

Globalization: Trends and Consequences

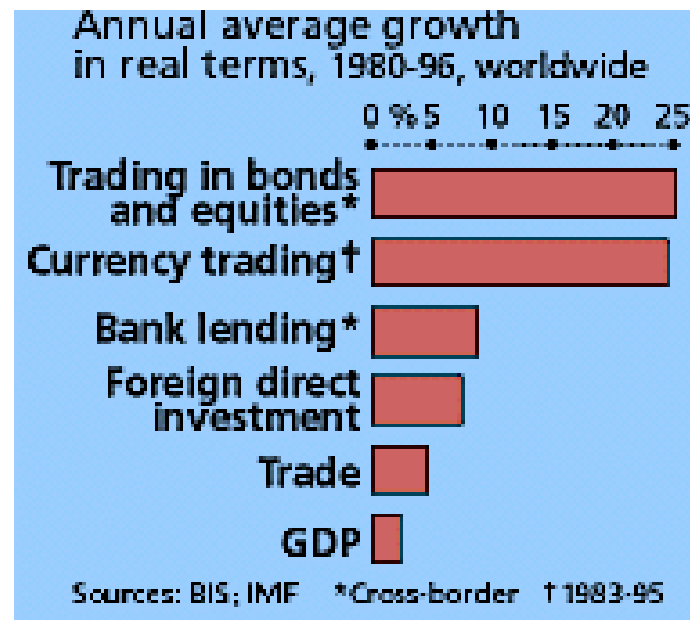
Trends

- How far has economic globalization proceeded?
- How new is the phenomenon?
- What causes globalization?

Consequences

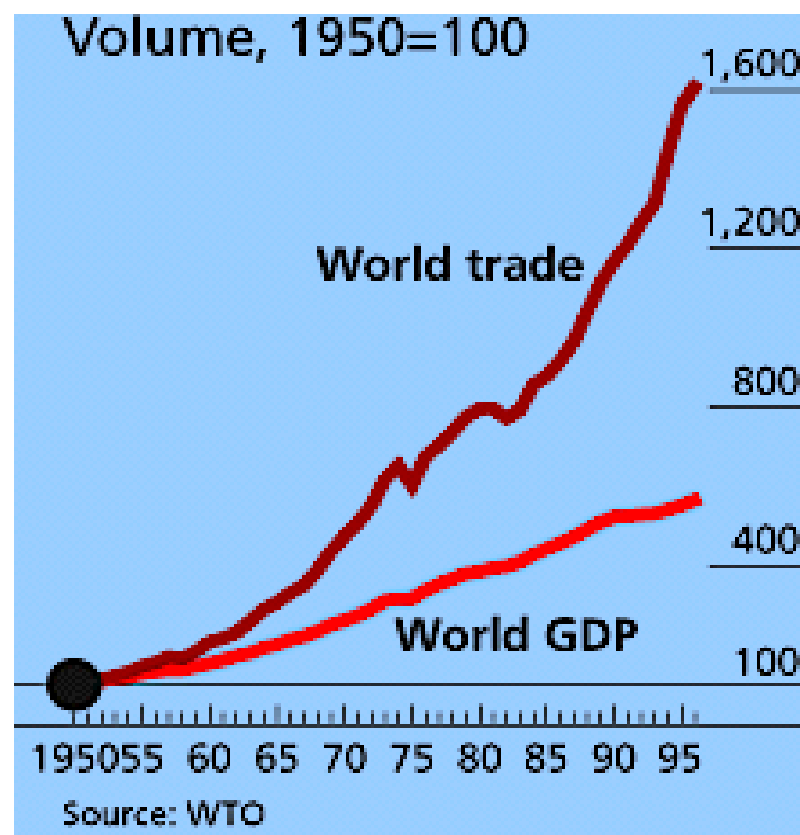
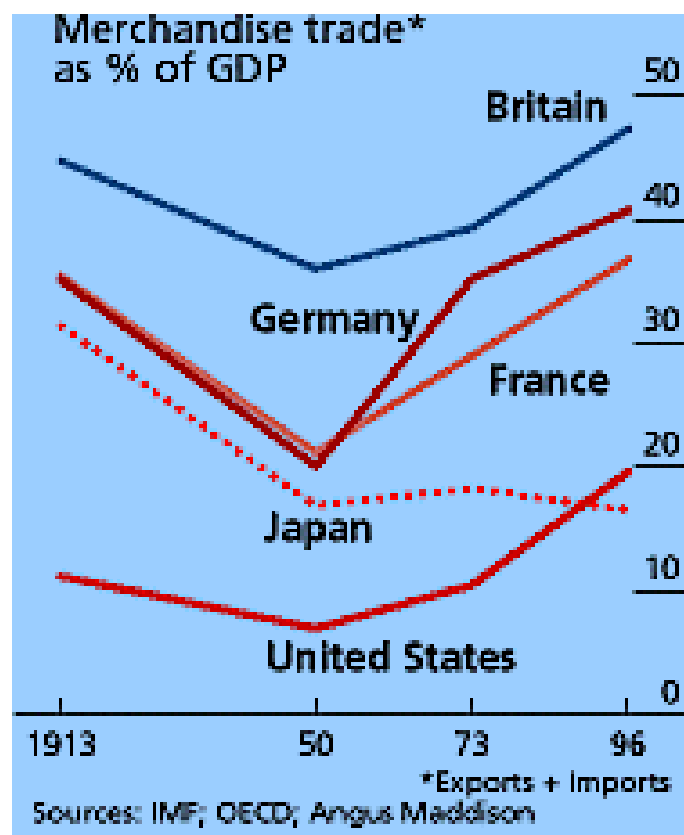
- Does globalization destroys jobs and lower wages?
- Does globalization produce a “race to the bottom” ?
- Does globalization cause financial crises?

