

# Does Globalization Hurt?



# SK

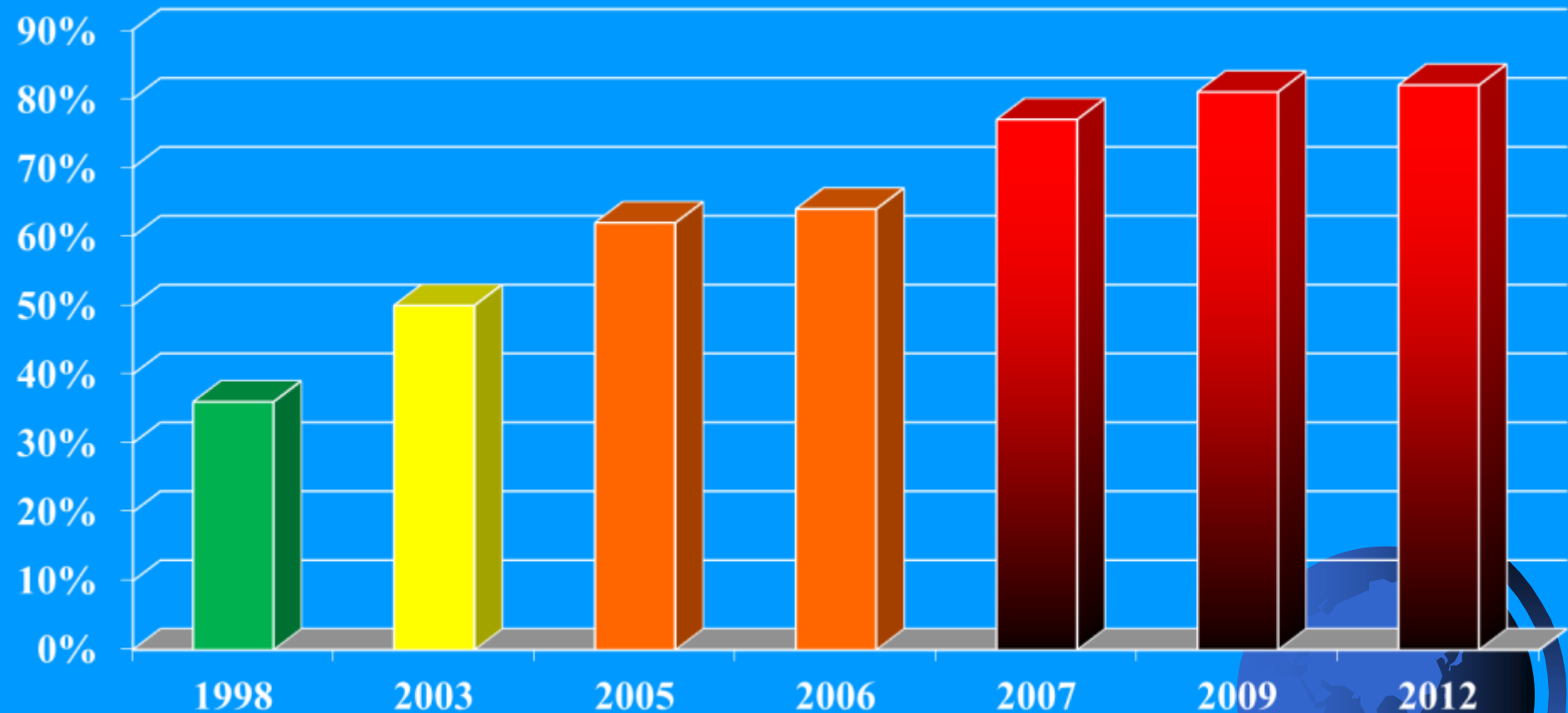
**Michel Henry BOUCHET**  
September-December 2013

[www.developingfinance.org](http://www.developingfinance.org)

**skema**  
BUSINESS SCHOOL

EFMD  
**EQUIS**  
ACCREDITED

# « Globalization is a *threat* for France, for job creation and for well-being»



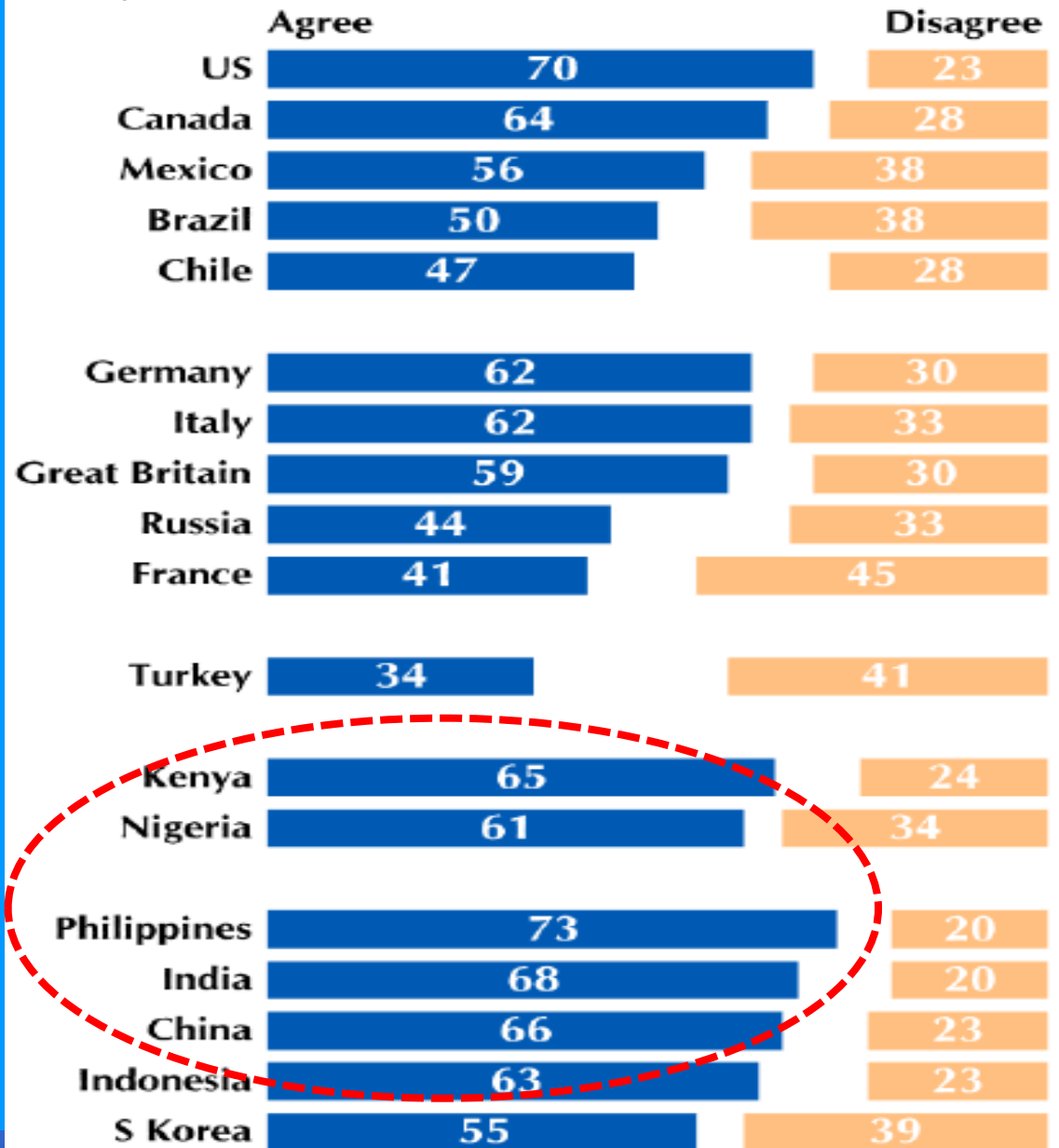
Sondages CSA-Challenges 12/2005, Eurobaromètre 2006-2009, IPSOS 2012

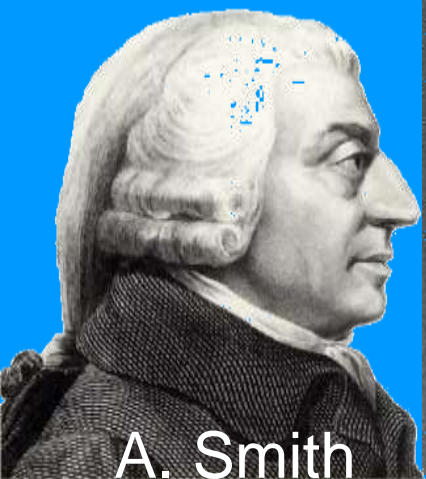
MH Bouchet/SKEMA (c) 2013

# Should the free market system be the future of the world?

## Free Market System

The free enterprise system and free market economy is the best system on which to base the future of the world.

