Globalization and the Developing Countries
(for GAD-II 2004)

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What is “Globalization”?  
--a traditional definition--

Globalization, defined as the integration of production, distribution, and use of goods and services among the economies of the world, has been evolving since the end of World War II. The signs of globalization are manifested at a factor level in the increasing flows of capital and labor, and at the product level in a resounding growth in world trade above and beyond the growth of world output.....

From an old WB report written by Prof. Otsubo
Growth in World Trade and GDP, 1960-1997
(trade in goods and services)


Globalization of What?
- Globalization of Goods
- Globalization of Services
- Globalization of Investment
- Globalization of Finance
- Globalization of Human Resources
- Globalization of Corporate Activities
- Globalization of Information
- Globalization of (Harmonization of) Standards
- More…(Democracy, Market Mechanism, i.e. American Standards?)
Benefits of Globalization

- Wider variety of **Goods** and **Services** have become available at lower prices.
- Enlarged **Investment** opportunity that results in higher average rate of return, more investment, and technology transfer (FDI).
- More choices for (possible diversification in) development **Finance**.
- Flows in **Human Resources** complement initial endowments and mitigate bottlenecks in the supply of (un)skilled labor.
- Global **Corporate Activities** connect national economies-consumers and producers alike, create marketing channels, and diffuse technology (technical and managerial).
- Lower-cost and timely access to **Information** that reduces transaction costs, and accelerates the process of catch up.
- Lower costs of cross-border trade and spot operations due to a harmonization of **Standards**.

Risks associated with Globalization

- G. of **Goods, Services, Investment** often calls for **agglomeration (scale economies)** that leads to **monopoly power**, and uneven presence of economic activities resulting in both **cross-country** and **regional disparities**.
- G. of **Finance** creates ‘hot money’ and calls for **good governance** (by western standard) that often limits policy options in developing countries.
- G. of **Human Resources** accelerates **brain drain**.
- G. of **Corporate Activities** often goes against **sovereignty** and impedes the growth of **indigenous firms and industries**.
- G. of **Information** creates **digital divide**, and thus widens **gaps in opportunity** (ex-ante gaps) as well as **welfare gaps** (ex-post gaps).
- G. of (H. of) **Standards** forces **social changes** (democracy, market mechanism, western corporate culture, contracts, judicial system, etc.).
Trade Integration
(exports plus import volumes, ratio to GDP*)

Note: * Based on national income accounts. Trade in goods and services.
Source: DEC Analytical Database, World Bank; World Bank, World Development Indicators, 1999.

Trade Integration by Developing Regions
(exports plus import volumes, ratio to GDP*)

Note: * Based on national income accounts. Trade in goods and services.
Source: DEC Analytical Database, World Bank; World Bank, World Development Indicators, 1999.
Net Resource Flows to Developing Countries
1970-1999


Net Resource Flows to Developing Countries, 1970-1999
Private vs. Official

Net Resource Flows to Developing Countries, 1970-1999
Private vs. Official


Average MFN Tariffs in Industrial Countries
(on imports of manufactures from various regions)
Average Tariffs in Developing Countries
(on imports of manufactures from various regions)

Goods vs. Service Trade
Service Trade Components

Price index of information processing, 1975-94
(100=1US$ per instruction per second)
Cost of a 3-Minute Telephone Call, New York to London (Constant 1990, U.S. $)

Gross Income of Bank Credit Clerks*, 1994

<table>
<thead>
<tr>
<th>City</th>
<th>Income (US$ per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zurich</td>
<td>78,100</td>
</tr>
<tr>
<td>Tokyo</td>
<td>63,400</td>
</tr>
<tr>
<td>Abu Dhabi</td>
<td>47,800</td>
</tr>
<tr>
<td>Paris</td>
<td>42,000</td>
</tr>
<tr>
<td>New York</td>
<td>29,000</td>
</tr>
<tr>
<td>Bangkok</td>
<td>14,200</td>
</tr>
<tr>
<td>Tel Aviv</td>
<td>15,800</td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td>7,600</td>
</tr>
<tr>
<td>Jakarta</td>
<td>3,900</td>
</tr>
<tr>
<td>Bombay</td>
<td>1,900</td>
</tr>
<tr>
<td>Nairobi</td>
<td>1,600</td>
</tr>
</tbody>
</table>