Table 1: Change in Cross-Border Activity vs. Change in GDP



Trade has increased twice as fast as GDP, FDI three times as fast, and cross-border trade in shares ten times as fast.

Figure 1: Back to the Future in Int'l Trade?



Goods market integration, as measured by the *trade to GDP* ratio, has increased sharply in most countries since 1950. But Britain and France are only slightly more open to trade today than they were in 1913, and Japan is less open now. Since about 1960, world trade has far outpaced world output.

Figure 2: Developing Countries Open Up to Foreign Capital

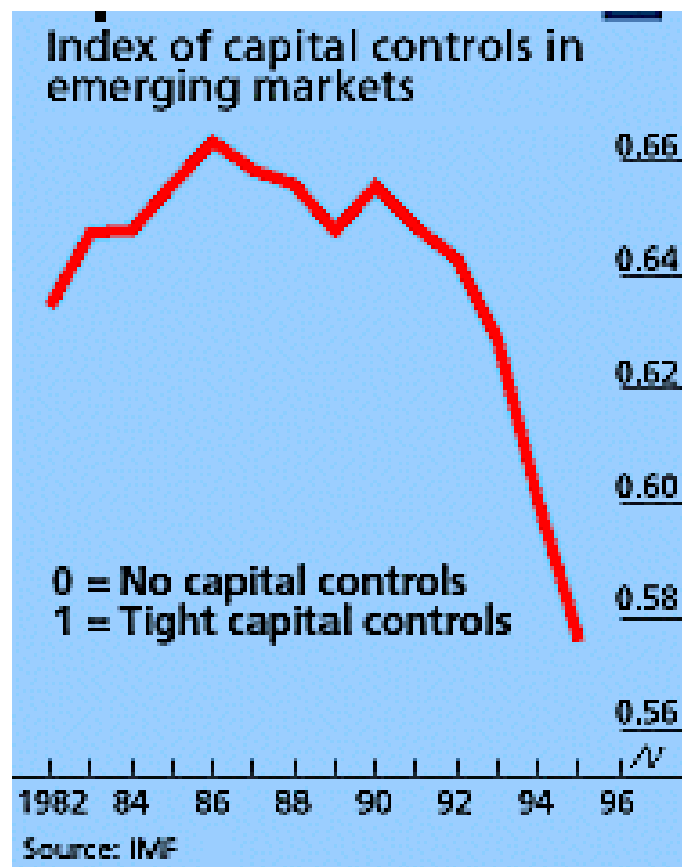
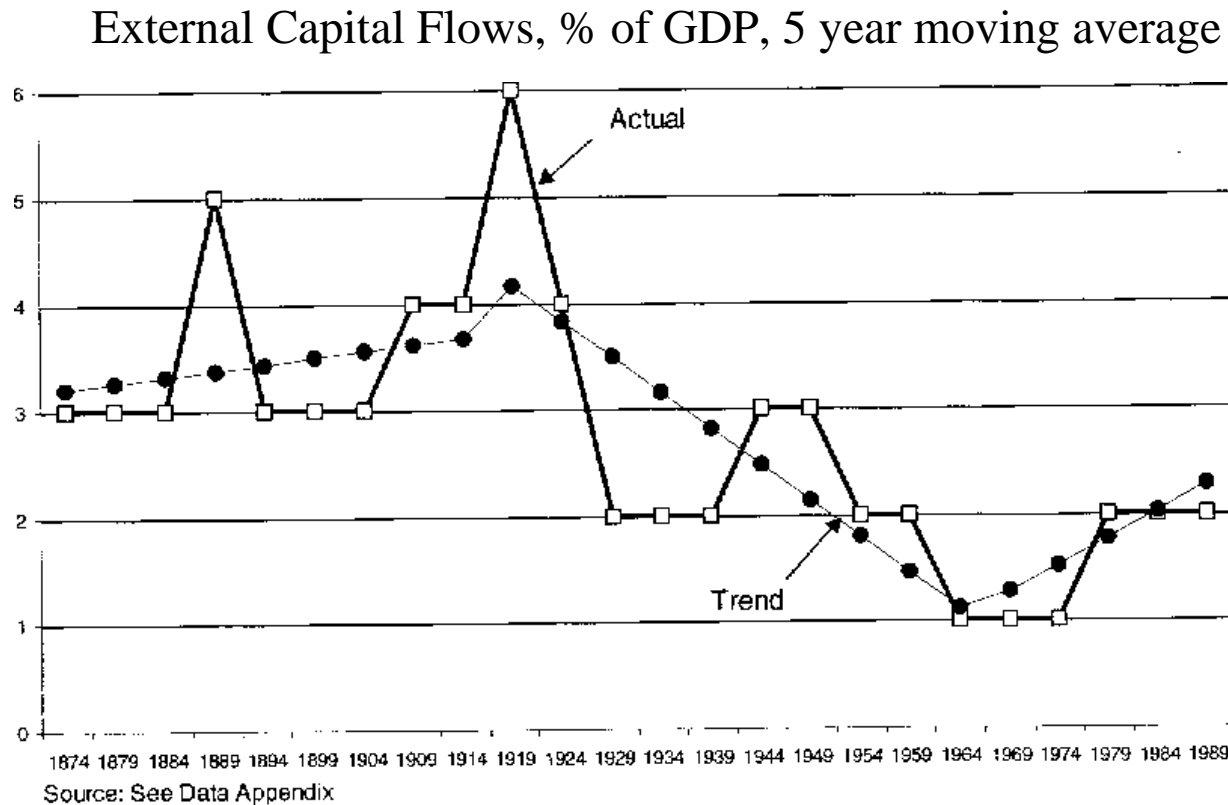


