

Globalization: Trends and Causes

Lecture Summary:

1. *Trends* in economic globalization

- How far has globalization proceeded?
- How new is the phenomenon?

2. *Causes* of globalization

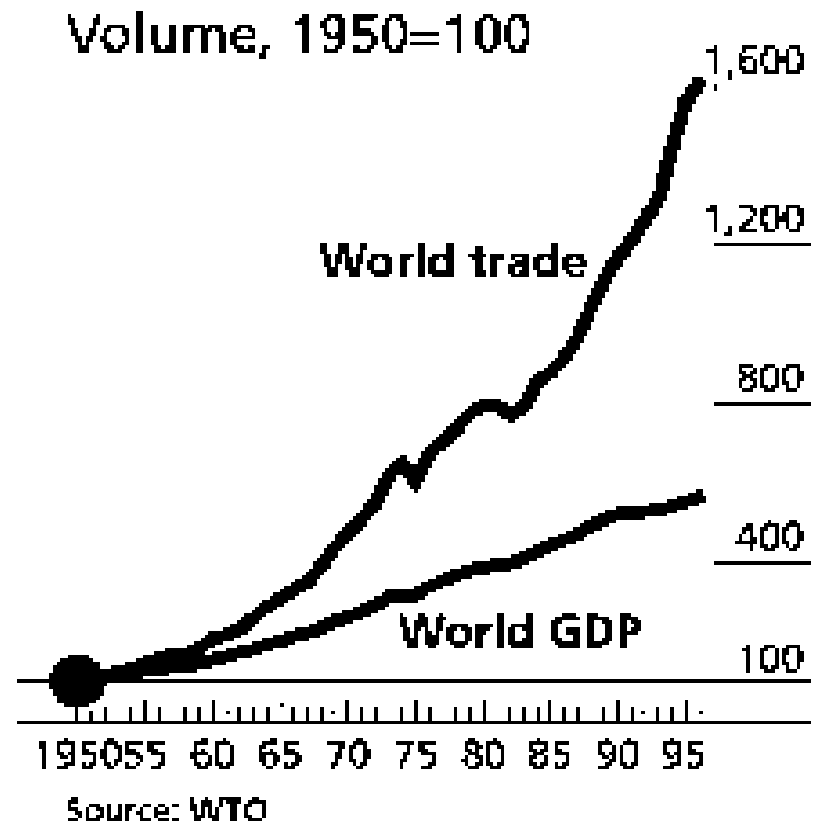
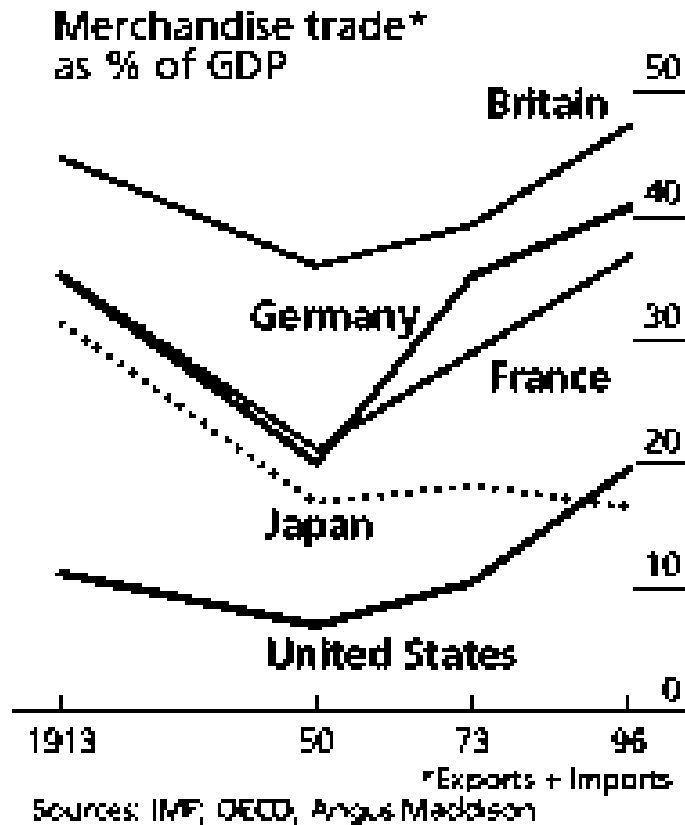
- What role does technological change play?
- Why do governments adopt economic policies that help or hinder globalization?
- Is the process of globalization irreversible?

