

Understanding the New Globalization: Implications for the Philippines

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*Presented at: 5th Mindanao Policy Research Forum, Mindanao State University Graduate School,
General Santos City*



Philippine Institute for Development Studies

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Discussion Paper

SEPTEMBER 2019

DISCUSSION PAPER SERIES NO. 2019-08

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Waves of globalization

1 **ST** 19th century - WWI:

- Steamships, railways → *transportation-enabled trade*
- Share of world trade in GDP: 6% in 1800 → 14% in 1914
- Ended by catastrophic conflict and economic depression (1914 – 1945)



Waves of globalization

2ND ▶ *Post-war recovery* (1945 onward)

- Reinvigorated expansion of world trade, despite the chill of Cold War.
- Rebuilding of the international community
- Trade enabled by spread of combustion engine on land (cars, trucks), sea (ships, boats), and air (jet engine)



Waves of globalization

3RD ▶ *Post-Cold War acceleration* (after fall of Soviet Union)

- 3rd Industrial Revolution (ICT) → impetus for Globalization 3.0; facilitating GVCs
- Establishment of WTO, regional free trade areas
- Faster world trade growth (trade = half of GDP by 2000)
- Imports of intermediate goods = 1/5 GDP in 2008
- Unprecedented fall in poverty: 41% - 20% (1981-2005)
- Victory of democracy, capitalism, liberalism: “the end of history”



Waves of globalization

4TH ► *New Globalization*

Characterised by:

- V* *olatility*
- U* *ncertainty*
- C* *omplexity*
- A* *mbiguity*

Foundations of country's current rapid growth laid during late 80s during Third Wave:

Assumptions still valid?