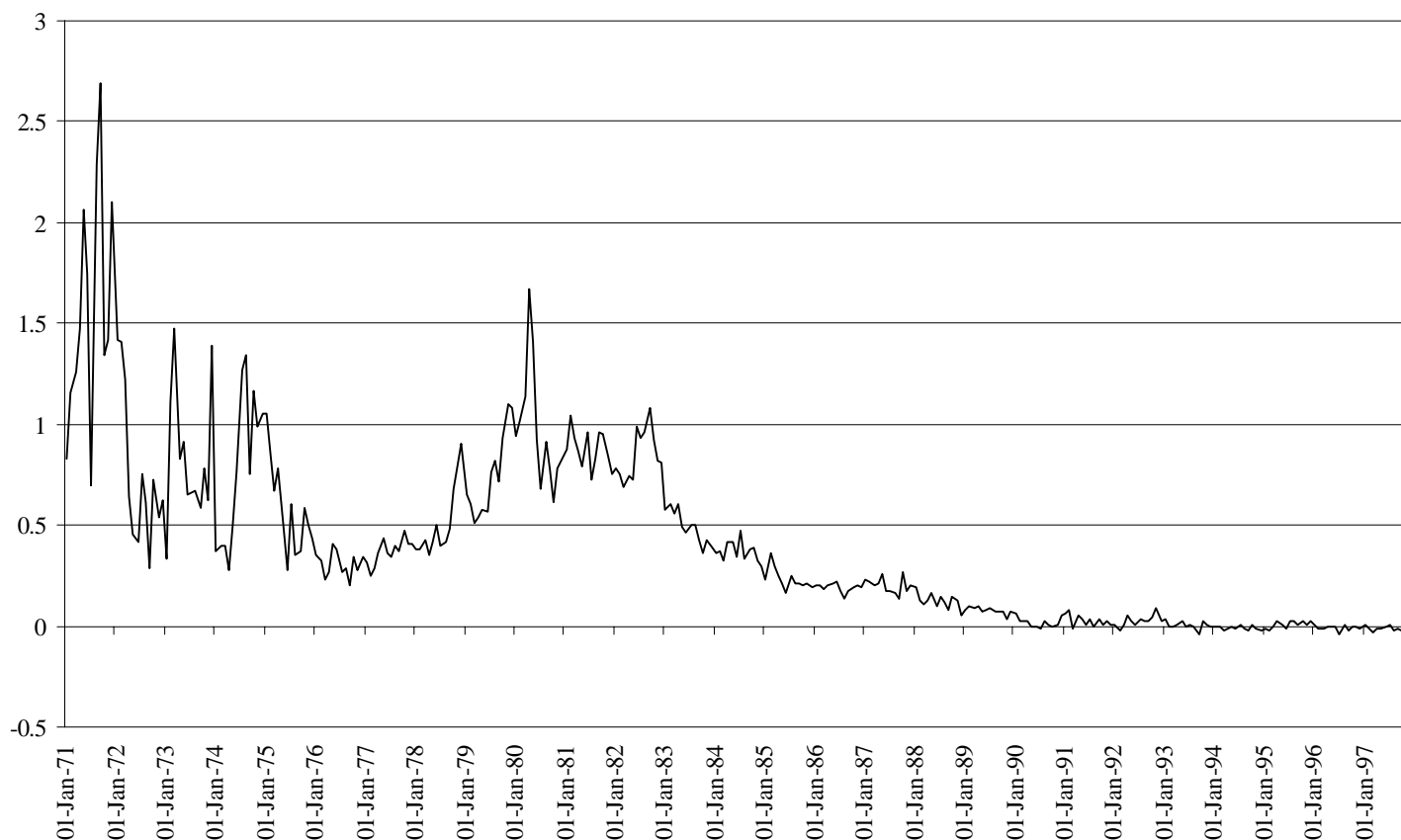
Figure 3: Back to the Future in Global Finance?



Before 1914, massive amounts of capital flowed from Europe to rapidly developing regions in the Americas and Australasia.

