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Globalisation after the Financial Crisis: Structural Change and the Reconfiguration of Economic Geography

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Presentation for 'Globalisation in Crisis?'
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Introduction

- Before GFC globalisation widely seen as inexorable process. Different aspects largely conflated, causes often vague; effects largely benign both between countries (convergence) and within (H-O) – provided appropriate policies pursued. Hyper-globalisation claims “end of geography”, “death of distance”, “borderless world”, “world is flat”
- Some exceptions: sceptics (‘Triad’); critics predicting increased inequality between/within countries
- Developments since GFC have confounded earlier analyses – structural change and reconfiguration of global economy



Outline

1. Globalisation processes
2. A crisis of globalisation since 2007/08?
3. Structural change in world economy –
GVCs, reconfiguration confounding
earlier predictions
4. Beyond the ‘new orthodoxy’



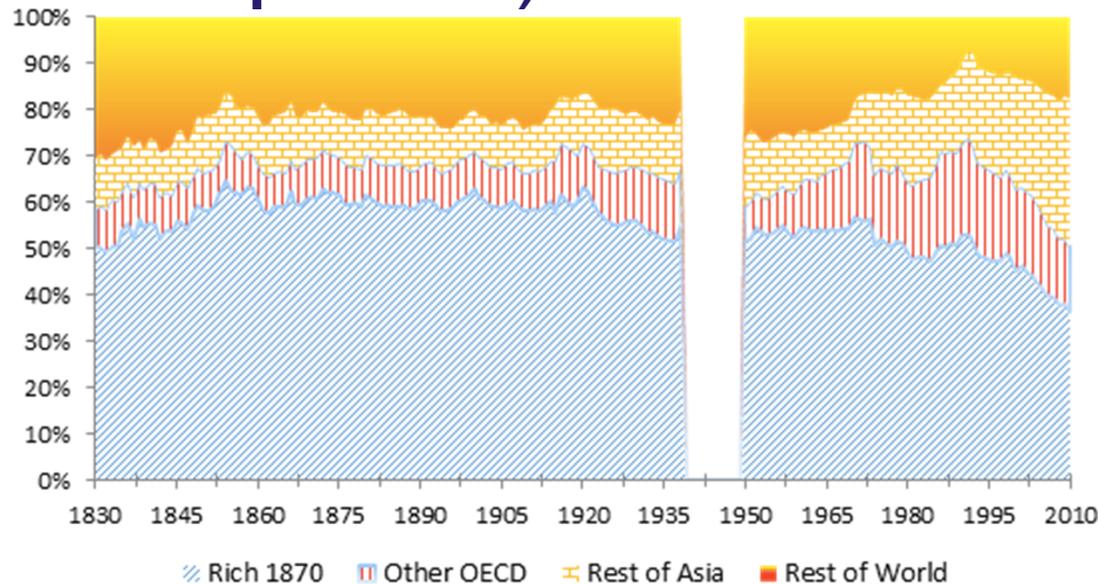
Globalisation Processes

- General rise in key areas – trade, FDI, finance – obscured key differences in drivers and impact. Trade flows and networks more broadly spread; FDI more concentrated. Financial integration remained concentrated
- Historical precedents query technological explanations; key policy shifts in respect of trade, FDI. Recent ‘crisis of globalisation’

Sources: Federico and Tena-Junguito (2016) and UN *Statistical Yearbook*.



Distribution of world exports at current prices 1830-2010 (shares by level of development)