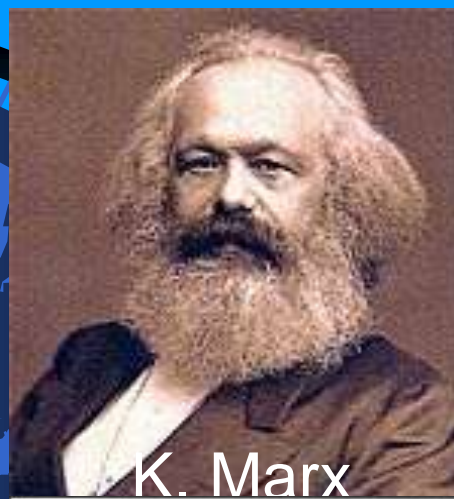




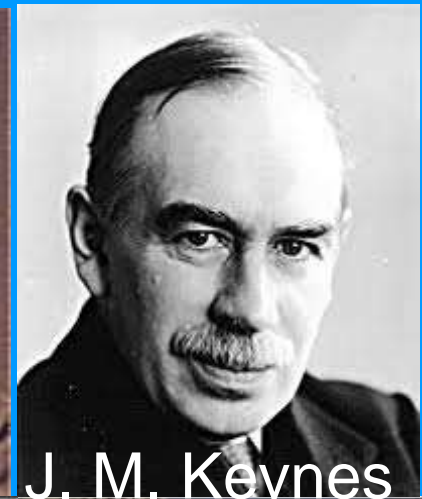
A. Smith



D. Ricardo

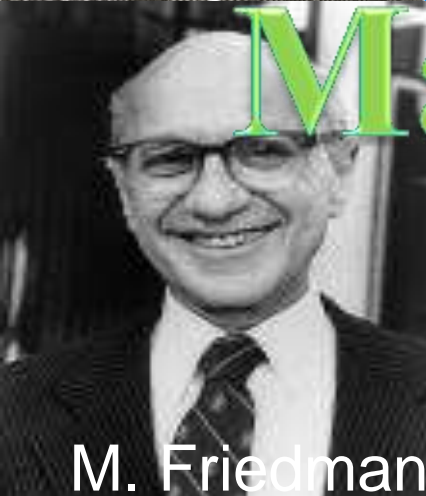


K. Marx

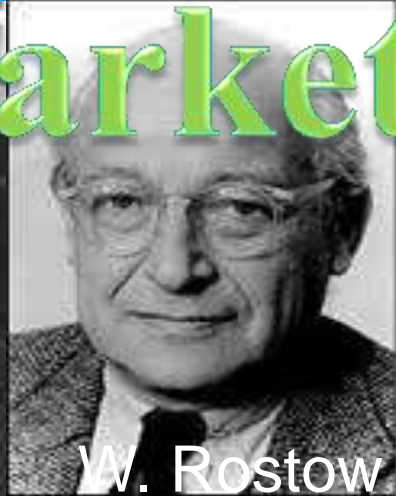


J. M. Keynes

Market

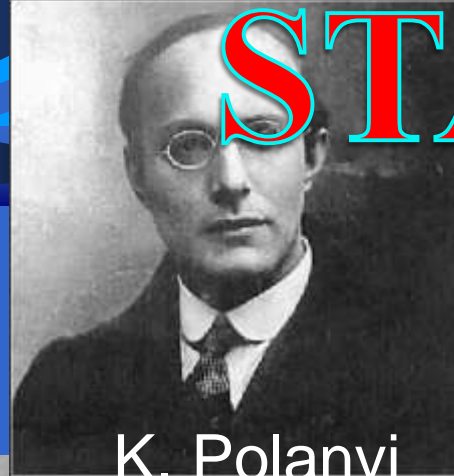


M. Friedman



W. Rostow

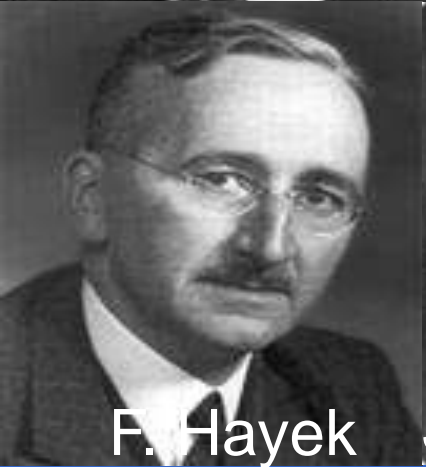
STATE



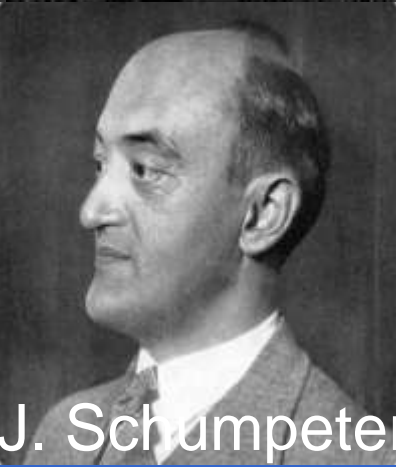
K. Polanyi



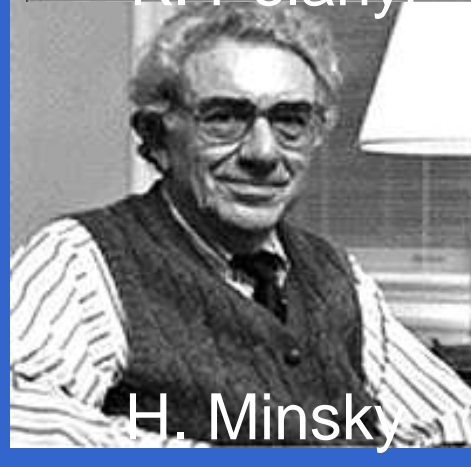
P. Krugman



F. Hayek



J. Schumpeter



H. Minsky



J. Stiglitz



# State versus market forces = at the heart of the socio-political debate



# Globalization has subordinated politics to economics and economics to finance

Decoupling = Two-fold emancipation:

**Phase I: 1970s-80s: Economic system from Political system** (MNCs, trade openness, economic liberalization, privatization, deregulation, IFIs, rating agencies, Maastricht...)

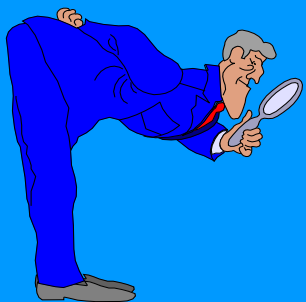
**Phase II. 1990s: Financial system from Economic system** (global investment funds, derivatives, offshore and shadow banking system...)