Note: * With completed banking training, 10 years of experience, around 35 years of age, and married with two children.
Number of MNEs and Their Affiliates in Major Countries

<table>
<thead>
<tr>
<th></th>
<th>Number of MNEs (A)</th>
<th>Number of Affiliates (B)</th>
<th>(B)/(A)</th>
<th>Data year</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A.</td>
<td>3,470</td>
<td>18,608</td>
<td>5.36</td>
<td>1994</td>
</tr>
<tr>
<td>Japan</td>
<td>3,967</td>
<td>3,405</td>
<td>0.86</td>
<td>1995</td>
</tr>
<tr>
<td>Germany</td>
<td>7,292</td>
<td>11,581</td>
<td>1.59</td>
<td>1994</td>
</tr>
<tr>
<td>France</td>
<td>2,126</td>
<td>8,682</td>
<td>4.08</td>
<td>1995</td>
</tr>
<tr>
<td>U.K.</td>
<td>1,467</td>
<td>3,894</td>
<td>2.65</td>
<td>1992</td>
</tr>
<tr>
<td>Canada</td>
<td>1,691</td>
<td>4,583</td>
<td>2.71</td>
<td>1995</td>
</tr>
<tr>
<td>China</td>
<td>379</td>
<td>45,000</td>
<td>118.73</td>
<td>1993</td>
</tr>
<tr>
<td>Korea</td>
<td>4,806</td>
<td>3,878</td>
<td>0.81</td>
<td>1996</td>
</tr>
<tr>
<td>Singapore</td>
<td>n.a.</td>
<td>19,160</td>
<td>n.a.</td>
<td>1994</td>
</tr>
<tr>
<td>Total Developed Countries</td>
<td>36,380</td>
<td>93,628</td>
<td>2.57</td>
<td></td>
</tr>
</tbody>
</table>

Note: 1. MNEs are defined as enterprises which run their business in more than two countries.
2. (A) is the number of MNEs originating from the corresponding country, and (B) is the number of foreign affiliates in said country.

Regionalization under Globalization

- There is a surge in the formation of regional arrangements in the 1990s, even with the successful completion of the Uruguay Round.
- New motives for new arrangements.
  - Deep integration
  - Safe haven
  - Insurance
  - Buy out
- Open regionalism can be conducive to free world.
- Developing countries can utilize regional arrangements to effectively negotiate in multilateral organizations such as the WTO.
### Number of GATT/WTO Member Countries

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1987</th>
<th>1990</th>
<th>1999</th>
<th>2000*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-OECD members</td>
<td>61</td>
<td>65</td>
<td>76</td>
<td>110</td>
<td>116</td>
</tr>
<tr>
<td>OECD members</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
</tr>
</tbody>
</table>


* As of November 30, 2000.

### Number of Existing Regional Integration Schemes

(by their establishment year)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>36</td>
<td>39</td>
</tr>
<tr>
<td>Americas</td>
<td>2</td>
<td>1</td>
<td>15</td>
<td>22</td>
<td>40</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Middle East</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Africa</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>(across multiple regions)</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6</strong></td>
<td><strong>6</strong></td>
<td><strong>20</strong></td>
<td><strong>69</strong></td>
<td><strong>101</strong></td>
</tr>
</tbody>
</table>

Uneven Process of Globalization

- Many countries have become less integrated with the world economy.
- Growth and integration go together.
- Slow integrators will continue to lag behind in their growth.
- Much can be done to promote integration.