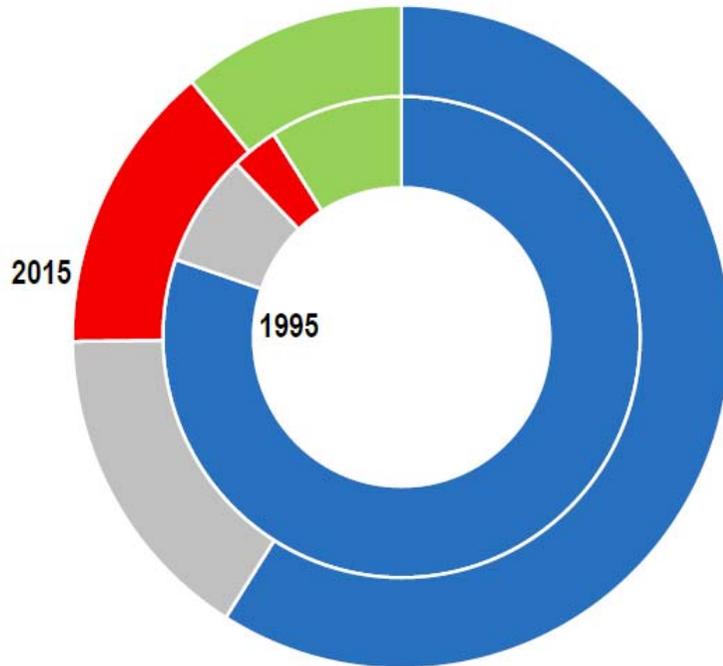


Trade specialisation and patterns have shifted

World goods trade

Share of world goods exports, volumes

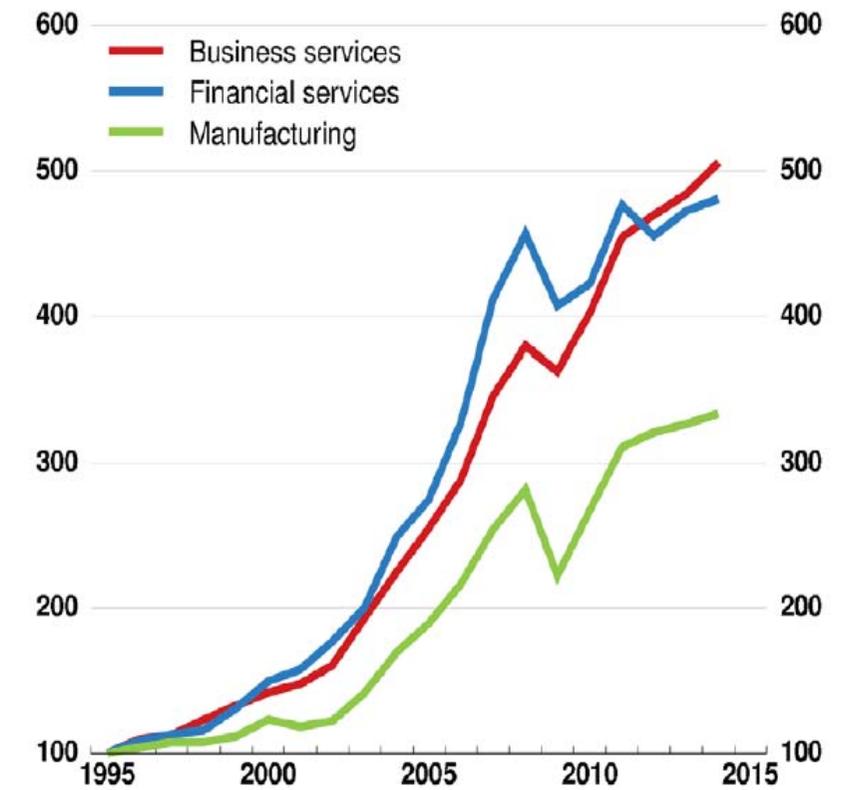
- OECD
- Rest of the World
- China
- Dynamic Asian Economies



World trade by type

Index 1995 = 100 Exports, values Index 1995 = 100

- Business services
- Financial services
- Manufacturing



Note: LHS – Dynamic Asian Economies includes Malaysia, the Philippines, Singapore, Thailand, Vietnam, Chinese Taipei and Hong Kong.



Impacts

- Optimistic country catch-up effects not systematically realised – turns on weighting of China, India.
- Generalised shift to trade openness and WC policies; any payoff to this appears to have become: lower; more uncertain; less beneficial to poorer economies
- Success stories primarily East Asia + India + some CEE countries; no clear convergence elsewhere
- Success stories include countries not clearly open trade regimes, K controls, fin crisis, state capitalism