# Phase I- Gradual emancipation of economics from politics

1. Flexible exchange rates 1970s
2. Economic and trade liberalization (IMF/GATT/WTO)
3. Privatization (1970-80s)
4. Economic automatic pilot (Maastricht: 12 EU-1992)
5. Washington consensus (late 80s)
6. Rating agencies





# Governments are bypassed by market forces and under the scrutiny of IFIs and rating agencies

## Rating Distribution of Sovereign Issuers on Selected Dates

Rating	1983	1990	1995	2000	2005	2010	2011	2012
Aaa	79%	33%	16%	12%	19%	15%	14%	13%
Aa	21%	28%	25%	15%	7%	15%	11%	12%
A	0%	17%	18%	10%	22%	13%	14%	8%
Baa	0%	8%	18%	21%	14%	18%	21%	26%
Ba	0%	8%	16%	19%	15%	16%	15%	16%
B	0%	6%	5%	18%	17%	23%	23%	22%
Caa-C	0%	0%	0%	5%	5%	1%	2%	3%
Investment-grade	100%	86%	78%	59%	63%	61%	59%	59%
Speculative-grade	0%	14%	22%	41%	37%	39%	41%	41%

# Washington Consensus: One-size fits all!

## “Ten rule” of sustainable market-economic policy

John Williamson (IIE 1990)

1. Fiscal discipline
2. Redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution (health care, primary education, infrastructure)
3. Tax reform (to lower marginal rates and broaden the tax base)
4. Interest rate liberalization
5. Competitive exchange rate
6. Trade liberalization
7. Liberalization of FDI inflows
8. Privatization
9. Deregulation
10. Secure property rights



# Globalization might stimulate (volatile) Economic Growth

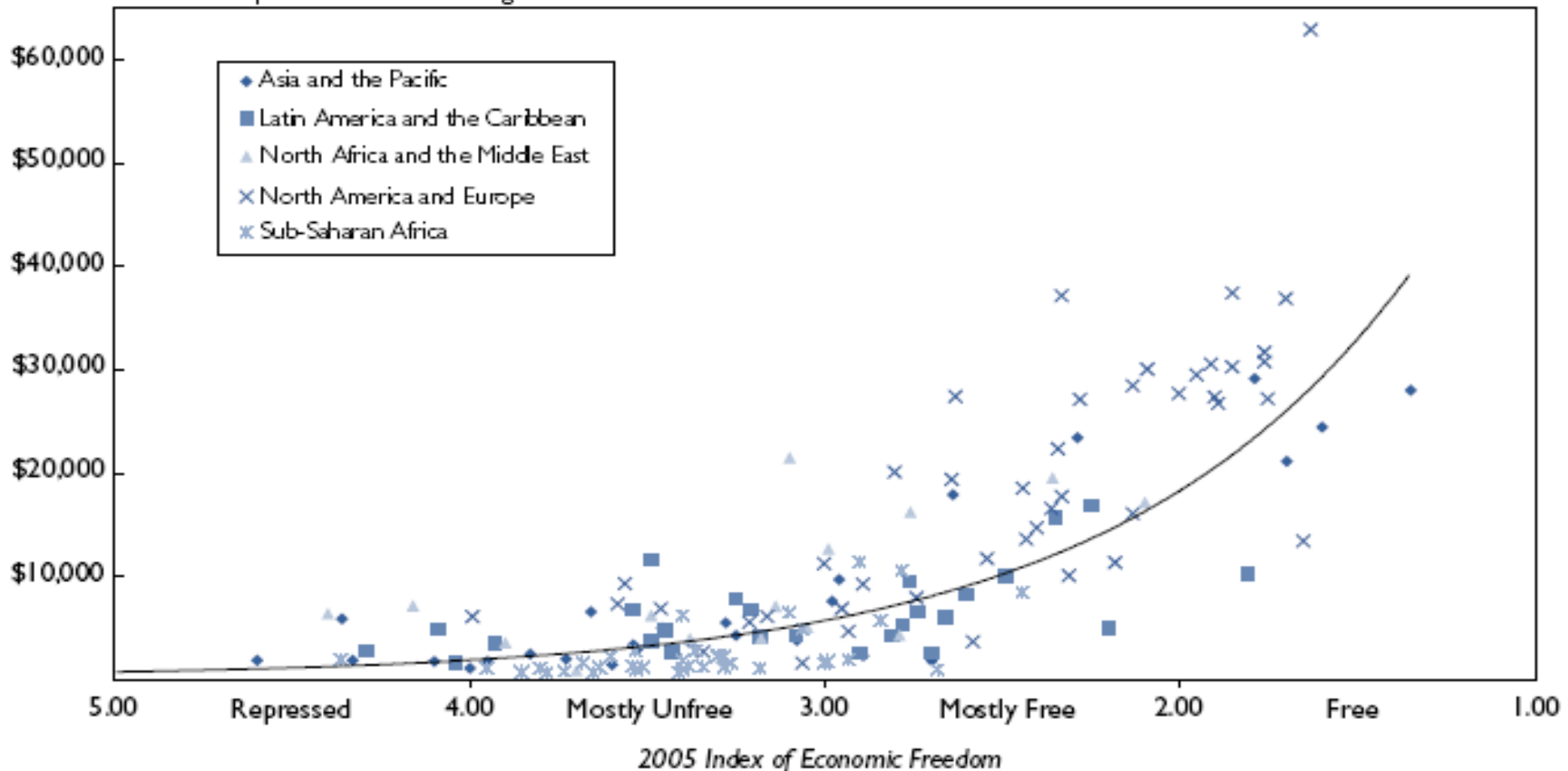
☞ **Globalization + international openness**  
**= Efficiency + competitiveness =**  
**= High-growth strategy**

☞ High correlation between globalization, competitiveness (economic performance, institutions quality, business efficiency, infrastructure), and dynamic growth rates



