

What is the “new globalization”?

Background Presentation for the Development Policy Research Month (DPRM) 2019

Waves of globalization

1st ► 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*

- Slowdown in growth of world trade (2008-)
- Industry 4.0 or (FIRe) → rapid, unpredictable effects on jobs, occupations, skills, social interaction
- Nationalism displacing cooperation in tackling issues such as climate change, transborder diseases, etc.
- Social fabric is unraveling: extremes of hatred, violence, ignorance, *going mainstream*



*Foundations of country's current rapid growth
laid during late 80s during Third Wave:
Assumptions still valid?*

The NEW GLOBALIZATION is
characterized by Volatility, Uncertainty,
Complexity, and Ambiguity.

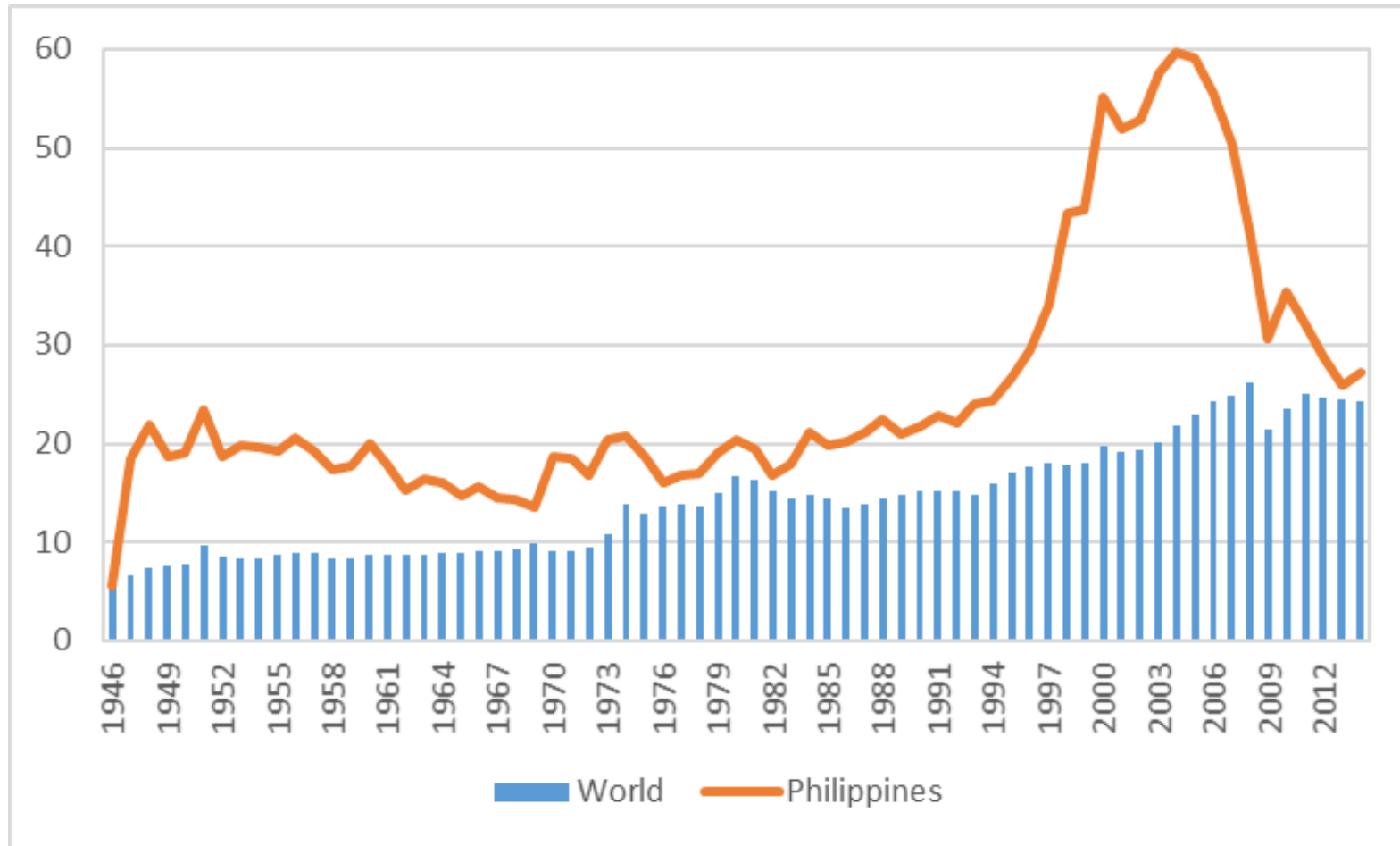
The New Globalization: Key features



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

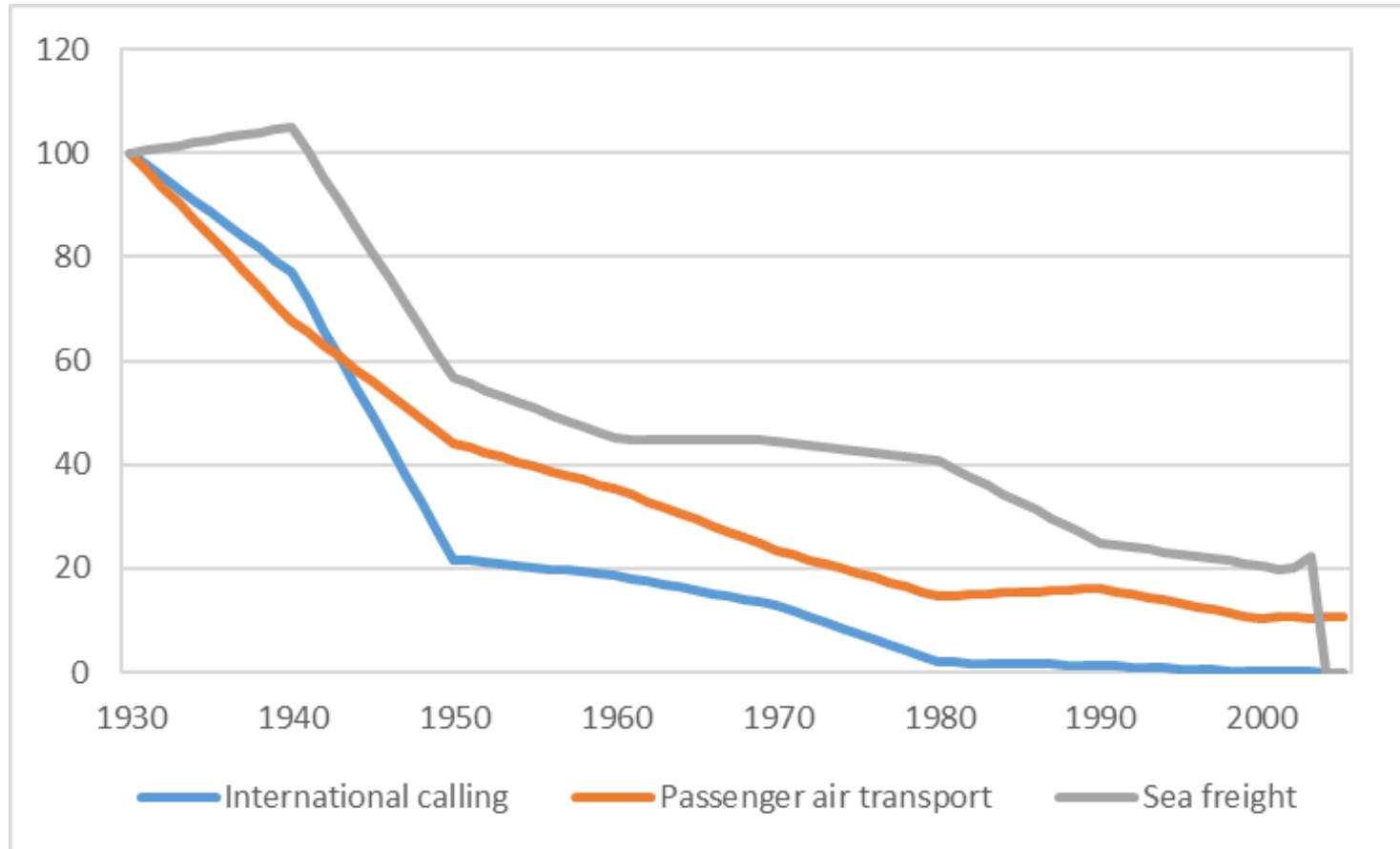
GLOBAL TRADE RESTRUCTURING

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

The meaning of “inequality”

Global inequality based on the distribution of incomes worldwide – **ambiguous** (Ravallion, 2018)