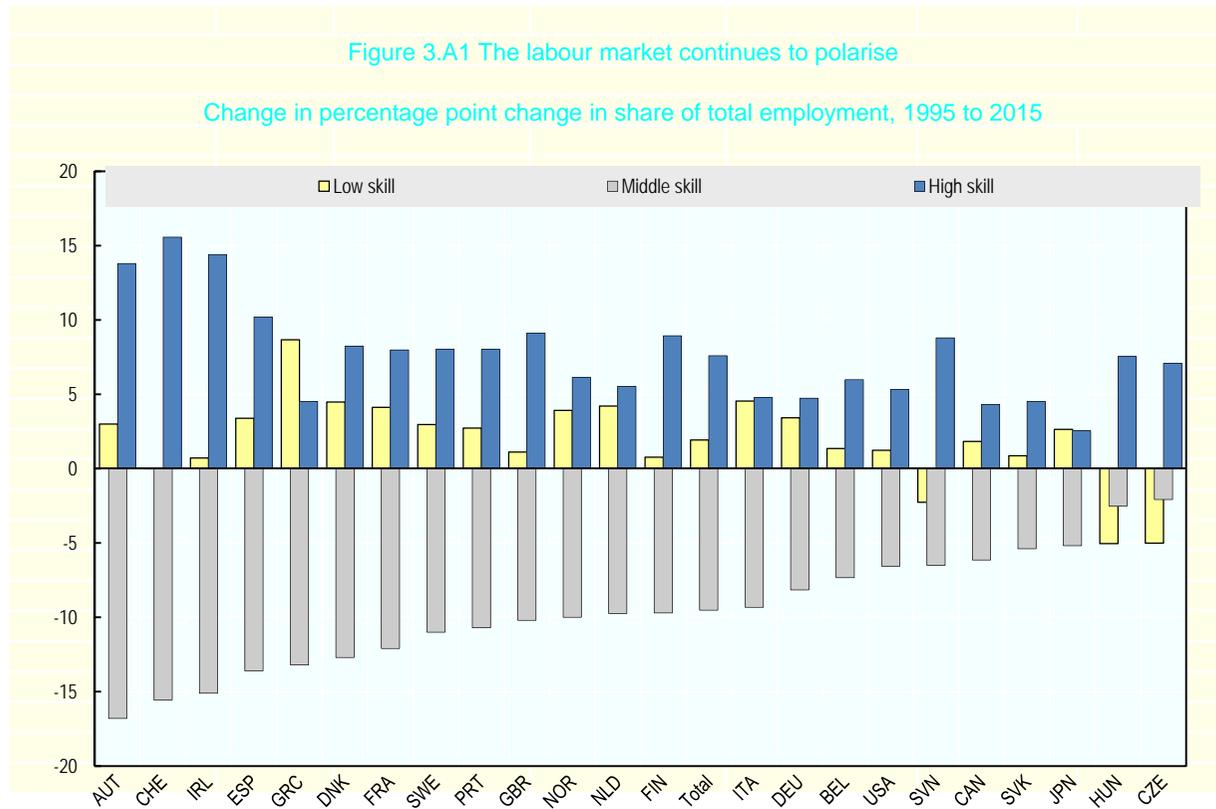
Within Country Impacts

- Early work via H-O etc. predicting \uparrow inequality developed countries (but limited by complete specialisation), \downarrow inequality emerging and developing economies
- Trend of generalised rising within county inequality; globalisation and functional income distribution; developed country effects beyond least skilled



Figure 3.A1 The labour market continues to polarise

Change in percentage point change in share of total employment, 1995 to 2015





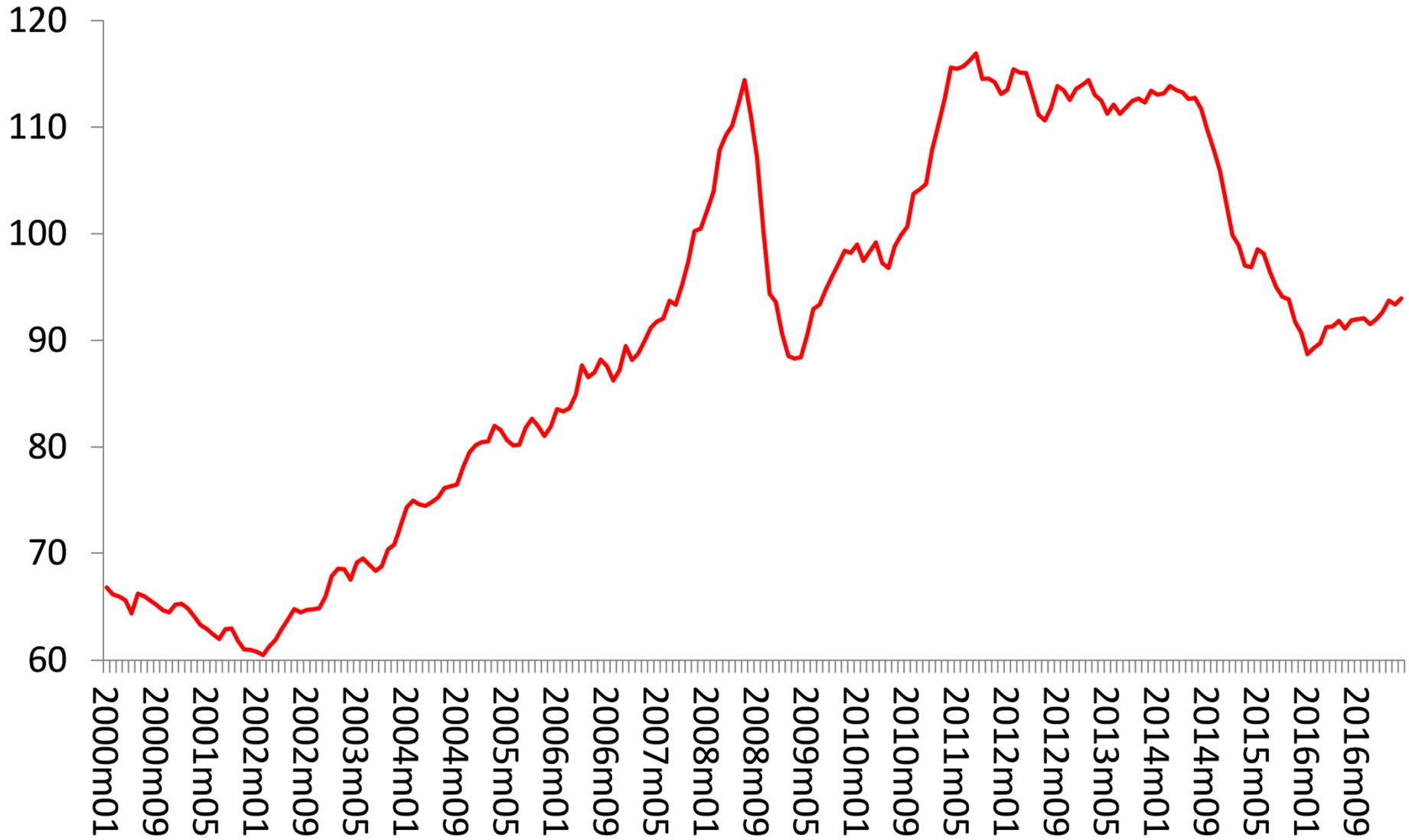
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CRISIS OF GLOBALISATION?