Figure 4: Covered Interest Parity Test of Capital Mobility

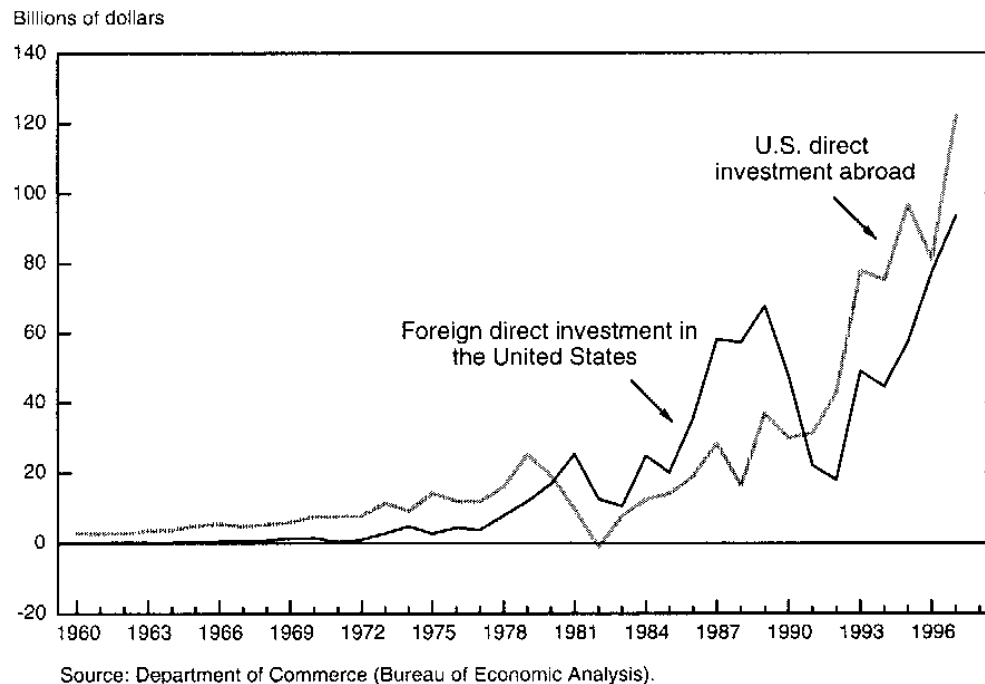
Differential in Offshore - Domestic Rates of Return, 1971-97 (percent)