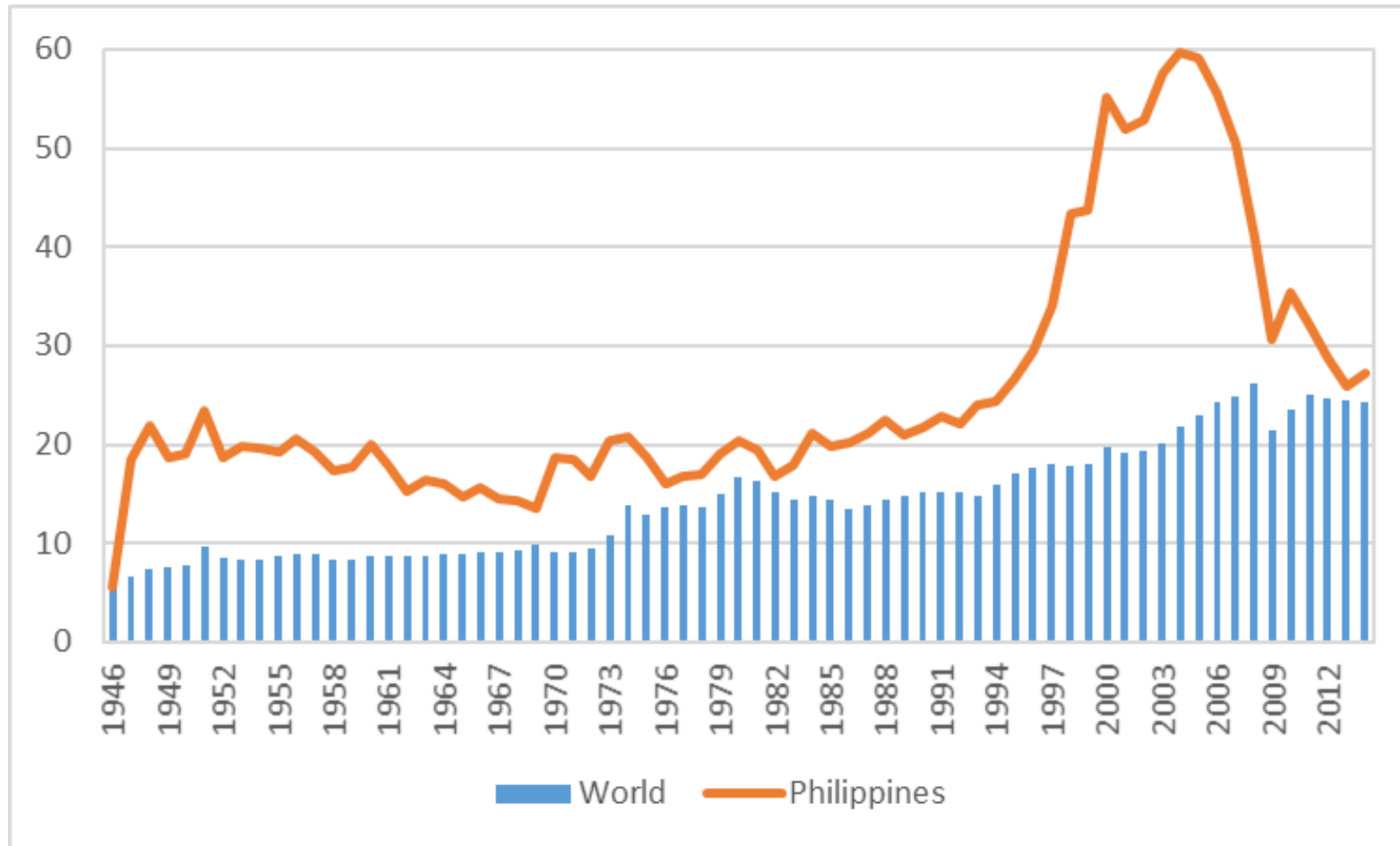
The New Globalization: Key features



1. Global trade restructuring
2. Worsening inequality
3. Challenges to provision of Global Public Goods (GPG) – undermining international cooperation
4. Weakening of social cohesion and trust

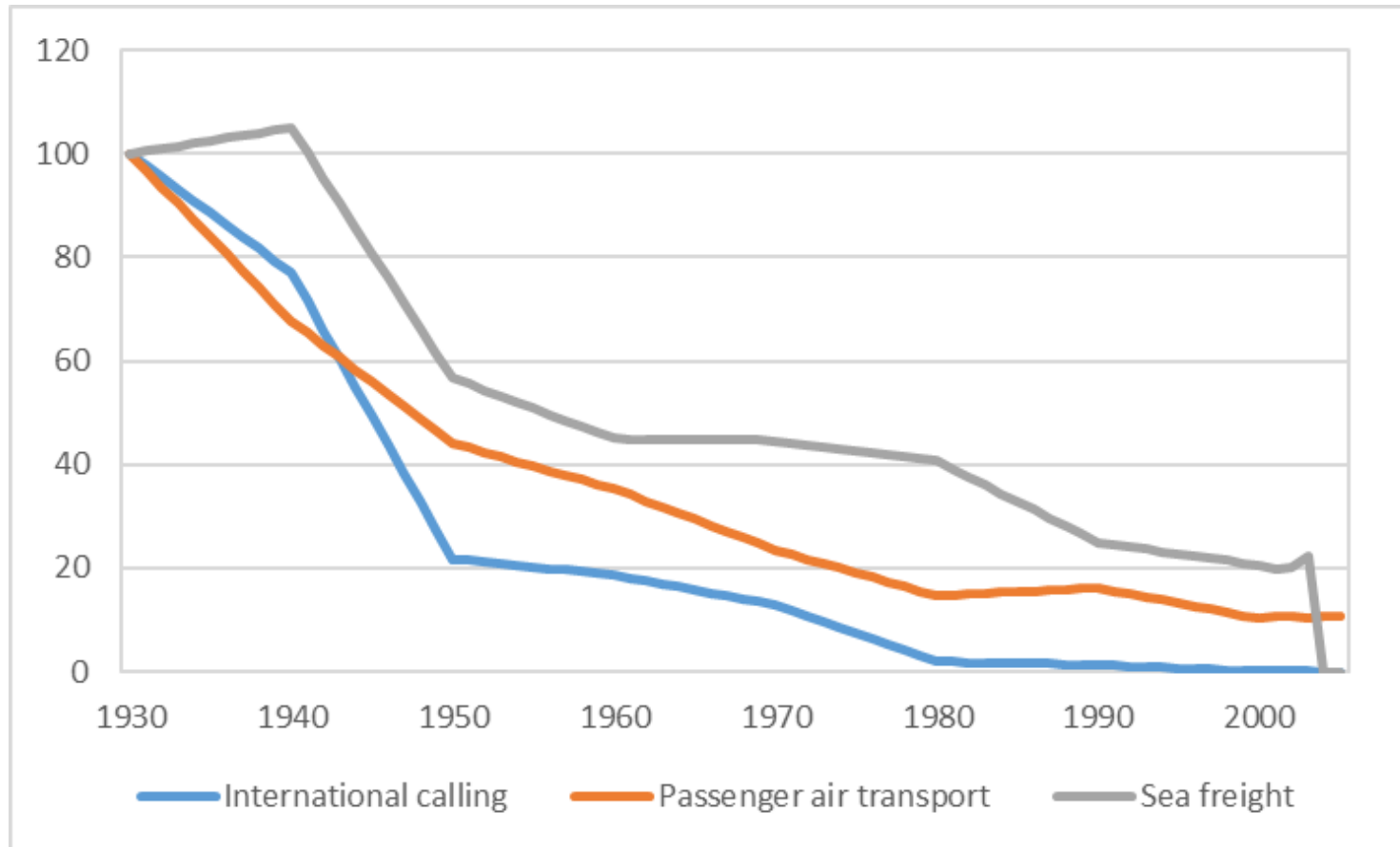
Global trade restructuring

Export-to-GDP ratio, World and Philippines (%)