Trends: Measuring Economic Globalization

Two baselines for measuring globalization:

1. History. Compare today to previous era of globalization (1880-1913) in terms of levels of:
 - a. International Trade (slide 3)
 - b. Global finance (slide 4)
 - c. Foreign Direct Investment via MNCs (slide 5)
 - d. Migration (slide 6)
2. Complete Globalization. Compare today to hypothetical case of full integration of national economies
 - a. Deviations from the “Law of One Price”
 - b. Home Market Bias and Border Effects

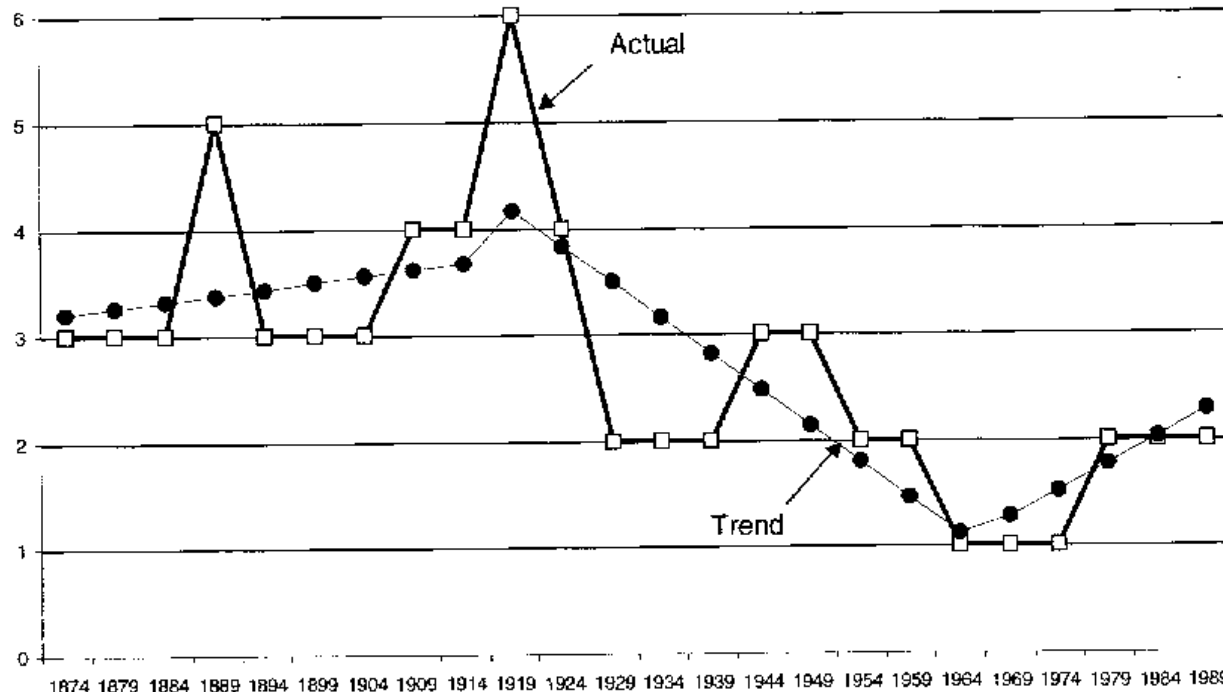
History: Back to the Future in Int'l Trade



Trade 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.