# Correlation economic liberalization/GDP growth

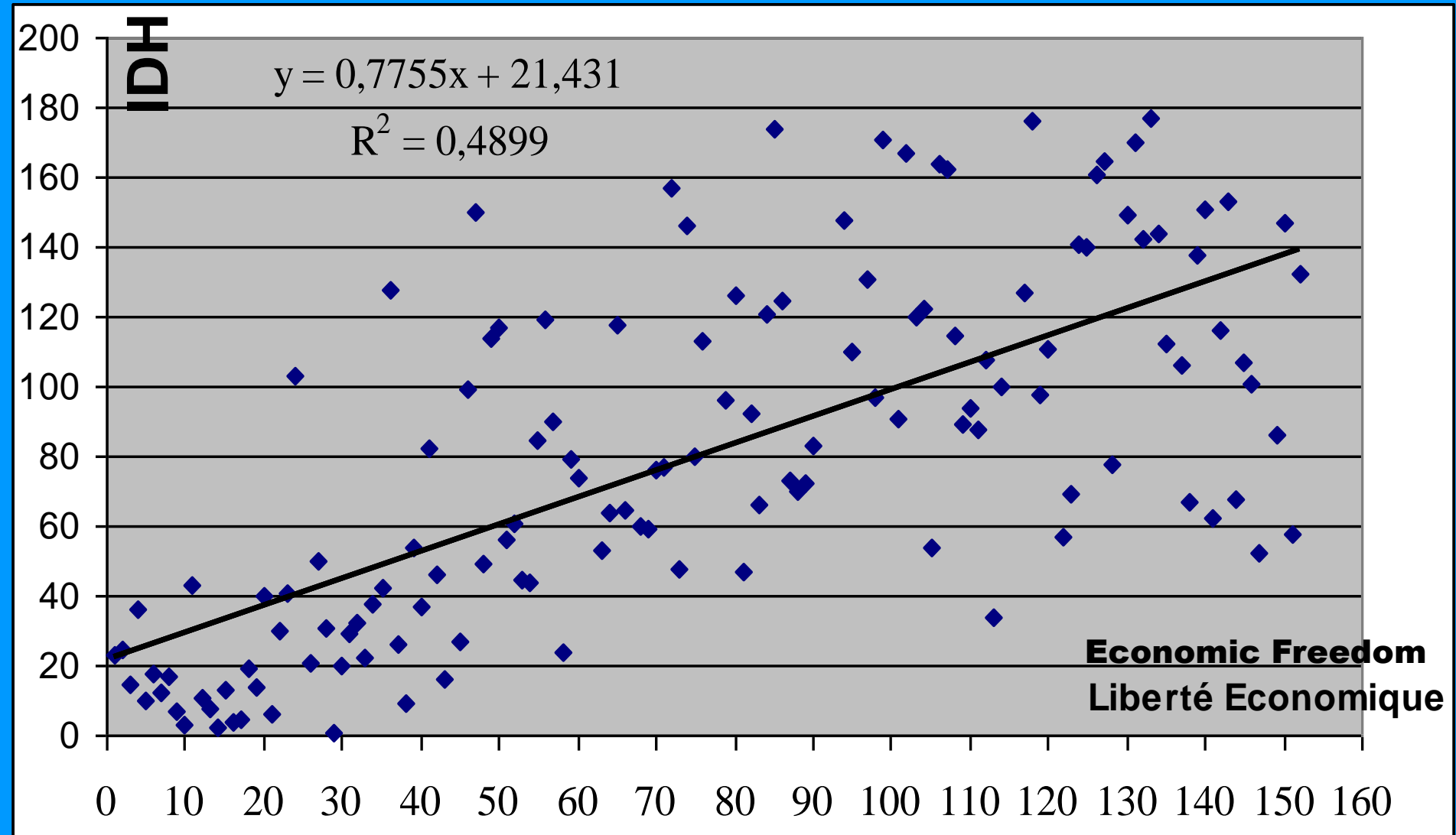
2003 Per Capita GDP in Purchasing Power Parities



Source: World Bank, *World Development Indicators Online*, available by subscription at [www.worldbank.org/data](http://www.worldbank.org/data); Central Intelligence Agency, *The World Factbook 2004*, available at <http://www.cia.gov/cia/publications/factbook/index.html>, for the following countries: Bahamas, Burma, Cuba, Cyprus, Equatorial Guinea, North Korea, Libya, Qatar, Suriname, Taiwan, Zimbabwe; Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, *2005 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2005), at [www.heritage.org/index](http://www.heritage.org/index).

# Correlation

## *Economic freedom – Human development*



Phase II- 1980s-90s

# The toothpaste got out of the tube



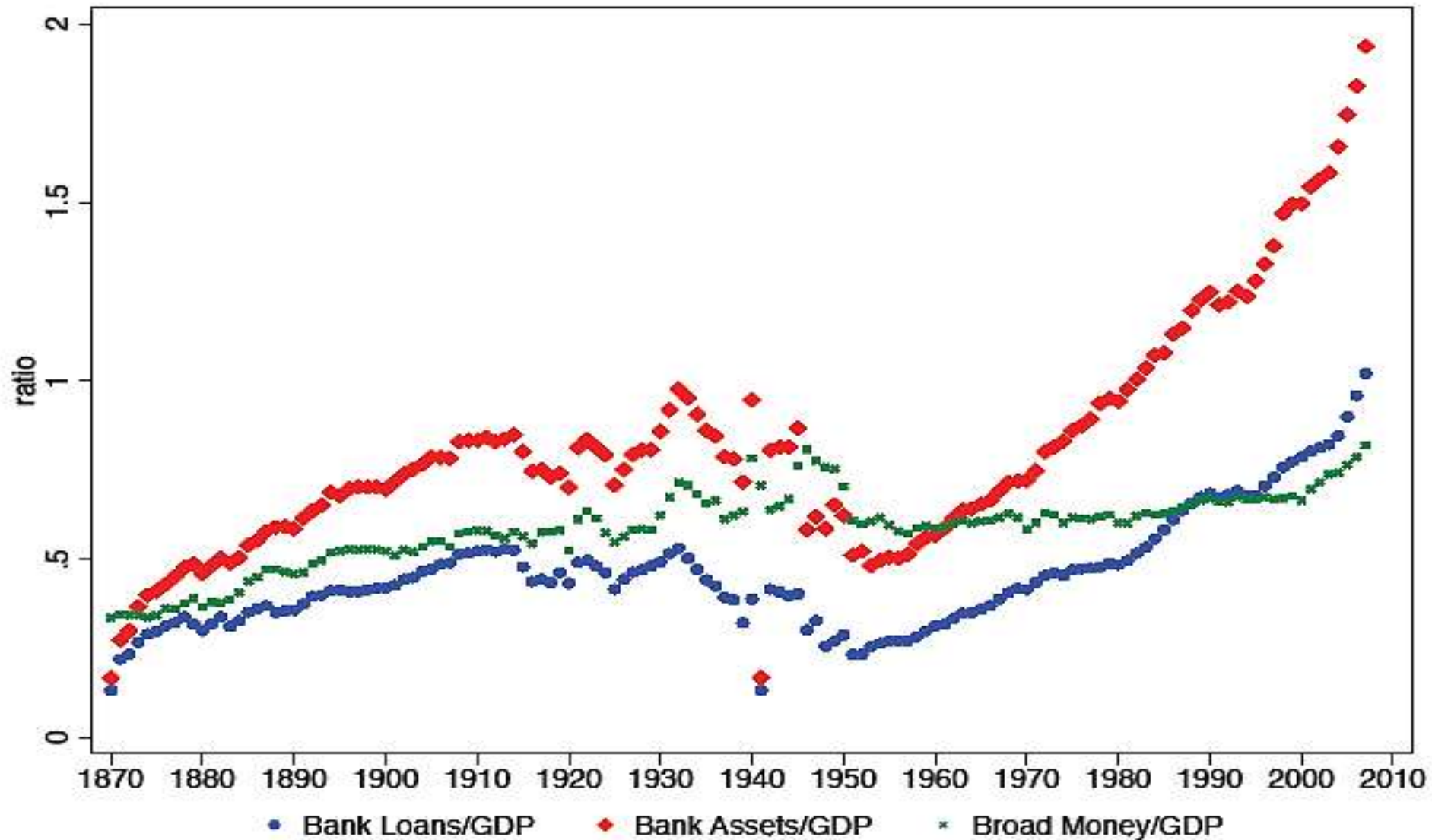
# The emergence of Hyperfinance?

1. Financial Market Globalization (1980s)
2. Capital market deregulation (1990s)
3. Financial innovations and dematerialization (securitization, options, derivatives...)
4. NTIC (Internet!)
5. TBTF global banks

Free-wheel global finance?