Offshore = 3-month Eurodollar deposit bid rate. Domestic = 3-month CD rate in NY. Federal Reserve Board.

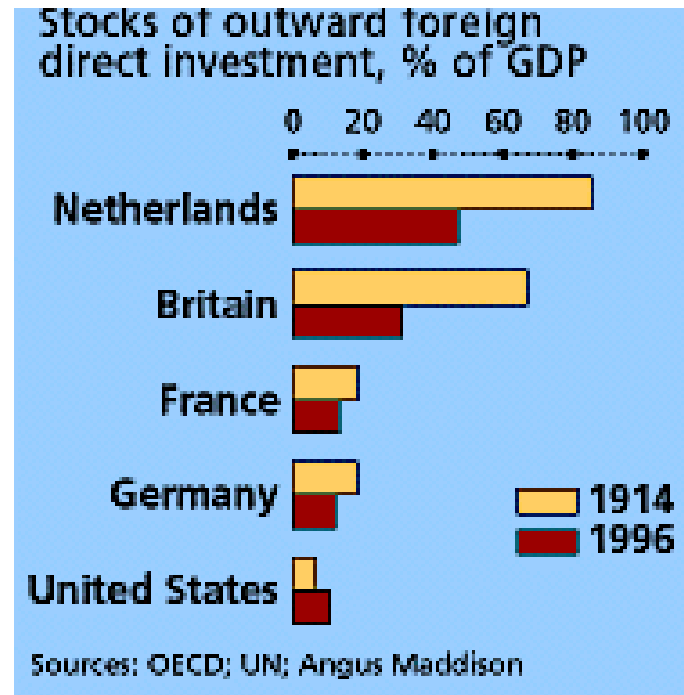
Figure 5: Multinationals Flourish

Foreign Direct Investment Flows, 1960-1997



FDI involves the control of businesses or property across national borders.