History: Back to the Future in Global Finance

External Capital Flows, % of GDP, 5 year moving average

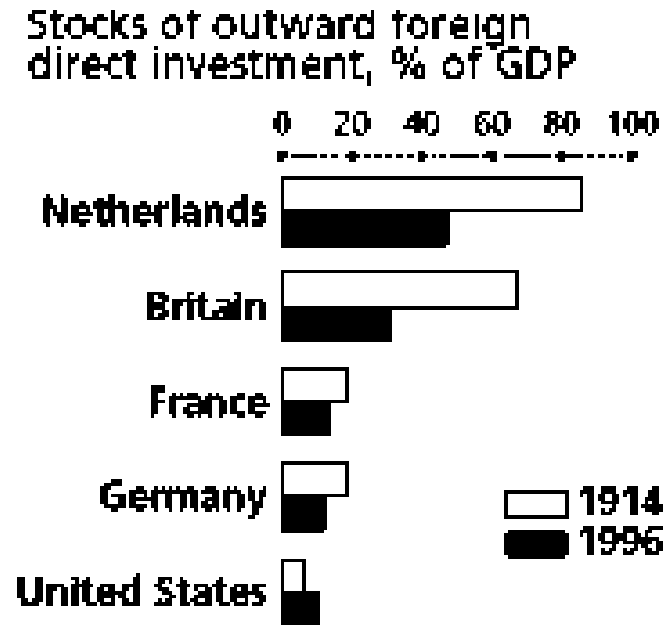


Source: See Data Appendix

Source: Michael D. Bordo, Barry Eichengreen, Jongwoo Ki, "Was There Really an Earlier Period of International Financial Integration Comparable to Today?" NBER Working Paper No. W6738 (Sep. 1998).

Before 1914, massive amounts of capital flowed from Europe to rapidly developing regions in the Americas and Australasia. Flows collapsed after WWI and did not start to recover until the late 1960s.