# Swelling banking sector in post WWII era (ratio of loans + assets + M2/GDP in developed countries)

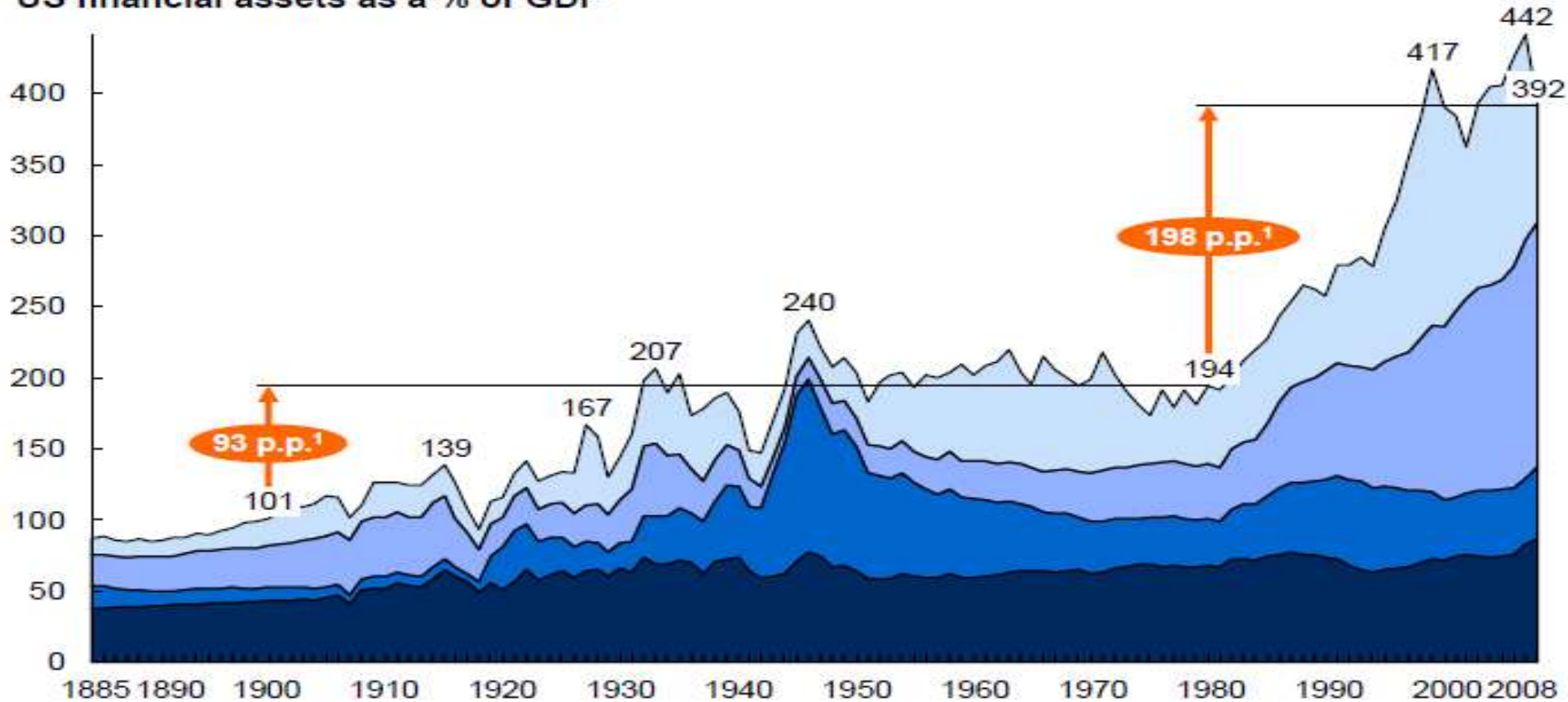


# The rise in financial assets over GDP since the 1980s

After 1980, financial asset growth accelerated

US financial assets as a % of GDP

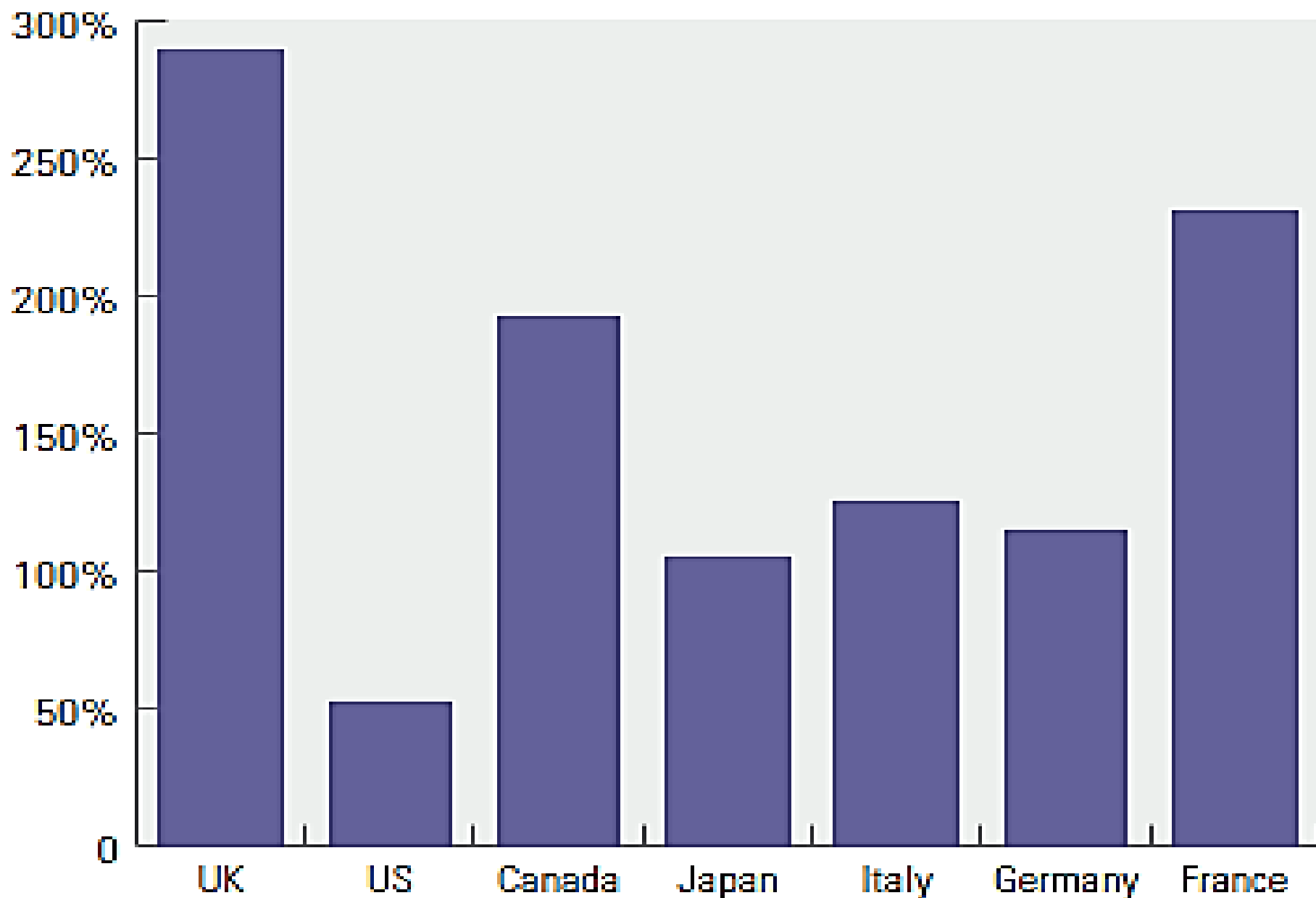
- Equity
- Private debt securities
- Government debt securities
- Deposits



<sup>1</sup> Percentage points of GDP.