World trade volume index (CPB)



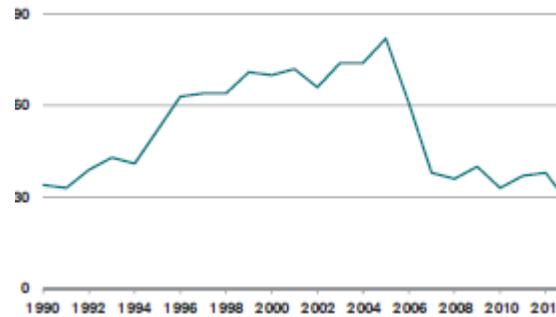


Growth of Non-tariff protection

Figure 18

Countries participating in imposing non-tariff barriers

Number of countries imposing non-tariff barriers



Source: WTO, Credit Suisse

Figure 19

But overall number of non-tariff barriers rising

Number of non-tariff barriers by region

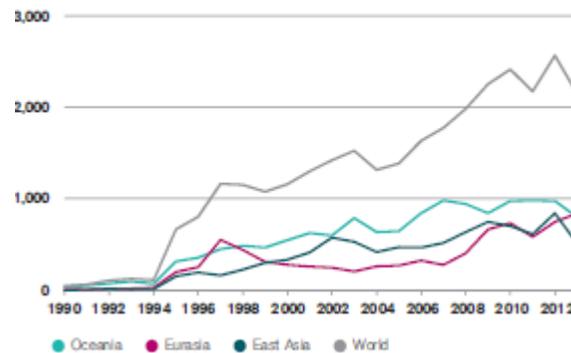
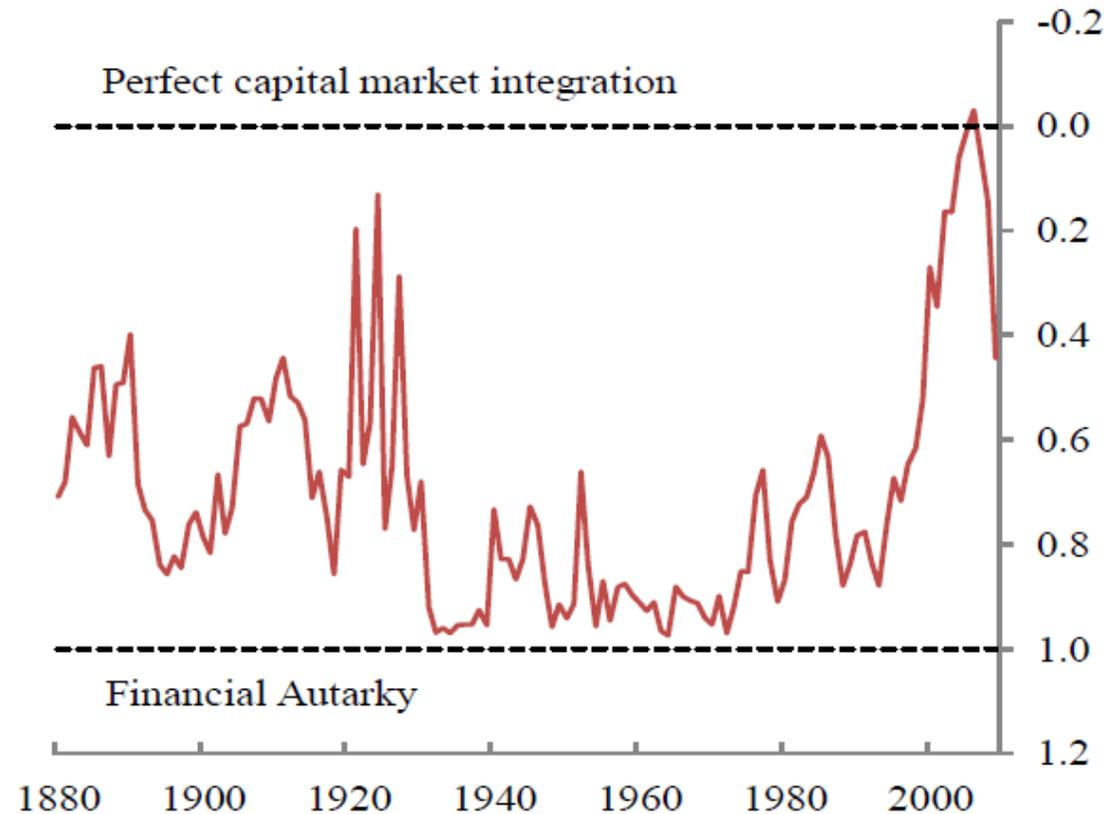