History: Multinational Corporations: Then and Now

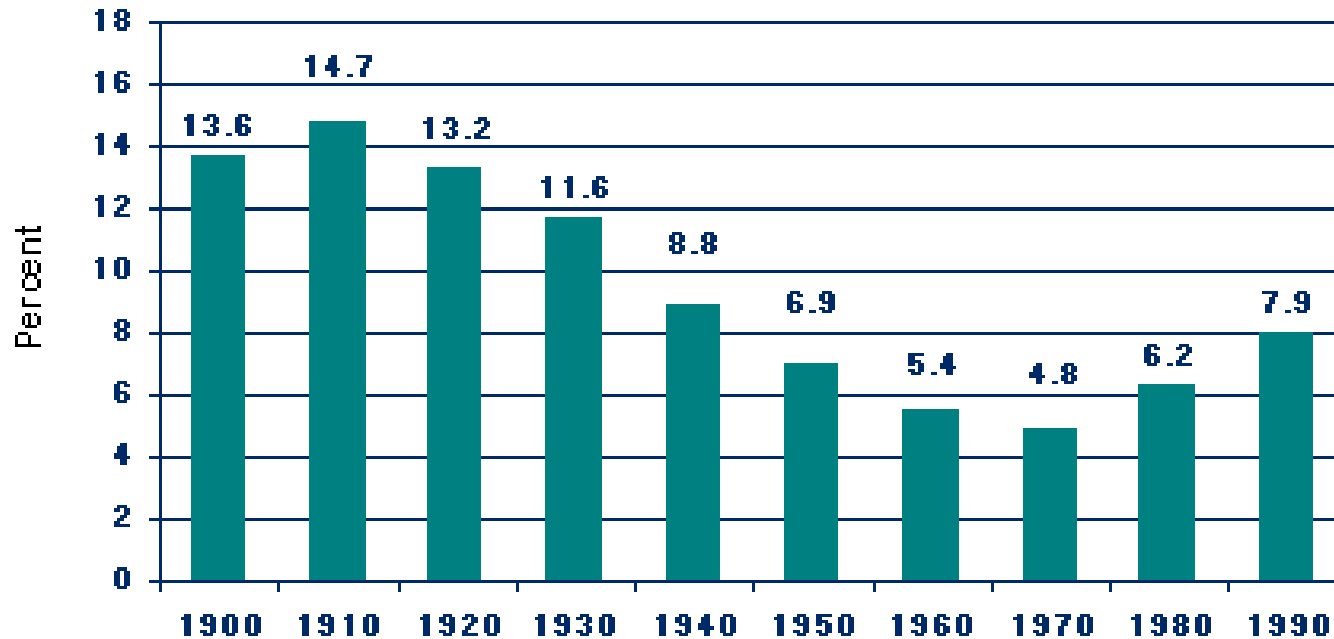


Sources: OECD; UN; Angus Maddison

Most developed countries have stocks of outward foreign direct investment (FDI) that are smaller as a percentage of GDP than in 1914.

History: Immigration, then and now

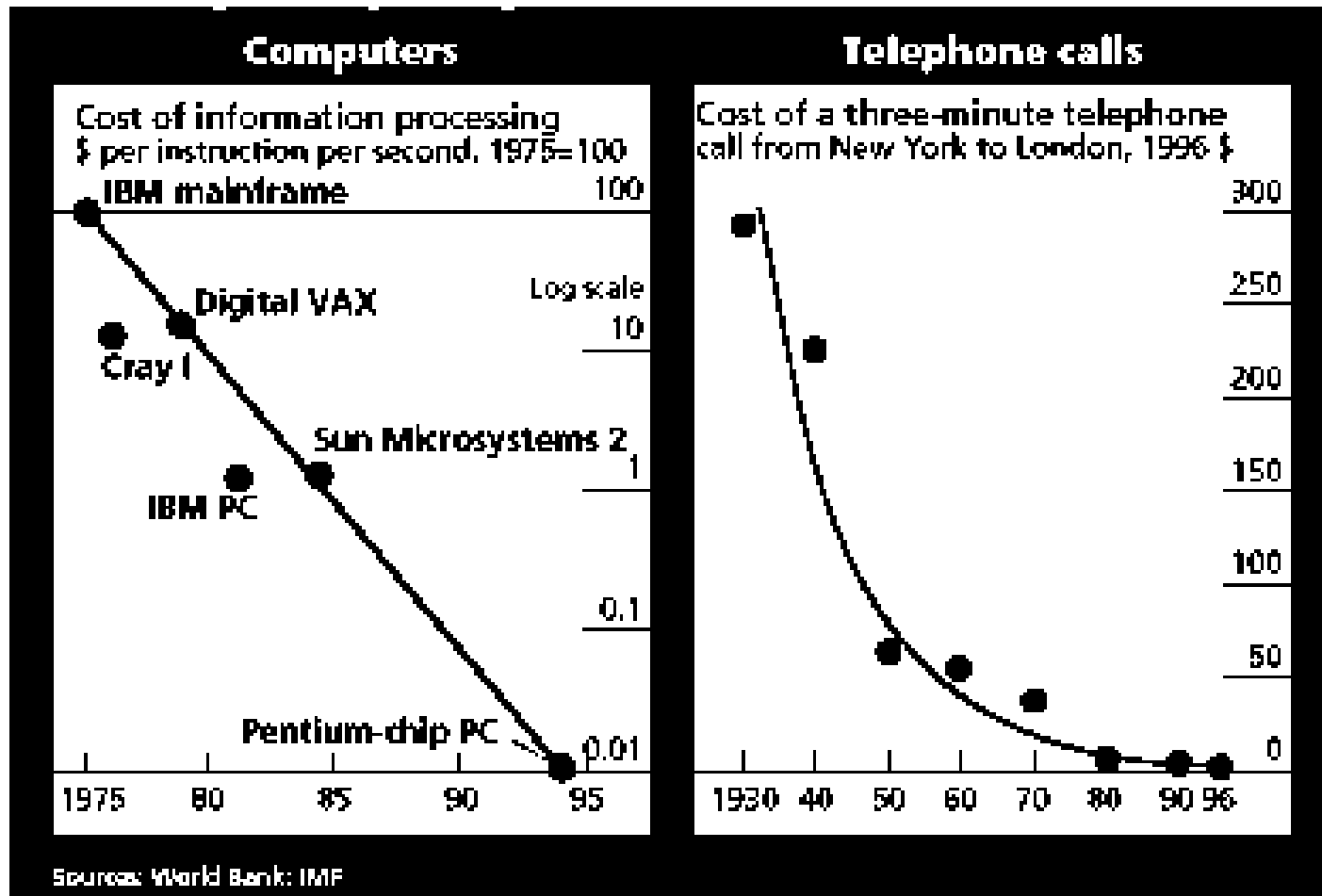
*Percent Foreign Born in the U.S.
1900 to 1990*