- Sharp acceleration after World War II: both global, national levels
- Important role of multilateral agreements
- Rise of trade in intermediate goods: production re-organized along lines of Global Value Chains (GVCs).

Trade cost index, 1930 - 2005 (1930=100)



- **Declining transport cost a major factor; but pace of decline has slowed since the 1980s**
- ***Servicification* of production has pushed international goods trade to slow down (Arslan et al 2018)**

GVCs under FIRE

As BRICS (Brazil, Russia, India, China, South Africa) industrialize → Shifting away from complex to simple GVCs

GVCs under the Fourth Industrial Revolution (+ and -)



- **Additive manufacturing (3D printing)**: narrows the scope of GVCs as parts of a product can be produced closer to home (-)

- **Internet of Things (IoT)**: cuts cargo losses, optimal routing of ships (+)



- **Digitalization and blockchain**: reduce cost of coordination along the GVCs. Example: National Single Window + blockchain to automate most customs clearance, increase transparency, eliminate corruption (+)

- **Real-time translation, e-commerce platforms**: facilitates global trade, investment (+)



Fragmentation of global market cooperation

FEATURES

EFFECTS

Trade war between China and the US

Loss in business confidence brought about by an increase in uncertainty

Protectionist strategies of countries alienating their allies

Decline in the demand for exports (US and China)

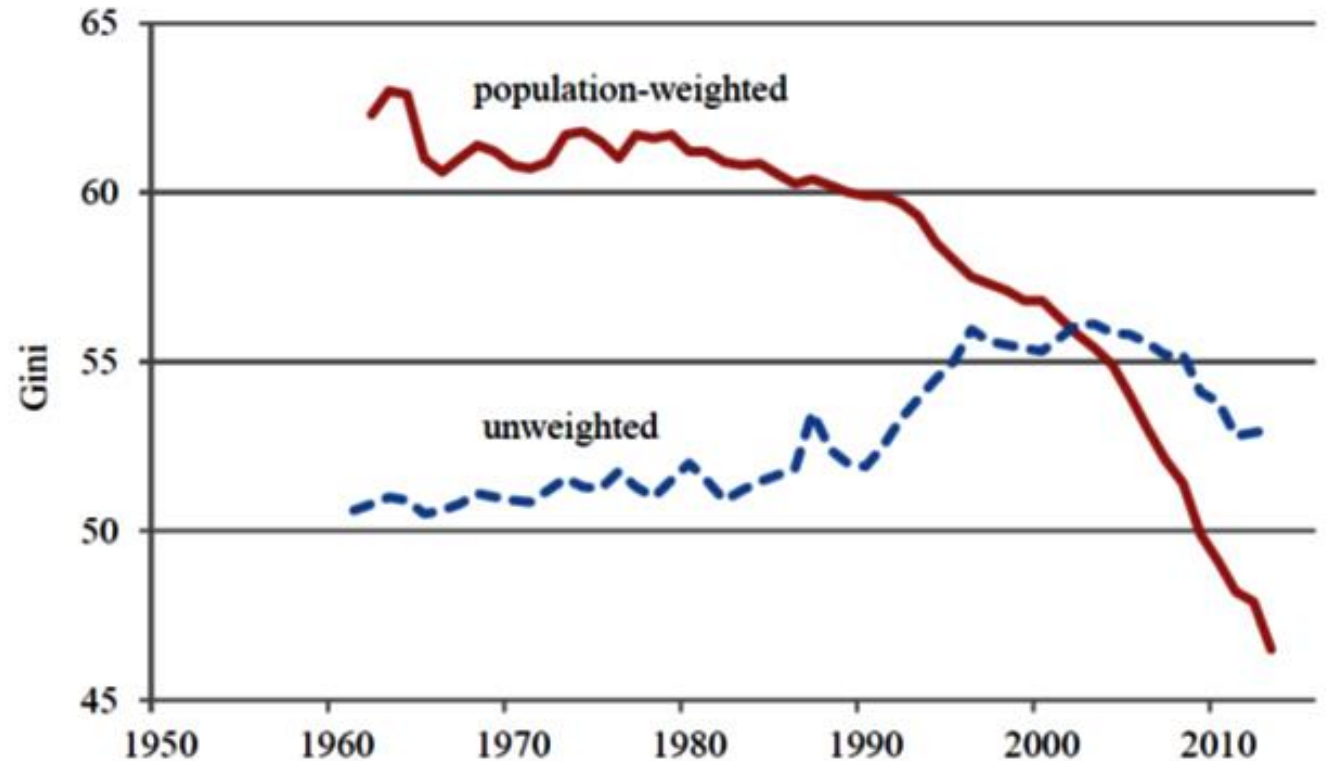
Attack to multilateral institutions (e.g., World Trade Organization)

