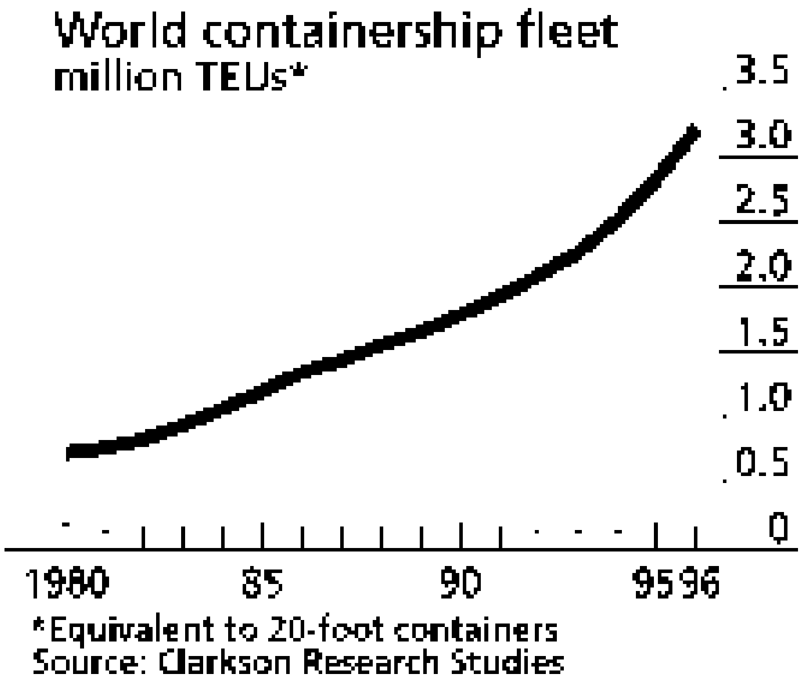
- Technological Change
  - Communications revolution
  - Transportation revolution
- Government Policies
  - Trade policies
  - Capital controls
  - Immigration policies

Technology: Communications Revolution



With the costs of computing & communication falling, the natural barriers of distance (time and space) that separate national markets have been falling too.