Gini ratio has fallen slightly

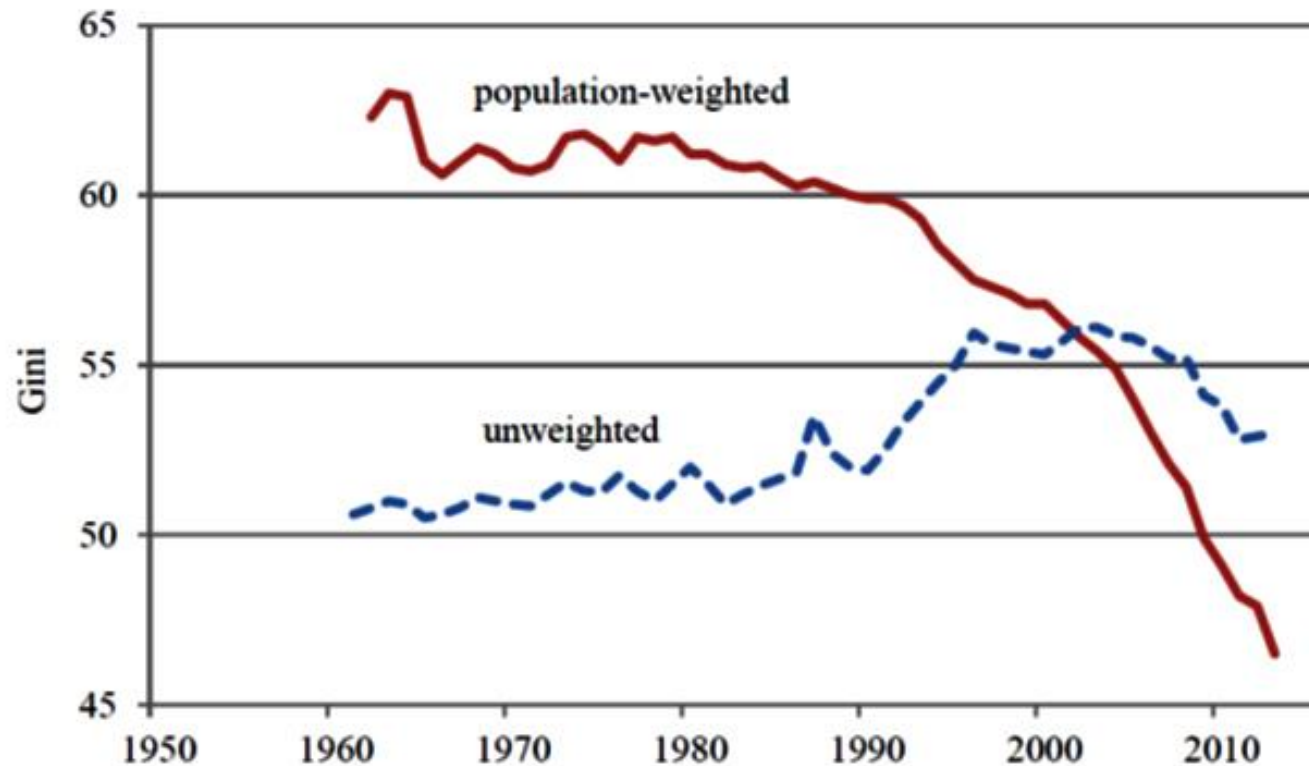
However: share of poorest 5 percent has increased, while that of top 1 percent increased

Hence, other measures of inequality lead to different conclusions – global income inequality has worsened

Inequality of incomes worldwide – decomposed into **within countries/regions** and **between countries/regions**

Global inequality between countries

(Milanovic, 2016)



Inequality of average incomes across countries, falling worldwide – largely due to China and India (+)

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

Across regions: richer groups tend to capture the bulk of the gains from economic growth (-)

Consistent with Lakner and Milanovic (2016): between 1988 and 2008, income growth has been slowest for decile 1 and 7 to 8; fastest for the middle and top decile

Inequality and poverty in the Philippines

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

- Gini ratio falling
- Share of the top decile declining, shares of the bottom eight have increased

Poverty has been falling

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



Drivers of inequality

- Globalization in trade, capital, and finance
- Technological change
- Changes in labor market institutions
- Increasing size, sophistication of financial sector (financial deepening)



The evidence (econometric) on drivers:

- Mainly due to *deregulation of labor markets, technological change, financial deepening*
- Labor market flexibility more important in emerging economies, followed by new technologies; rankings reversed in OECD.
- Financial openness (globalization) - played a reinforcing, minor role

Also a factor: lack of competition (market power)

CHALLENGES TO PROVISION OF Global Public Goods (GPGs)

What are GPGs?