Reduction of demand for inputs produced in value chains

Trade redirection may have some benefits for nearby countries in ASEAN

Worsening global inequality

- Global inequality trends: going up by some measures, down in others (Ravallion, 2018)
- **Going down:** population-weighted inequality; decline due to growth of average incomes in China and India



(Milanovic, 2016)

Share of growth captured by income groups

(Alvaro et al, 2018)

	China	Europe	India	Russia	US- Canada	World
Population	100	100	100	100	100	100
Bottom 50%	13	14	11	-24	2	12
Middle 40%	43	38	23	7	32	31
Top 10%	43	48	66	117	67	57

Going up: *By region*, richer groups captures gains from economic growth

From 1988 to 2008: income growth has been **slowest** for decile 1 and 7 to 8; fastest for the **middle** and **top** decile

(Lakner and Milanovic 2016)

Drivers of inequality

Evidence on contributors (Dabla-Norris et.al., 2015)

- Deregulation of labor markets
- Technological change
- Financial deepening (financial sector development leaving behind the poor)
- Financial openness (globalization) - played a reinforcing, minor role
- In OECD: new technologies more important, followed by deregulation. Reversed in emerging economies.



Also a factor: lack of competition (market power)

Inequality and poverty in the Philippines

Contrary to international trends: inequality was improving in 2000–2015 albeit still high

- Gini ratio falling
- Top decile share declining, bottom eighty percent have increased

Poverty has been falling

- Between 2006 and 2015: driven by movement of workers outside agriculture + rising wages in agriculture (2/3 of decline)
- Secondary contributor: transfers - with government transfers leading the way: ½ of decline
- Entrepreneurial incomes have fallen for the poor: -15 percent contribution to poverty reduction
- **Rate of decline has been slow compared to East Asian and other Southeast Asian countries**



Challenges to provision of global public goods



Environment

- Sea level rise from climate change (Global Public Bad)
- UN Convention on Climate Change (Global Public Good)



Health

- Trans-boundary dispersion of communicable diseases (Global Public Bad)
- Herd effect from immunization (Global Public Good)



Social Justice

- UN Convention on the Rights of the Child; UN Convention on the Elimination of All Forms of Discrimination against Women (Global Public Good)