Transportation Revolution



Compare “On the Waterfront” to today’s Container Ship

1959: 0.627 tons per man hour

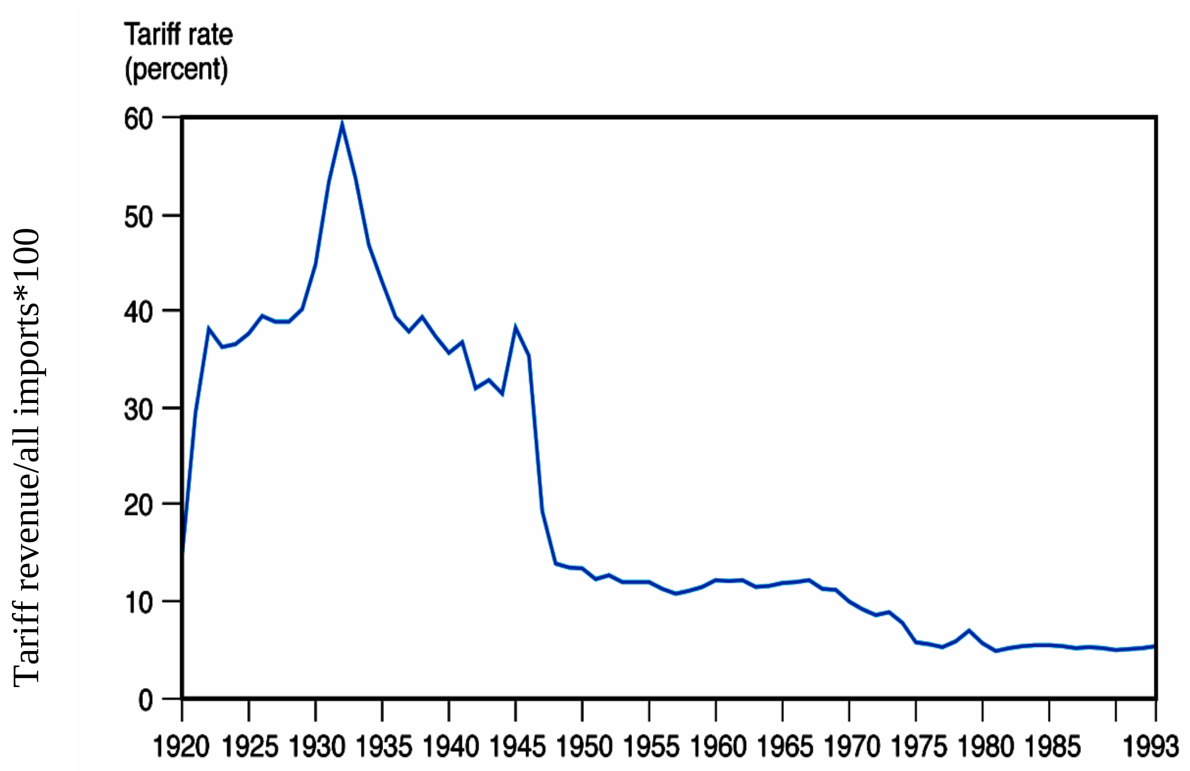
1976: 4,234 tons per man hour

Ship's time in port shrank from 3 weeks to 18 hours.

With containerization, int’l shipping capacity has soared, reducing the price of transporting goods.

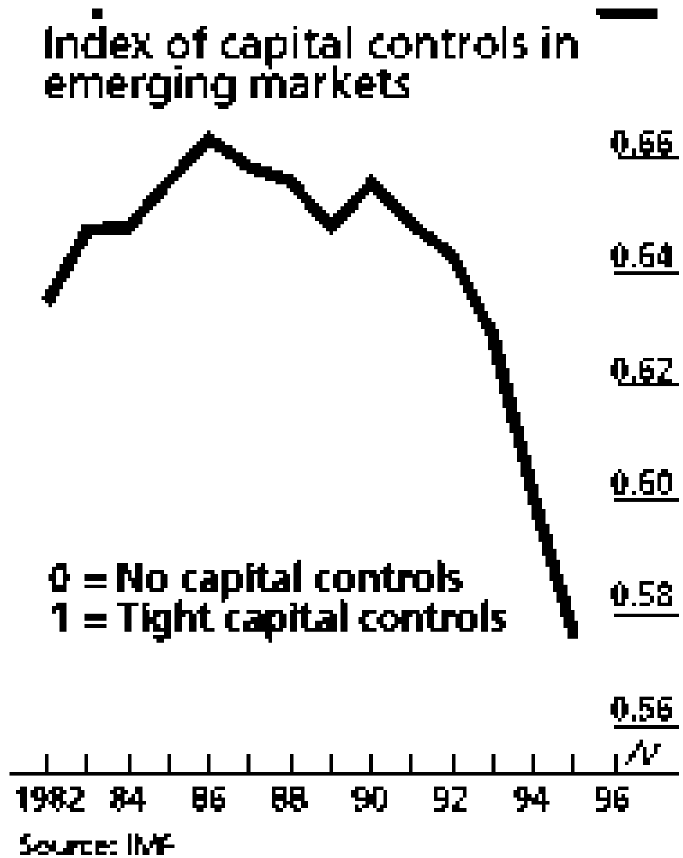
Trade Policy: Tariffs Have Fallen

Average U.S. Import Tariff Rate, 1920 to 1993



The fall in tariffs in the U.S. since the 1930s is indicative of the general trend among developed countries.

Capital Controls have fallen



The number of emerging market countries with tight controls on capital flows has fallen markedly since the early 1990s.

Summary

- Compared to the past (Golden Age), the current era does not look so unprecedented.

- Compared to a baseline of perfect (complete) integration, we are not very globalized at all.