Chart 3: Global capital market integration^(a)

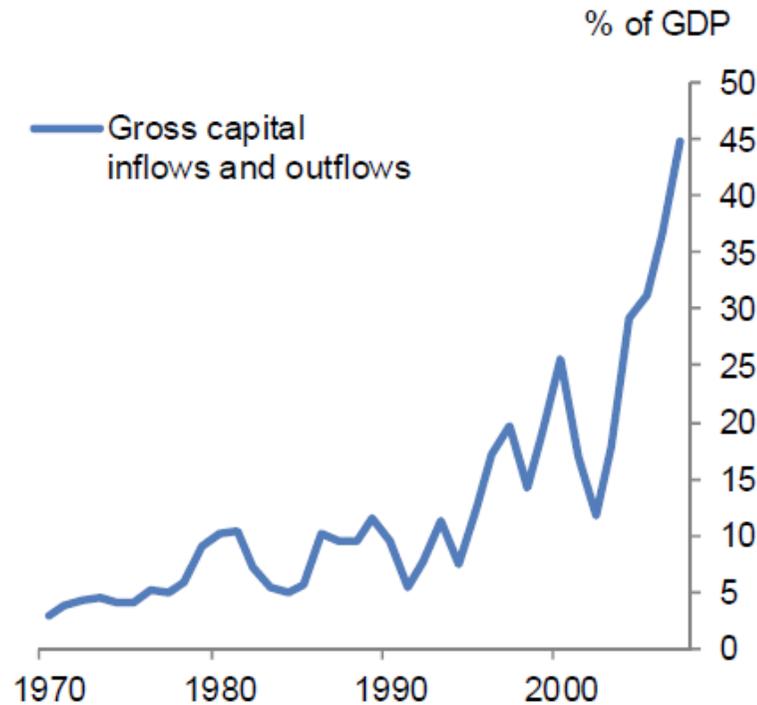


Source: Taylor (2002), IMF WEO, Obstfeld and Taylor (2004) and Bank Calculations.

(a) Global capital market integration is the correlation coefficient between domestic savings and investment for 15 countries (the sample varies slightly over the period)

Growth of Capital Flows

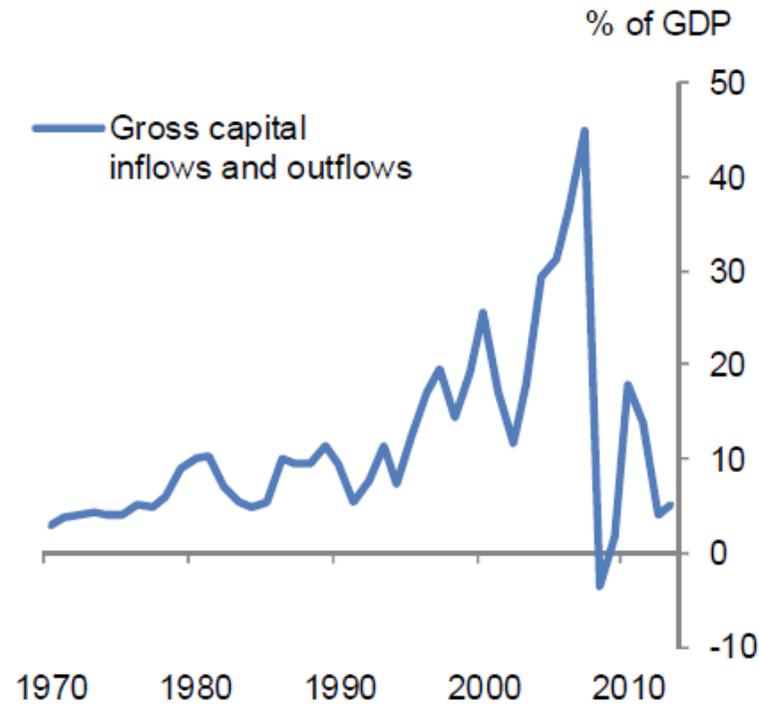
Figure 1a: Gross capital inflows and outflows for selected advanced economies^(a) 1970-2007



(a) Sample of countries: Australia, Austria, France, Israel, Italy, Netherlands, Sweden, United Kingdom, United States.

