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Please find attached a presentation made by Mr. Dariusz Rosati, Professor of International Economics, Warsaw School of Economics, former Minister of Foreign Affairs of Poland at the Globalization Conference, Vienna, 3 – 4 July 2003.

Globalization: a threat or an opportunity?

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OSCE, Vienna, 3.07.2003.

What is globalization?

- **G** is a „buzz word" for a host of various tendencies and processes, from trade liberalization and FDI to Internet and currency crises;
- „An increase in the extent to which individuals and institutions transact or exchange with others based in nation statesother than their ow, or otherwise influence them through their economic and social behaviour" (one recent definition)

Simple definition

Globalization means **interdependence**

(Countries and/or people are affected by other countries' and/or people's actions)

G involves opportunities and risks

Channels of interdependence

- International trade: in 1950-2000, world exports increased 21 times, while world GDP only 7 times, and industrial exports increased 36 times, while world industrial output 10 times; in result, the ratio of exports to GDP increased 3 times;
- FDI flows: in 1985-2000, FDI increased 13 times (GDP increased 2,3 times);
- Migration flows: In 1965-1990 the share of migrants increased from 3.6% to 6.1% in W.Europe, and from 6% to 8.6% in the US (but down from 14.7% in the US in 1911).

Channels of interdependence (cont.)

- International financial flows: increased from 40% of all int'l transactions in 1960 to 96% in 2000;
- International flows of information and ideas: innovations of 1980s and 1990s such as satellite TV, internet, mobile telecom, digital information precessing and transmission, have led to homogenised patterns of consumption and social behaviour (examples: McDonald, Coca Cola, Toyota, Sony, Nokia, Microsoft).

Drivers of globalization

- Technological progress: progress in transport, technology, management (outsourcing), but mostly rapid development of ICT - irreversible!
- Government policies: trade liberalization via GATT/WTO rounds, capital flows liberalization (IMF) - reversible?
- Corporate policies: mergers, acquisitions, outsourcing;
- The collapse of communism and transformation of non-democratic regimes

Benefits of globalization: trade

- Static effects: specialization an comparative advantage (static world-wide gains from the Uruguay Round were 0.5-1% of world GDP), intra-industry trade (composition and variety);
- Dynamic effects: lower costs through increased competition and economies of scale, more investment, faster growth ;
- Actual impact on growth depends on policies and institutions.

Openness to trade and growth: emprirical evidence

- Sachs and Warner (1995), Edwards (1998): open trade can accelerate growth rates by up to 2% p.a.;
- Frankel and Romer (1999): 1 p.p.increase in the openness ratio increases the level of income and the growth rate by at least 1/2 p.p.
- Problems: causality, fixed effects, other factors;
- No evidence that openness is *bad* for growth

Globalizers and non-globalizers: trade and growth performance

	Fall in tariffs	**Increase in trade/GDP**	**Annual growth of income**			
In %	**1980-1998**		**1960s**	**1970s**	**1980s**	**1990s**
Globalizers	**64**	**92**	**1**	**1.7**	**2.6**	**5.3**
Non-Globalizers	**29**	**1**	**2.2**	**2.8**	**0.2**	**-0.8**
High income	**-**	**50**	**4.5**	**3.4**	**2.5**	**1.9**

Source: Dollar and Kray (2000)

Benefits of globalization: investment

- Impact of FDI (new jobs, technology, management, exports, and positive spillovers on human capital);
- Impact of financial capital flows: access to capital, lower interest rates, diversification of risk;
- Actual impact on growth depends on government policies, institutions and skills of the work-force;
- Problems: mixed empirical evidence (IMF).

Benefits from globalization: information

- Direct gains from technology transfer, knowledge dissemination and information access;
- Indirect gains via education, human capital formation, dissemination of institutions and behaviour patterns.