- **Global public goods (GPGs) are not new concepts**
- **GPGs are public goods**
 - Publicness in consumption (Classic)
 - Publicness in provision
 - Publicness in decision-making
- **GPGs are global**
 - Transcend national boundaries
 - Extend across generations
 - Go beyond one socioeconomic group

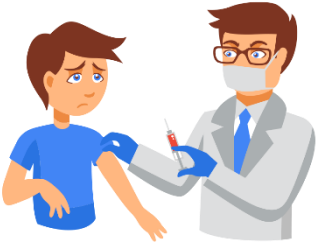


Examples of GPGs



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)

Difficulties in Financing GPG Provision

➤ **Globalization and technological progress make GPGs more important**

- Facilitated – even necessitated – the creation of new GPGs

➤ **However, GPGs remain underprovided**

➤ **Coordination and cooperation failures hinder GPG provision**

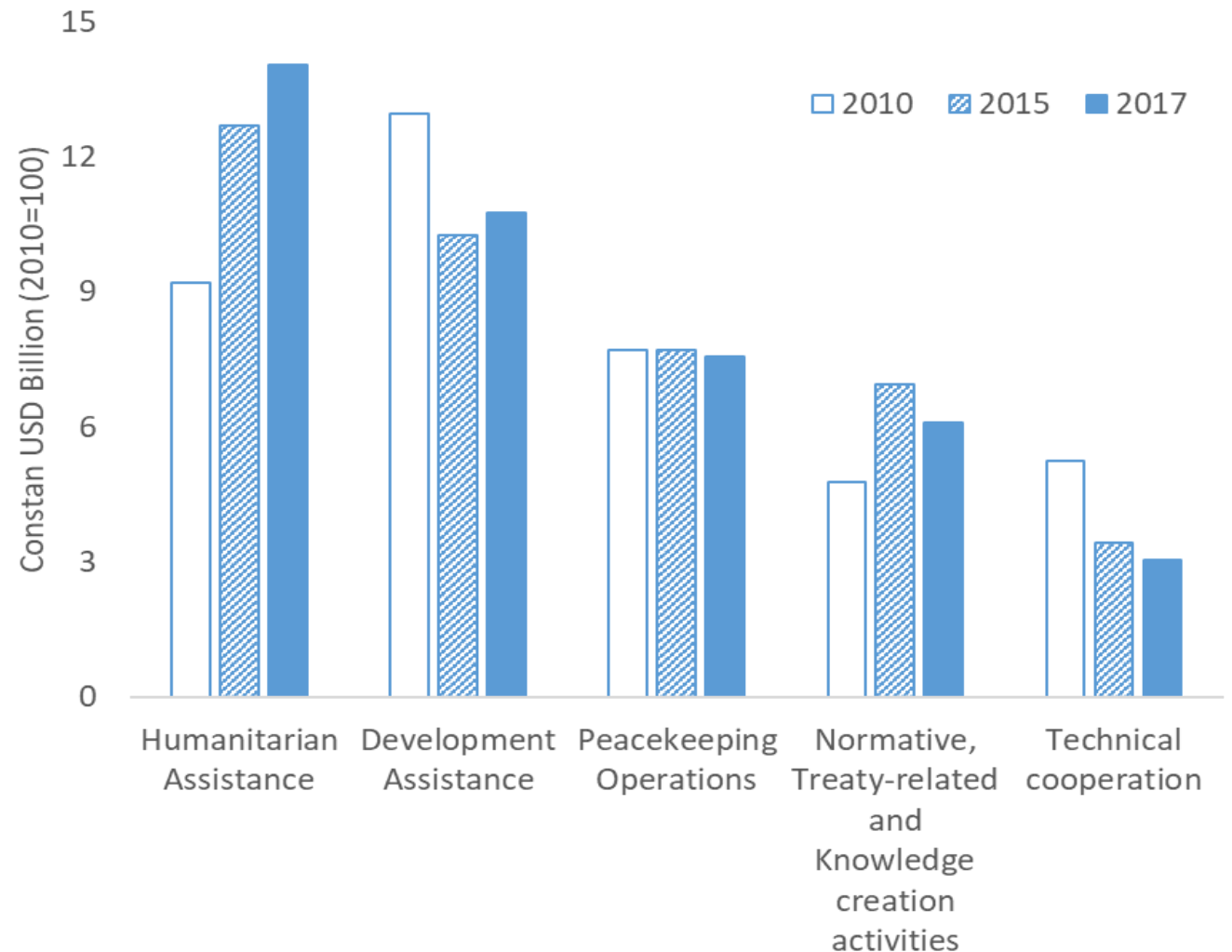
- Rational free-riding (Classic)
- Organizational friction
- Information asymmetry
- Fairness concerns
- Conflicting global norms



UN System expenditures by category

A case in point is in financing United Nations.

Despite the increasing need for GPGs, total spending on them has remained relatively unchanged – even declining in some categories – over the years.