Causes of Globalization

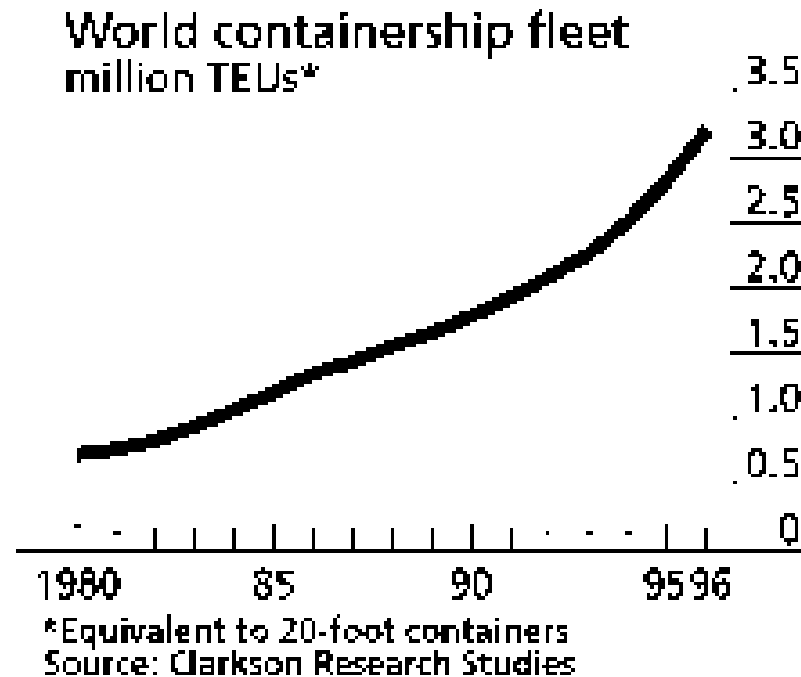
- Two major sets of forces:
 1. Technological Change
 - Communications revolution (slide 8)
 - Transportation revolution (slide 9)
 2. Government Policies
 - Trade policy, e.g. tariffs, NTBs (slide 10)
 - Capital controls (slide 11)
 - Immigration policy

Technology: 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.