Source: IMF International Financial Statistics, OECD

Figure 1b: Gross capital inflows and outflows for selected advanced economies^(a) 1970-2013

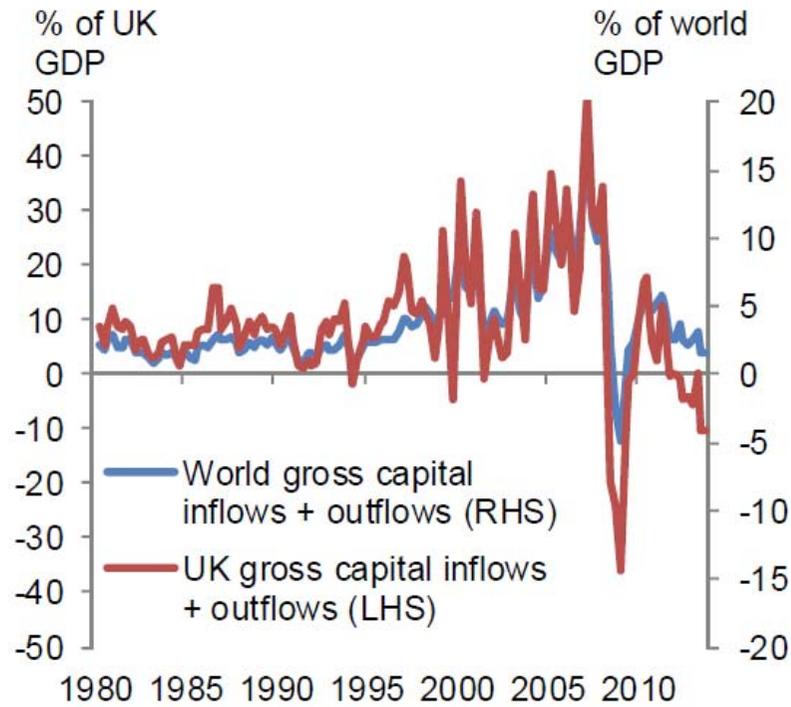


(a) Sample of countries: Australia, Austria, France, Israel, Italy, Netherlands, Sweden, United Kingdom, United States.

Source: IMF International Financial Statistics, OECD

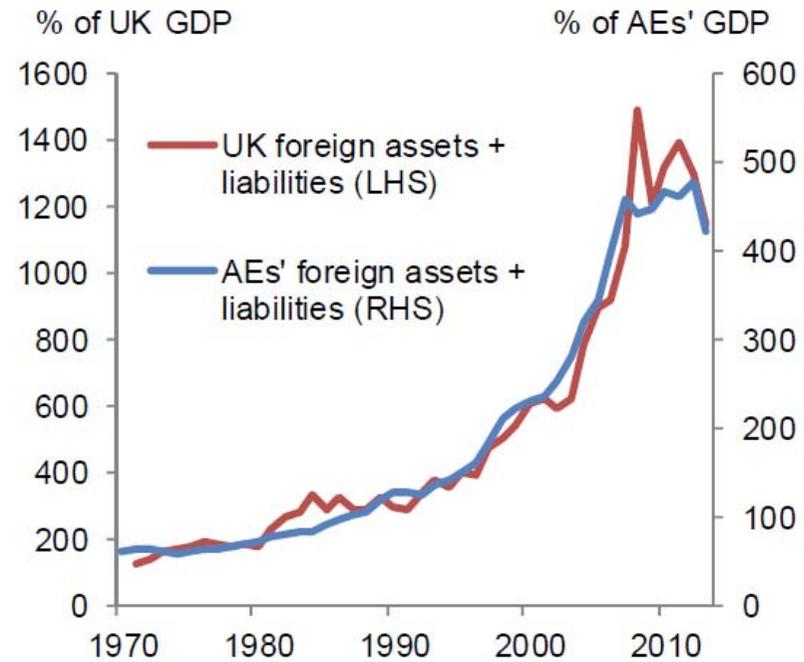


Figure 2: Global gross capital inflows and outflows for world



Source: IMF International Financial Statistics, ONS

Figure 3: Sum of foreign assets and liabilities of advanced economies and UK, scaled by GDP (1980-present)