SOURCE: Federal Reserve; National Bureau of Economic Research; Robert Shiller; McKinsey Global Institute analysis

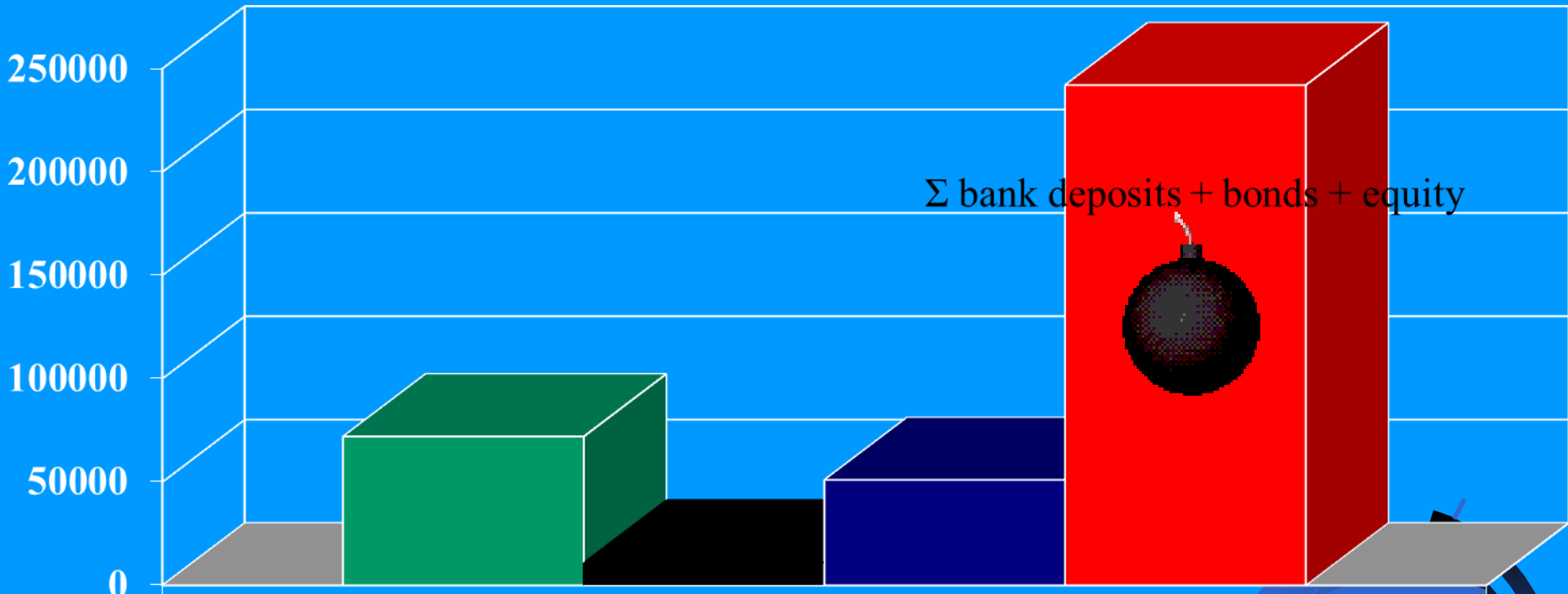
# International Banks Assets/Country GDP



# Financial depth: Overwhelming supremacy of Finance (of 'virtual' over 'real')

In US\$ billion

400% of GDP



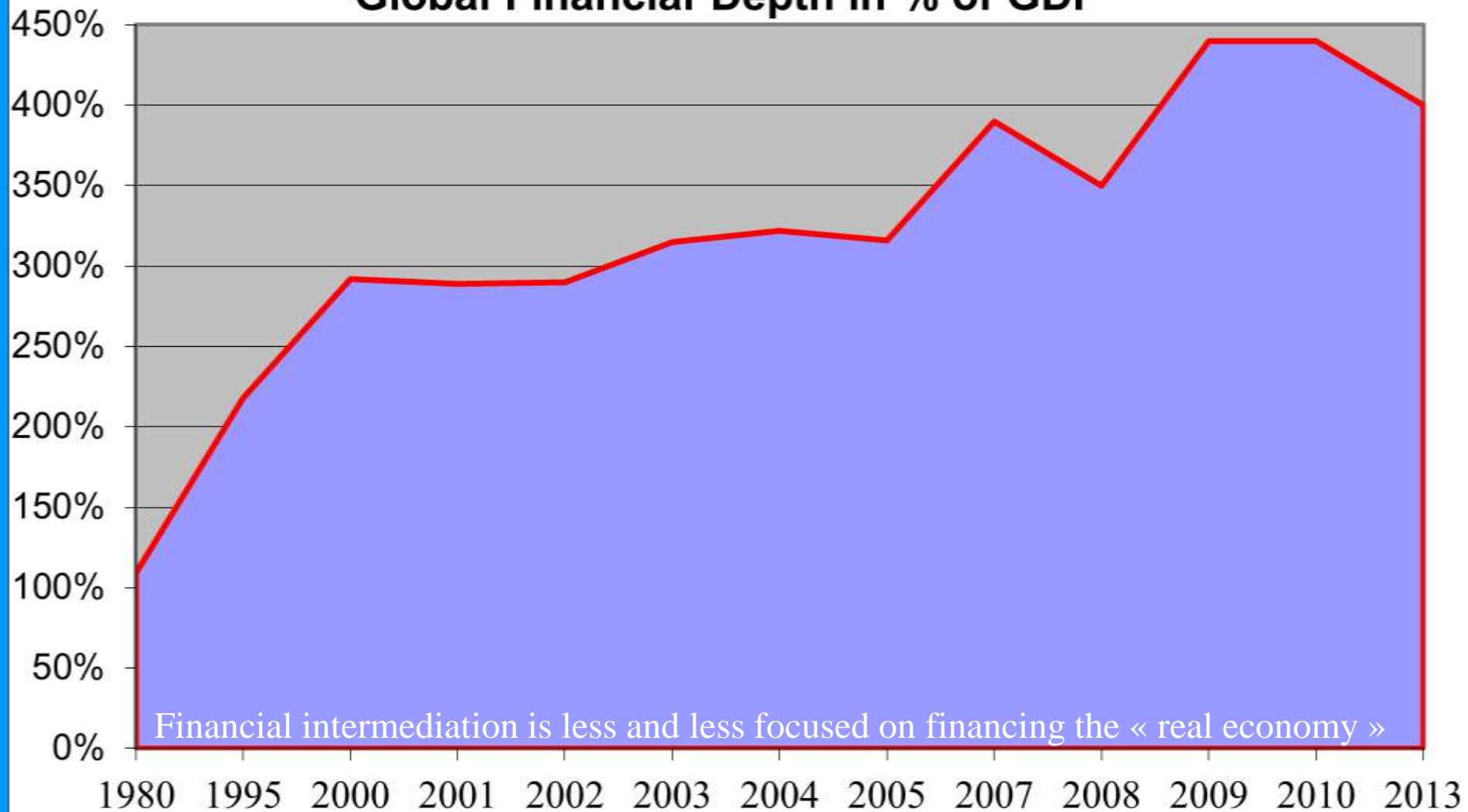
400% in the US, 530% in Japan  
280% in China and in France