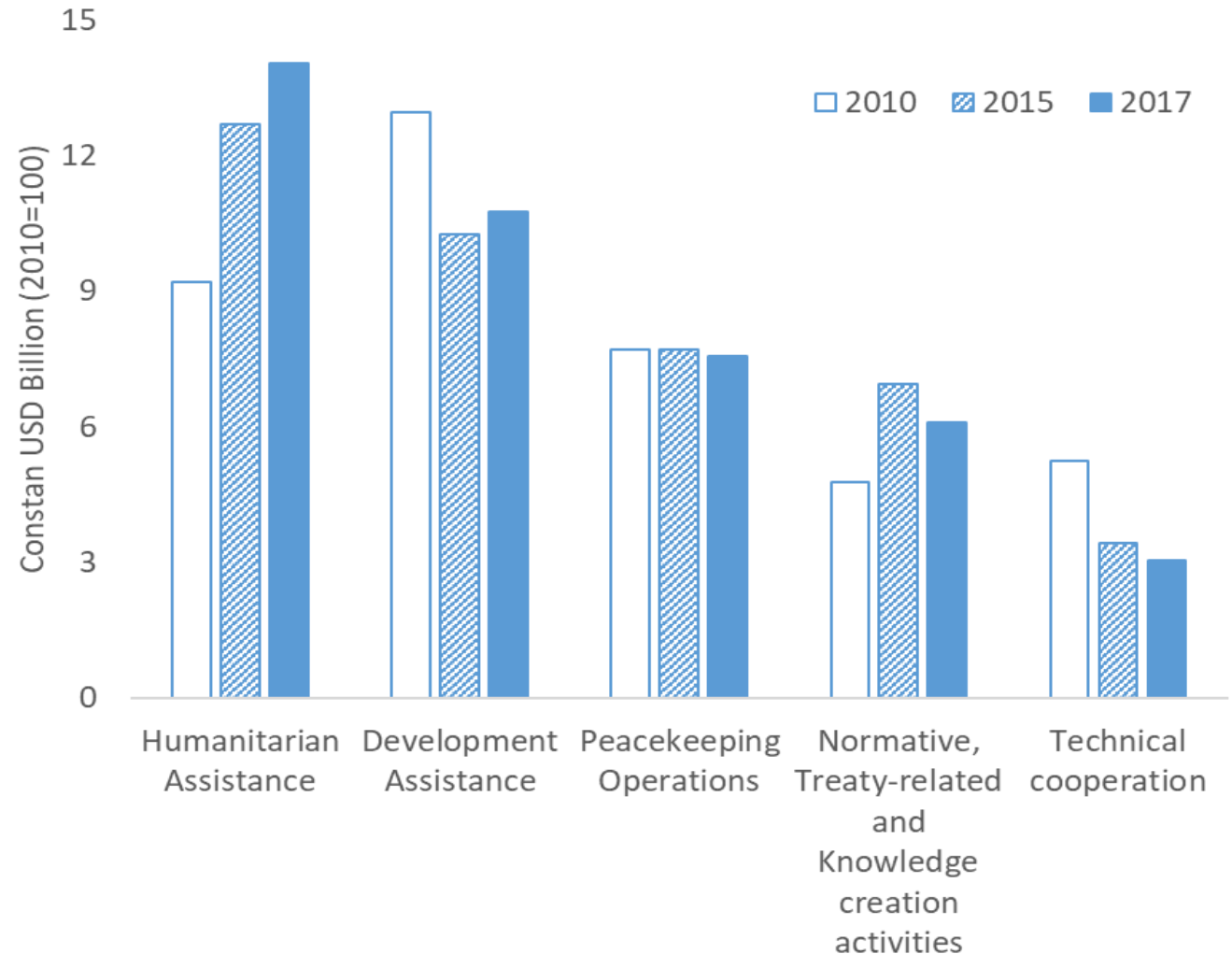


International Rule of Law

- UN Convention on the Law of the Sea (Global Public Good)

Example: Contributions to UN System

- Despite the increasing need for GPGs, total spending on them has remained relatively unchanged
- 2010-17: Declining for Development assistance and Technical cooperation



Factors affecting social cohesion

Globalization (+) force for trust:
cosmopolitanism, shared values across peoples

Globalization (-) force for trust:
exposure to the “other” breeds fear, anxiety →
erodes social fabric

Technology as enabler of trust:
faster and more transparent public transactions,
increased access to information

Technology as enabler of distrust:
the New Media (e.g., social media)

- Network of disinformation (fake news)
- Ecosystem of intentional and unwitting human agents



Implications for the Philippines

Global restructuring of trade

- There is a need to strengthen the digital trade of services – remedy regulatory inadequacies in some service sectors
- Disruptions of mega-value chains will need to be addressed – take advantage of trade and investment diversion; reduce unit labor cost; provide innovation support; diversify to both complex and simple value chains
- Strengthen international relations with traditional partners and pursue new partnerships with emerging economies.
- Leverage new technologies and technological disruption to improve trade and investment

Implications for the Philippines

Worsening global inequality

- Implement policies that promote basic and higher education.
- Invest in quality education to upgrade the workforce with 21st century skills.
- Craft labor market policies to strike a balance between labor protection and labor market flexibility.
- Implement reforms and promote innovations towards financial inclusion.
- Strengthen progressivity and targeting of social protection systems.

Implications for the Philippines

Challenges to provision of Global Public Goods

- Leverage regional and international platforms to enhance the delivery of local services – e.g. adherence to global standards promotes market access
- Support international action to increase the provision of global public goods, especially those that are particularly beneficial to the country
- Strengthen national and local capacity to harness benefits from global public goods, and to minimize risks from global public bads.
- Sustain national and local initiatives that foster local provision of global public goods - vaccination, disaster risk reduction and management, and climate change mitigation

Implications for the Philippines

Trust and Social Cohesion

- Safeguard alternative media platforms from being exploited as a vehicle of disinformation
- Promote digital media literacy at schools and in the workplace
- Strengthen gatekeeping and inclusivity in the traditional media's conduct of doing business
- Encourage employers/CEOs to spearhead trust-building in their organizations
- Adopt innovative solutions (e.g. blockchain) to doing business in the public sector



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