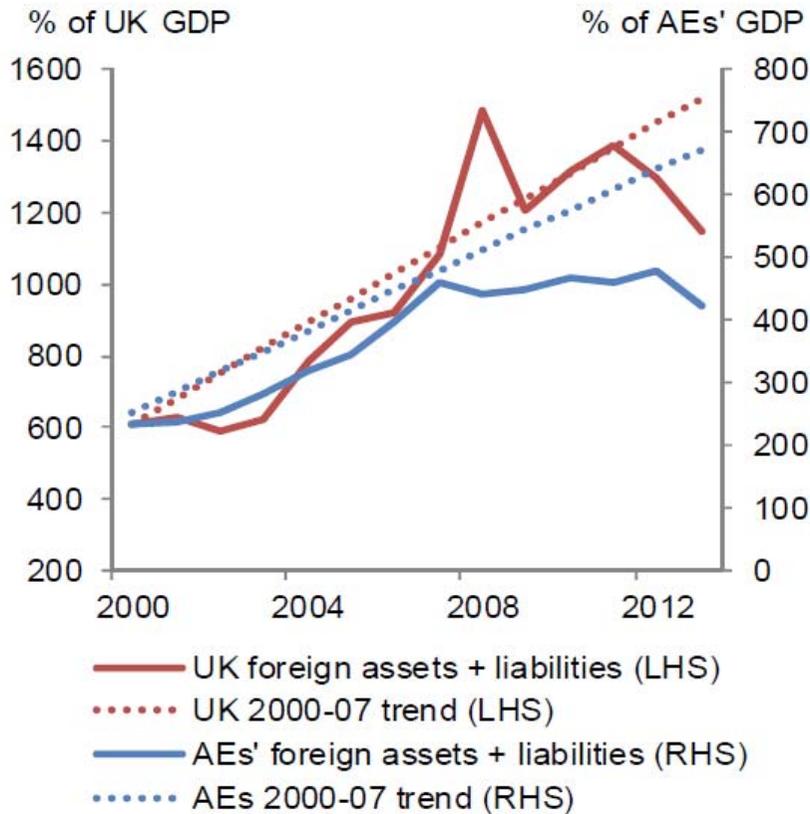


Sample includes 21 advanced economies.

Sources: Lane and Milesi-Ferretti (2007), IMF IFS, IMF WEO, ONS



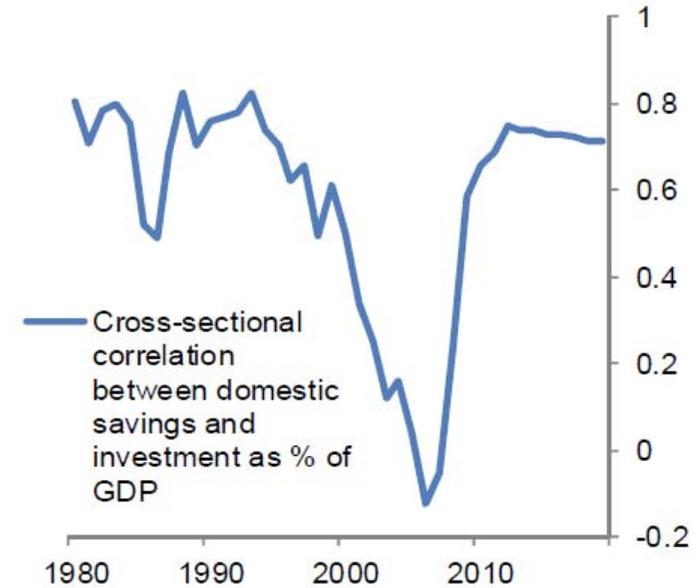
Figure 4: Sum of foreign assets and liabilities of advanced economies and UK, scaled by GDP (2000-2013)



Sample includes 21 advanced economies.

Sources: Lane and Milesi-Ferretti (2007), IMF IFS, IMF WEO, ONS

Figure 5: Home bias in advanced economies



Note: Home bias is greater if the correlation between domestic savings and investment is higher. The correlations from 2014 onwards are based on latest WEO forecasts for savings and investment. Sample of advanced countries includes: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, South Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Taiwan, United Kingdom, United States.

Source: IMF World Economic Outlook October 2014

Retreat from Globalisation?

- Reversal of trade growth, some rising protectionism, some evidence GVC trade growth may have slowed
- Sharp decline in financial flows, largely ↓cross-border banking. Complex emergence of imbalances
- Decline in FDI, some recovery but much of this flowing to financial centres

Backlash prophecies? Possible transition to multi-polar world – GDP trends, but financial US\$ dominance (€, RMB)



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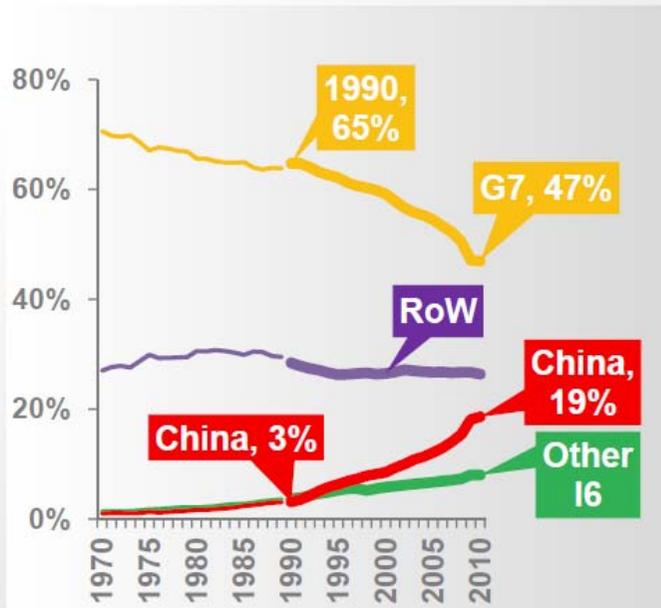
RECONFIGURATION OF GEOGRAPHY: BEYOND THE 'NEW ORTHODOXY'