- GDP
- Reserves
- Stock market capitalization
- Financial assets



# 1990s: The financial genie has escaped from the bottle!

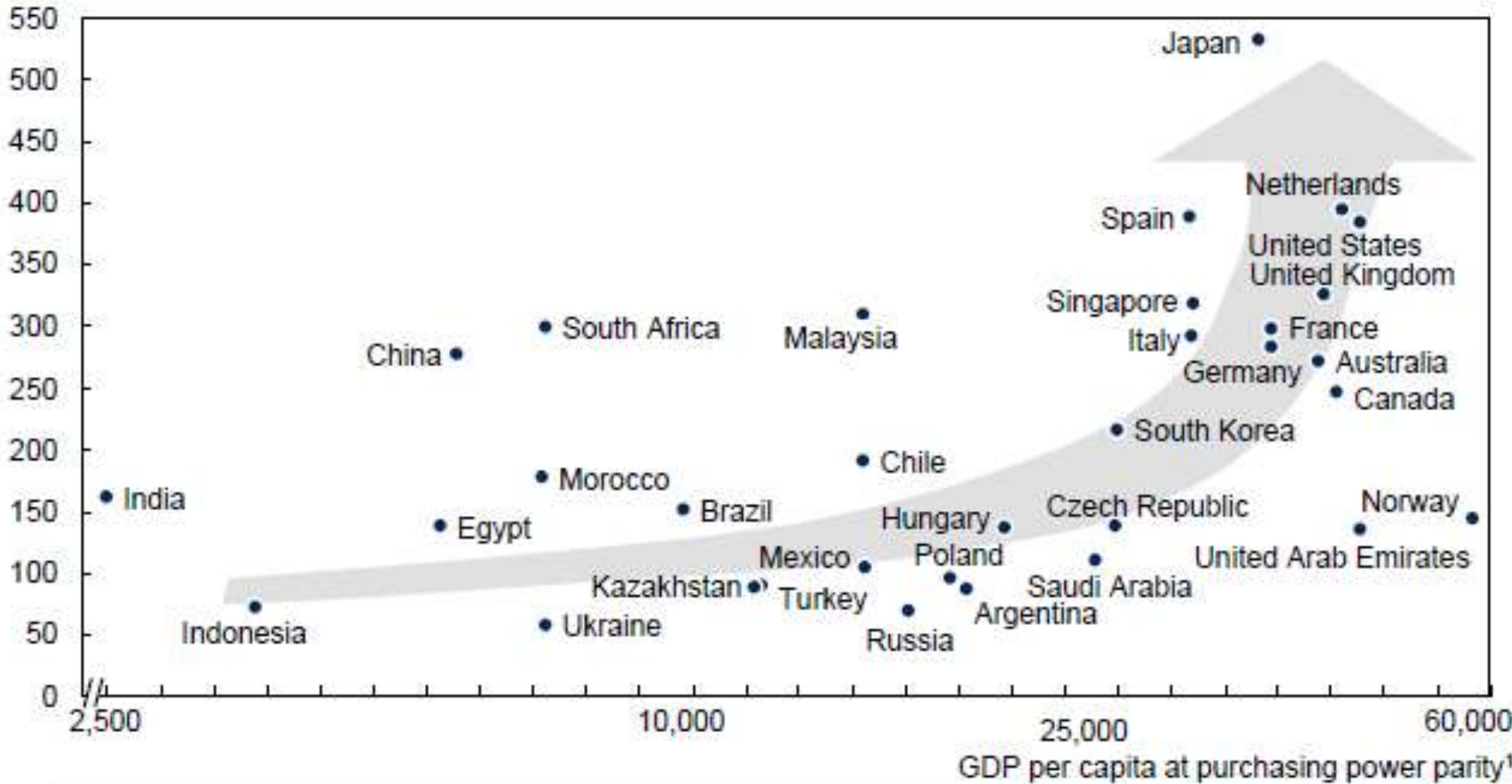
## Global Financial Depth in % of GDP



# Financial globalization

Financial depth: Value of bank deposits, bonds, and equity as a percentage of GDP, 2008

%



Emerging markets

Mature markets

# Is globalization bad?

Four myths and misconceptions regarding  
the **pitfalls** of Globalization



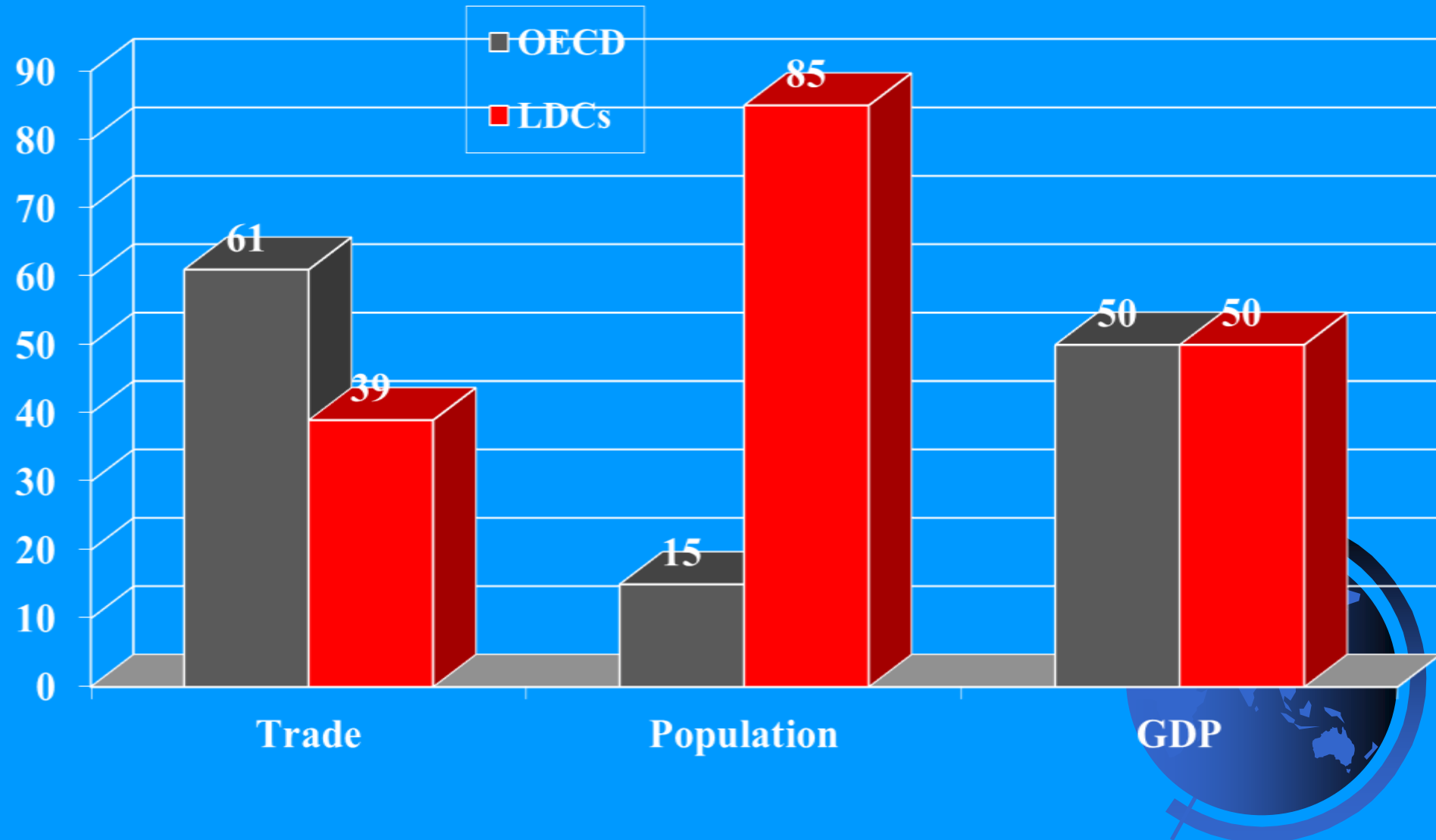
# Myth 1.

Globalization generates growing wealth and well-being for all...