Globalization risks: competition

- Competition runs against established routines and habits, and requires more work effort, innovative thinking and ability to adjust;
- Drastically increased competition under weak institutions and bad policies may lead to a backlash and economic/social crises;
- Need for effective domestic social conflict-resolving institutions.

Globalization risks: is corporate power going out of control?

- The raising power of corporations (of the top 100 economies, 51 are corporations, and 49 are countries);
- Difficulties in regulation and control of multinational corporations;
- Failures in corporate governance: scandals (Enron, Holzmann), mergers and take-overs, role in financial crises.

Globalization risks: financial crises

- Financial integration inevitably raises a country's exposure to financial crises;
- Currency crises and banking crises entail large, though temporary, output losses (avg. 6% of GDP);
- No evidence that currency controls are a good protection against financial crises;
- Domestic policies are generally more responsible for financial crises;
- Focus on FDI and portfolio, avoid bank lending.

Globalization risks: „a race to the bottom"?

- No systematic evidence of the much feared „race to the bottom" in taxation, environmental standards or labour standards;
- But if it happens, it should be addressed with a combination of domestic policies and international aid, rather than trade policies.

Globalization risks: migration

- Migration leads to convergence of wages across countries and divergence within countries;
- Possible brain-drain from developing countries;
- If migration/assimilation policies inadequate, cultural conflicts can emerge, with negative political implications.

Globalization risks: clash of civilizations?

- Historical processes of dissemination of ideas and behaviours via human interactions replaced by „cultural invasions" via media;
- A growing gap between the speed of „cultural invasion" and the ability to absorb changes leads to rejection and conflict;

Globalization risks: impact on world poverty and inequality

Various measures	1910	1950	1972	1992
Gini coefficient	0.610	0.640	0.650	0.657
STD (of log)	1.027	1.154	1.210	1.184
Share of top 10%/share of bottom 20%	16.8	21.2	23.4	23.8
Poverty, % (<2$/day)	82.8	71.9	60.1	51.3
Extreme poverty, % (<1$/day)	65.6	54.8	35.6	23.7
Life expectancy (mean, years)	32.8	50.1	59.4	61.1

Source: Bourguignon and Morrisson (2001)

Globalization risks: impact on world poverty and inequality (cont.)

- The trend for world inequality to increase has come to a halt (if not reversed) in 1980-90s, as demonstrated by recent empirical studies (Sala-i-Martin, 2002; O'Rourke and Williamson, 2000; Pritchett, 1997);
- Weighted vs. unweighted averages: the performance of China since 1978 and India since 1993, vs. a large number of small African countries.

Globalization is not global

- Uneven distribution of private capital flows: less than 10% of total private capital flows go to developing countries and less than 20% of FDI go to developing countries, of which 3/4 go to 10 best performers (China, Brazil, S-E Asia);
- FDI p/capita $ 615 in EU, $145 in Latin America, $ 52 in Central-Eastern Europe, and only $ 11 in Africa (proof that low wages and low social and environmental standards are not the key determinants for FDIO inflows).
- Risks of „closed regionalisms".

Do poor countries loose from globalization?

- Ghana vs. South Korea: GDP/capita was 1:1 in 1960, and is 1:32 now (2000);
- Integration of Mexico into NAFTA;
- Integration of Portugal and Ireland into the EU;
- Integration of S-E Asia with the US;
- But there are also losers (Sub-Saharan Africa, Central Asia).

What are the reasons for the diverging performance of individual countries?

- Geography matters: distance elasticity of trade is -1.25 (average), distance elasticity of portfolio equity flows is -0.85 and distance elasticity of FDI is -0.42; geographical characteristics are important (distance from equator, propensity to diseases);
- But institutions matter even more (D. North), and there is no automatic replacement of bad institutions;
- Economic development is path-dependent and convergence is inherently slow.

Policy conclusions

- Globalization can neither be stopped nor ignored, but can be managed;
- Ability to flexible and swift adjustments is key to success;
- National and international policy measures should aim at facilitating the adjustments rather than isolating from, or protecting against globalization.