BUILDING SOCIAL COHESION AND TRUST

Significance of social cohesion and trust

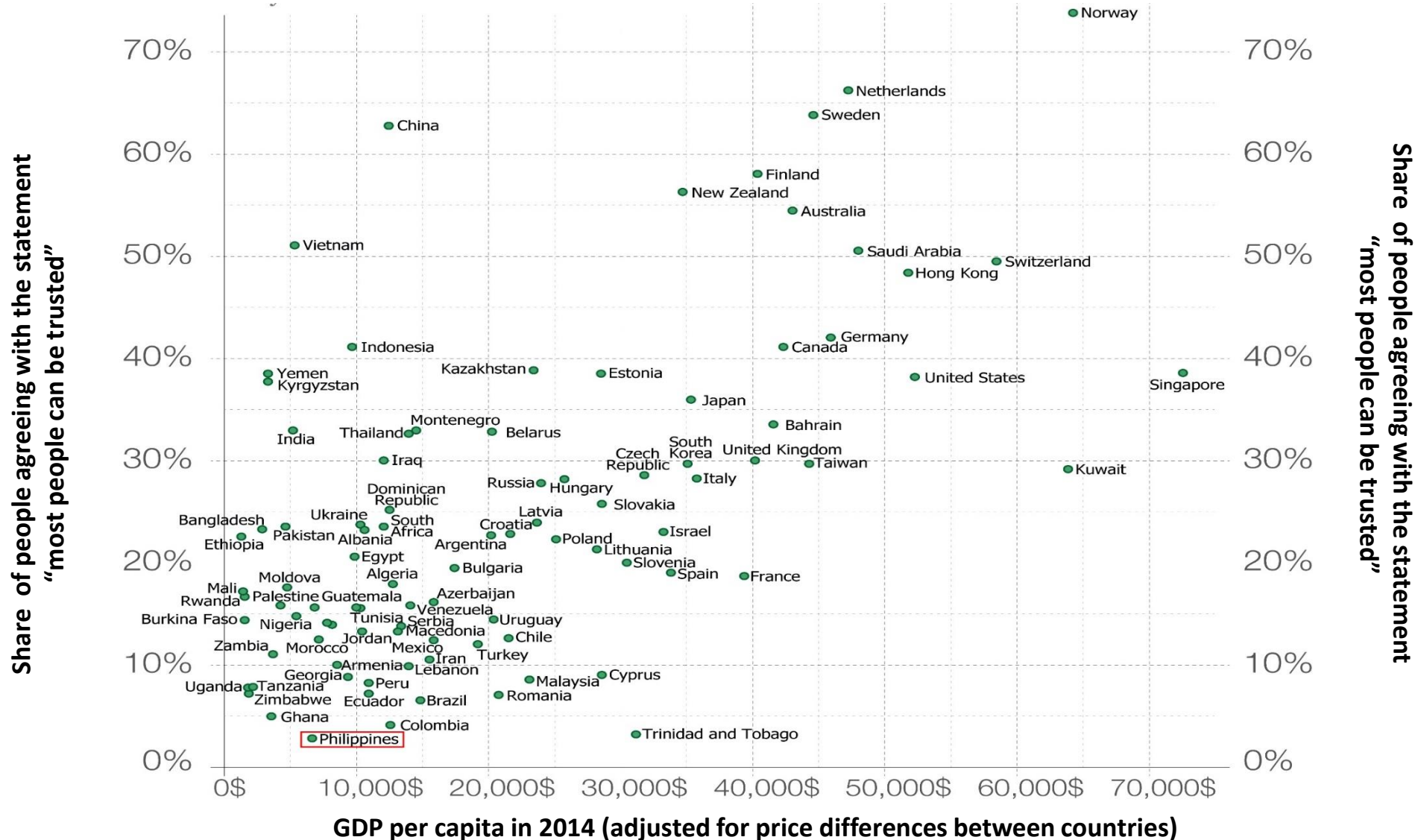
- Social cohesion: *inclusiveness, mobility, trust*
 - Resentment if: Perception of exclusiveness of benefits, or lack of immobility
 - Without trust, tend to fragment into in-groups with distrust of out-groups
- Societies high in trust and cohesion → **better economic performance**
 - Trust essential to the implementation of needed reforms
 - Trust reduces transaction cost, reluctance to commit to business arrangements
 - Unleashes long-term investments, including in R&D and innovation



Country by country: Trust vs. GDP per capita

Share of people agreeing with the statement “most people can be trusted”

Data source:
World Value
Survey for data
on trust and Penn
World Table for
data on GDP per
capita



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



Final words

VOLATILITY

UNCERTAINTY

COMPLEXITY

AMBIGUITY

Given these, how do we as a country navigate the troubled seas of the New Globalization?

FEATURES OF THE NEW GLOBALIZATION

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