FACTS

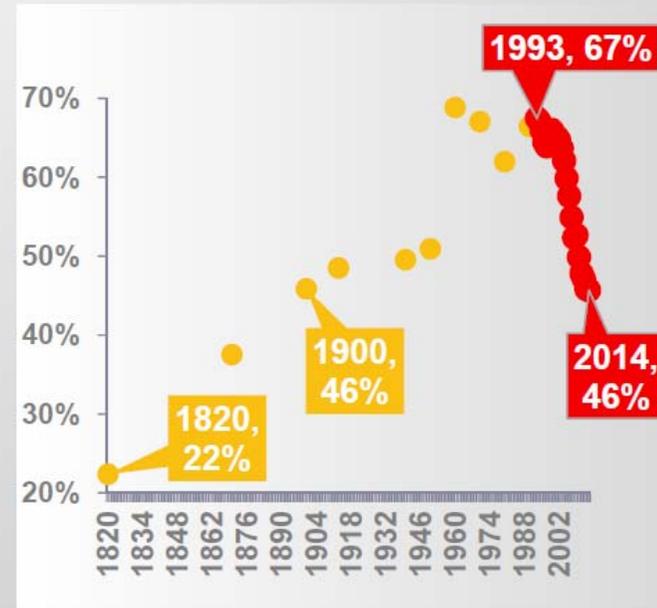
Manufacturing & GDP shares shifted from G7 to a few developing countries

Shares of world manufacturing



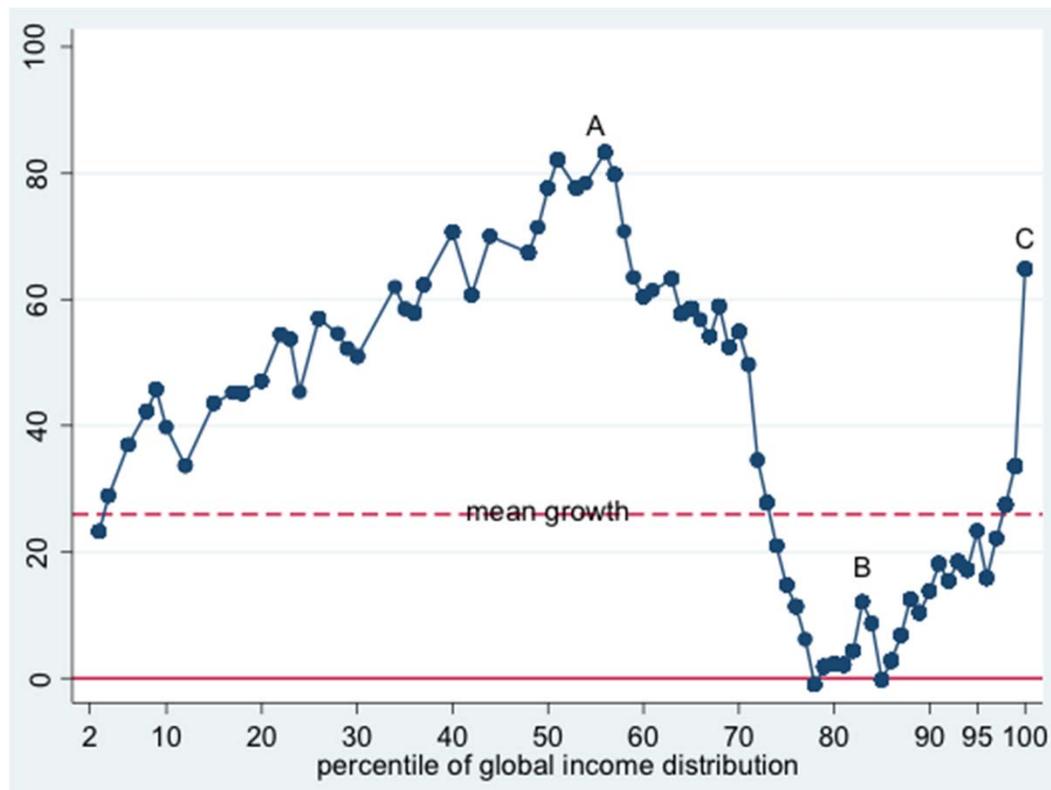
i6: China, Korea, India, Poland, Indonesia, Thailand

G7's share of world GDP





Cumulative real income growth between 1988 and 2008 at various percentiles of the global income distribution (Milanovic)



New Orthodoxy?

- Emerging view of ICTs spread production from developed countries (Baldwin); elephant curve impact on global income distribution (Milanovic)
- Geog concentration of this spread, with v ambiguous relationship to policy. Centrality of K acc to process
- Estimating manf production by ownership rather than location raises G7 VA by 10-30%, lowers EDE shares by 15-30%
- Fall in payoffs – ‘premature deindustrialisation’, lower engine of growth effects, middle income trap

Conclusions

- Globalisation from policy shift and technological changes – industrial revolution through GVCs and ‘great doubling’
- Huge geog variations in this not explained by standard policy packages
- ‘Premature deindustrialisation’ and (probably) peak manf N – global convergence pressures on wages in this sector obscures developments in rest of the economy
- Aftershocks of GFC don’t necessarily point to end of globalisation – EDE resilience, continued Western dominance? Sustainable demand?



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