Average Growth in Real Per Capita Income and Exports
(106 Low and Middle Income Countries)

- Top 1/3: 1.9%
- Middle 1/3: -0.6%
- Bottom 1/3: -2.5%

Export Performers:
- (Export Growth)
  - Top 1/3: (10.2%)
  - Middle 1/3: (3.5%)
  - Bottom 1/3: (-3.2%)
But there were large disparities across regions (Changes in trade to GDP ratios*)

FDI up significantly, but mostly for a few countries (FDI to GDP Ratios*)

* Annual Average Changes

* GDP in purchasing power parity terms.
Most developing countries lack access to international credit markets
(Distribution of countries by credit rating in 1995)

<table>
<thead>
<tr>
<th>Region</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income</td>
<td>19</td>
<td>7</td>
<td>1</td>
<td></td>
<td>27</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>13</td>
<td>32</td>
<td>54</td>
<td>99</td>
<td></td>
</tr>
<tr>
<td>East Asia</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>South Asia</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>1</td>
<td>10</td>
<td>13</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>6</td>
<td>19</td>
<td></td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>3</td>
<td>7</td>
<td>11</td>
<td></td>
<td>21</td>
</tr>
</tbody>
</table>


Growth is associated with the initial level of integration
(initial level: 1981-83 average, real p.c. gdp growth: 1984-93)
East and South Asia had the highest proportion of fast integrating countries in the 1980s (Speed of integration classes)

Share in Private Flows to LMICs (Percentage, 1991-94)
What can developing countries do to improve integration? (Standard Answers before the Asian Crisis)

- Liberalization of trade and investment regimes
- Macroeconomic stability
- “Micro” policies
  - Infrastructure development
  - Privatization
  - Technology transfer

Low tariffs mean high trade ratios

*Trade to GDP ratio adjusted for country size.*
Foreign investors don’t like instability

Private players reduce agricultural marketing costs...
(Cocoa marketing costs as a share of the selling price, 1989)
Actions by industrial countries...

- Persist on liberalization
  - Agriculture
  - Textiles/garments
- Enhance WTO negotiations with proper treatments of developing country members
  - TRIM
  - Trade and environment
- Enhance the “rules-based” system
  - Antidumping
  - Safeguards
- Encourage North-South arrangements
  - Association agreements
- Monitoring and regulating international financial flows
  - IMF (and BIS?) on crisis prevention, pre-crisis dialogue
- Stabilize exchange rates among key currencies
- Assisting IT strategies of developing countries

Spending per Capita on Information Infrastructure in 1998 (US$)

Globalization and Domestic Disparity

- Uneven process of globalization in domestic economy, as well.
- Spatial (Geographical) Disparity
- Integration, Growth, and Income Inequality
- Management/Governance matters in controlling disparity in Development under Globalization.

![Fig. 1 Regional Disparity in Income and Openness in China, 1978-2000](chart.png)


Is the East Asian Growth (Model) Invincible?
Speed of Integration and GDP Growth, 1970-1992
(18 Major Developing Economies)

Source: International Economics Department, World Bank.

Asian Financial Crisis
Changes in Exchange Rates
(vs. US$, Benchmark: end June 1997)

Asian Financial Crisis
Changes in Output
(GDP Volume Index, 1995=100)


East Asia, too, is vulnerable to violent forces of globalization.....

East Asian Growth Model
- has been robust to trade integration.
- has been robust to investment integration through FDIs.
- is not yet robust to financial integration through portfolio equity and other S-T flows.
East Asian Financial Crisis was…..

- Not a Current Account Crisis.
- But a Capital Account Crisis.
- That requires different kind of medicine (rescue package), different from the standard IMF package.
- And that requires deeper and more sophisticated institutional reform.

How to Manage Development under Globalization

- How to form the virtuous cycle of integration and growth.
- Asian crisis shows …..
- A need for Good Governance.
  - Sound macroeconomic management.
    - Fiscal (revenue and expenditure) & debt management.
    - Monetary policy rules (incl. exchange rate schemes).
    - Re-regulations and monitoring.
  - Domestic reform efforts.
    - Financial sector reform.
    - Corporate sector reform.
    - Public sector reform.
    - Market reform (incl. deregulations and competition laws).
  - Institutional development (incl. judicial system).
  - Global governance (incl. global financial architecture).
- Decentralization and national strategies.
- And more ….
Issues of Global Governance

- WTO Trade and Investment Negotiations.
  - IMF reform
    - From post-crisis rescue package to pre-crisis monitoring and dialogue.
  - Regional IMF?
- Environmental Issues.
  - Trade and environment
  - Investment and environment
  - Global market for environment?
- Global IT Development.
  - New International Organization?
  - Make IT cooperation mainstream in ODA agenda
Globalization and the Developing Countries

The End .....