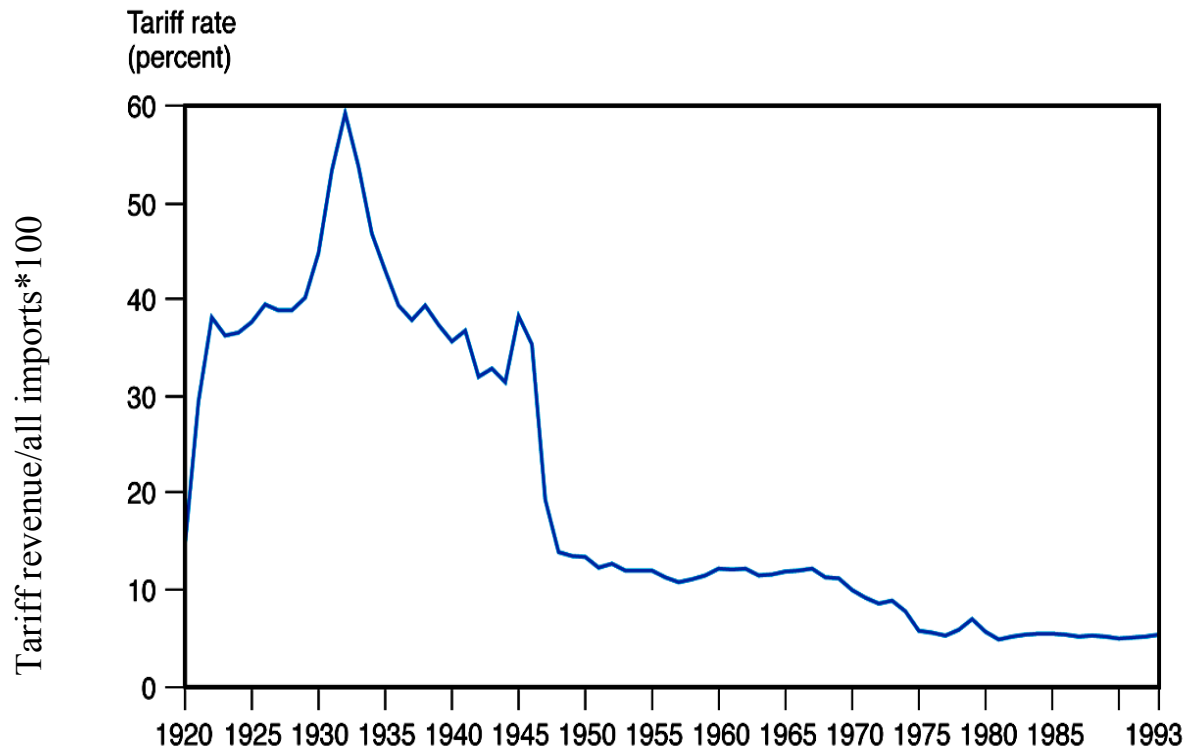
Technology: Transportation Revolution



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

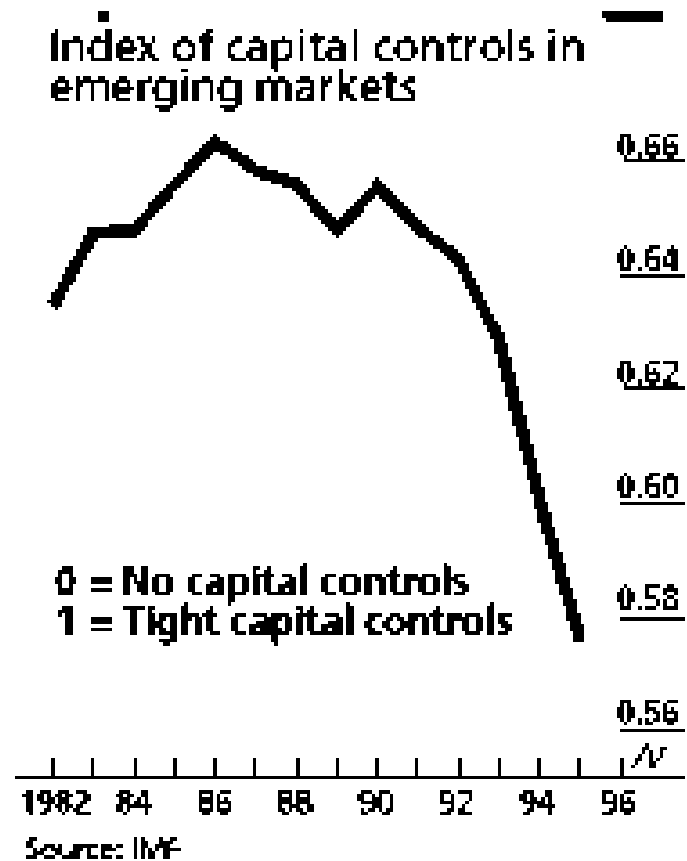
Govt Policies: Tariffs Have Fallen

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.

Govt Policies: Countries Open Up to Capital



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