Figure 6: Multinationals: Then and Now

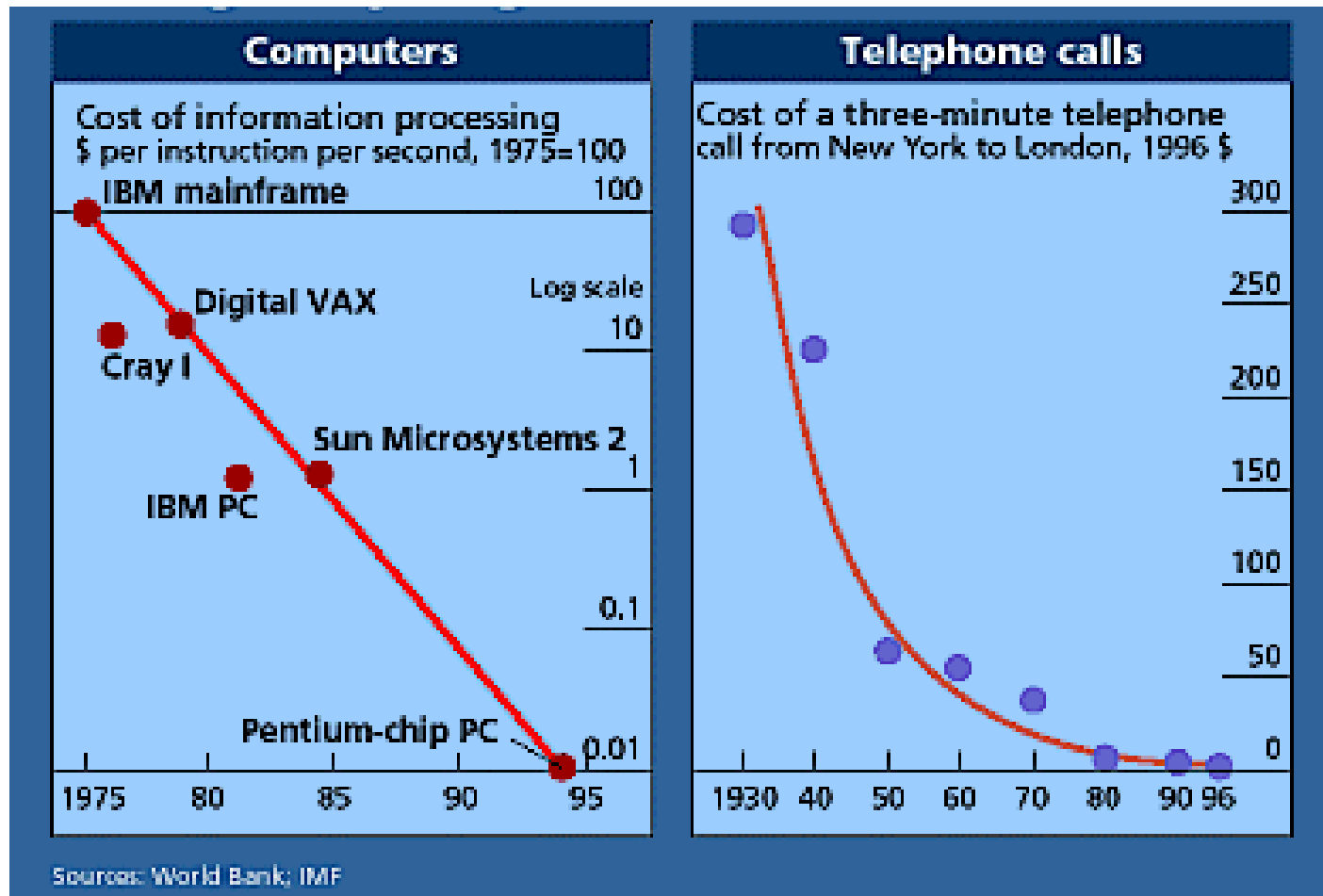


Today, FDI equals about 6% of the total domestic investment of developed economies. European countries' stocks of outward FDI are much smaller (as % of GDP) than in 1914.

Causes of Globalization

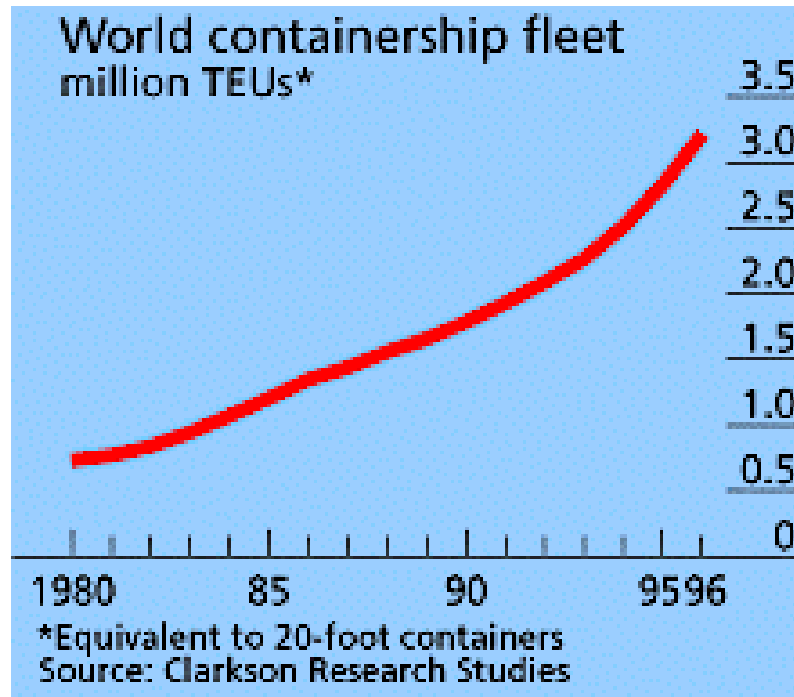
- Technological Change
 - Communications revolution
 - Transportation revolution
- Liberalization
 - Trade barriers reduced
 - Capital controls reduced

Figure 7: Communications Revolution



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

Figure 8: Transportation Revolution



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

Figure 9: Tariffs Have Fallen Dramatically

Average U.S. Import Tariff Rate, 1820 to 1990