- Economic growth boils down to rising GDP
- GDP says nothing regarding **wealth distribution** nor regarding inclusiveness and sustainability
- Development = growth coupled with those conditions that make it ... **sustainable!**



# Share in GDP, trade and population %



# Challenge of Globalization?

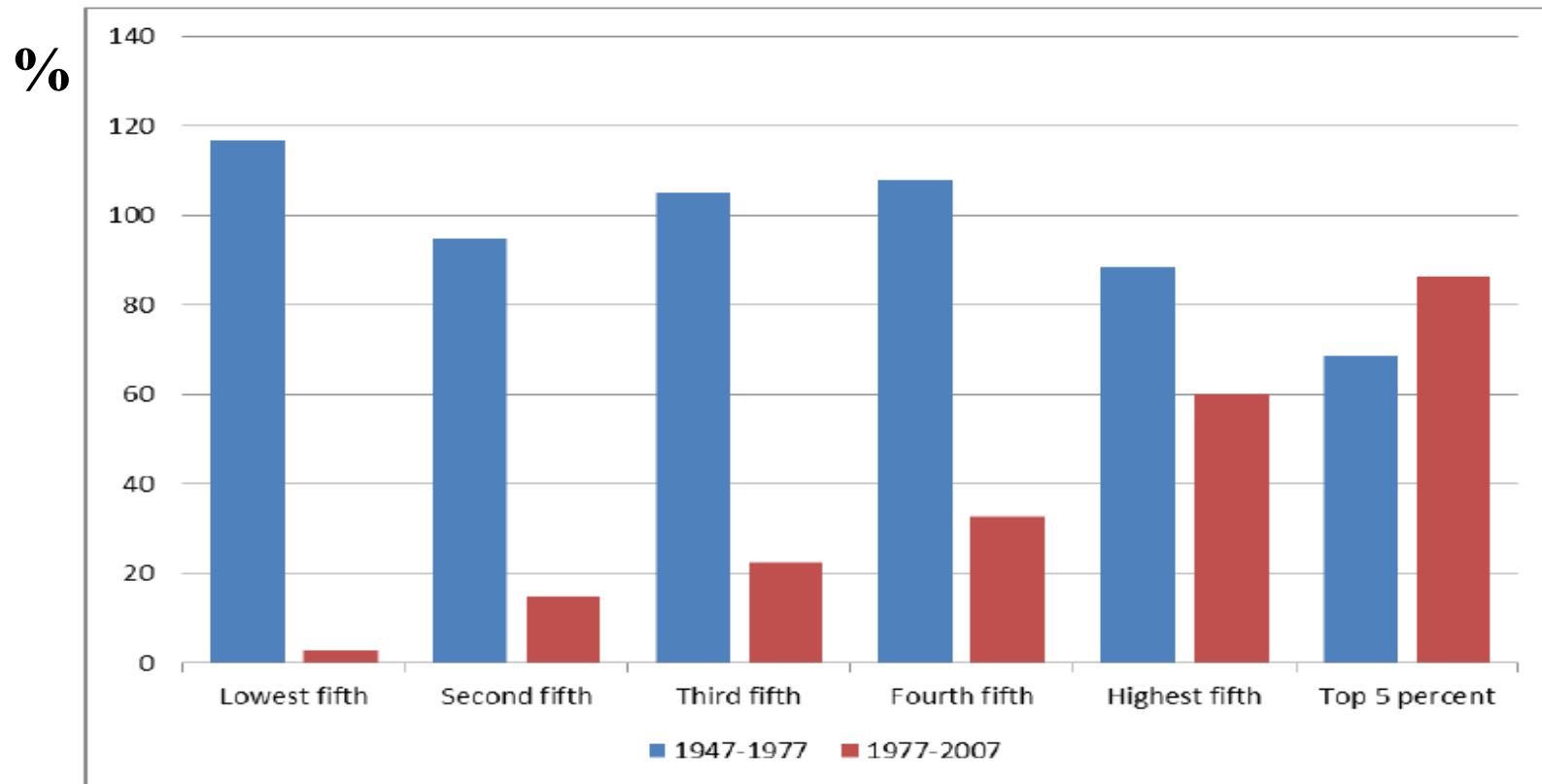
☞ « Globalization reveals the *liberating potential* of the market for generating unlimited wealth, and its *blindness* as a mechanism for distributing the wealth benefits »



Ashraf Ghani, Washington Quarterly, Autumn 2006

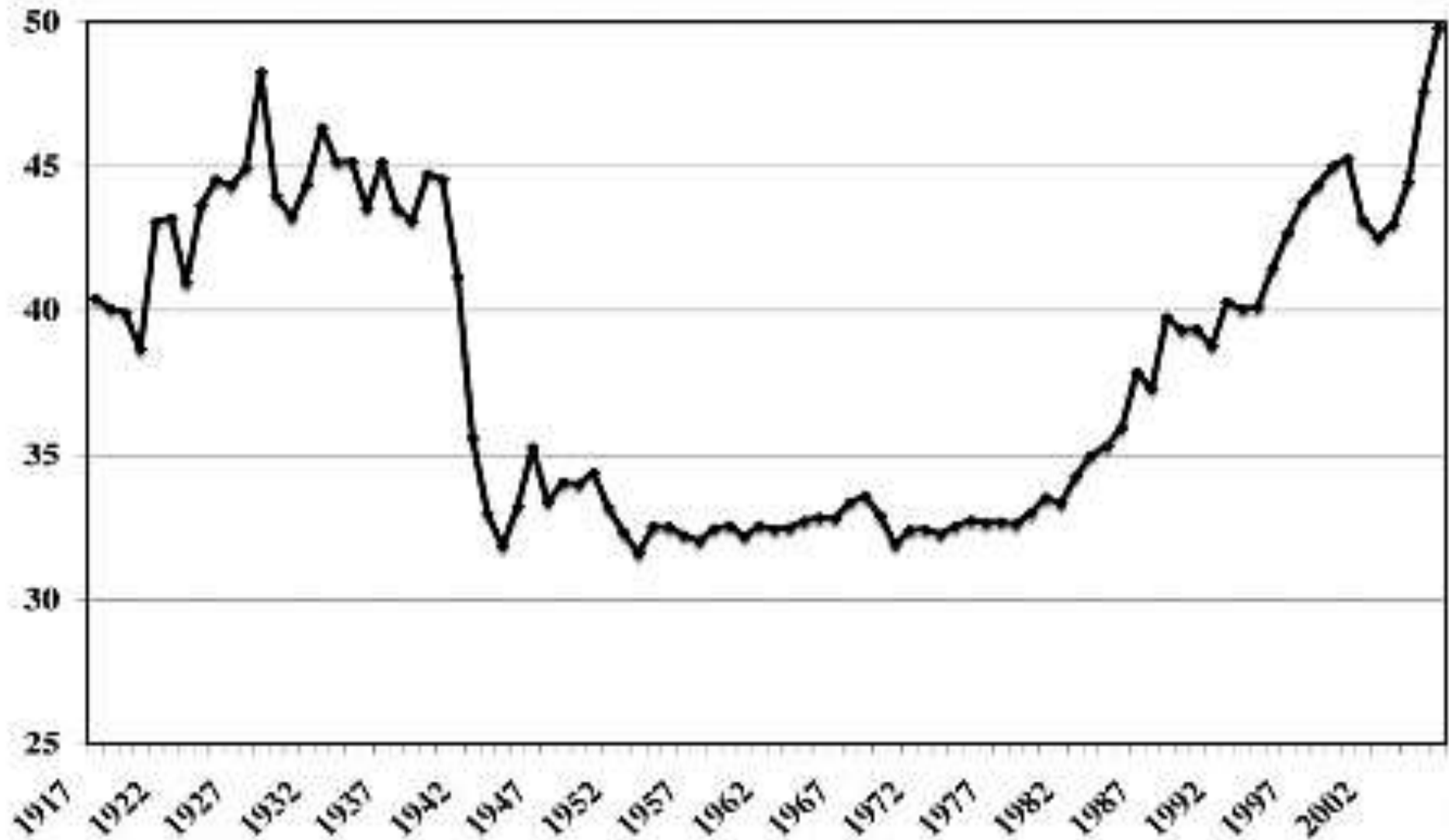
# Rising growth + rising income inequality?

**Figure 5:** Growth of real pre-tax family income, excluding capital gains, United States, 1947-1977 and 1977-2007

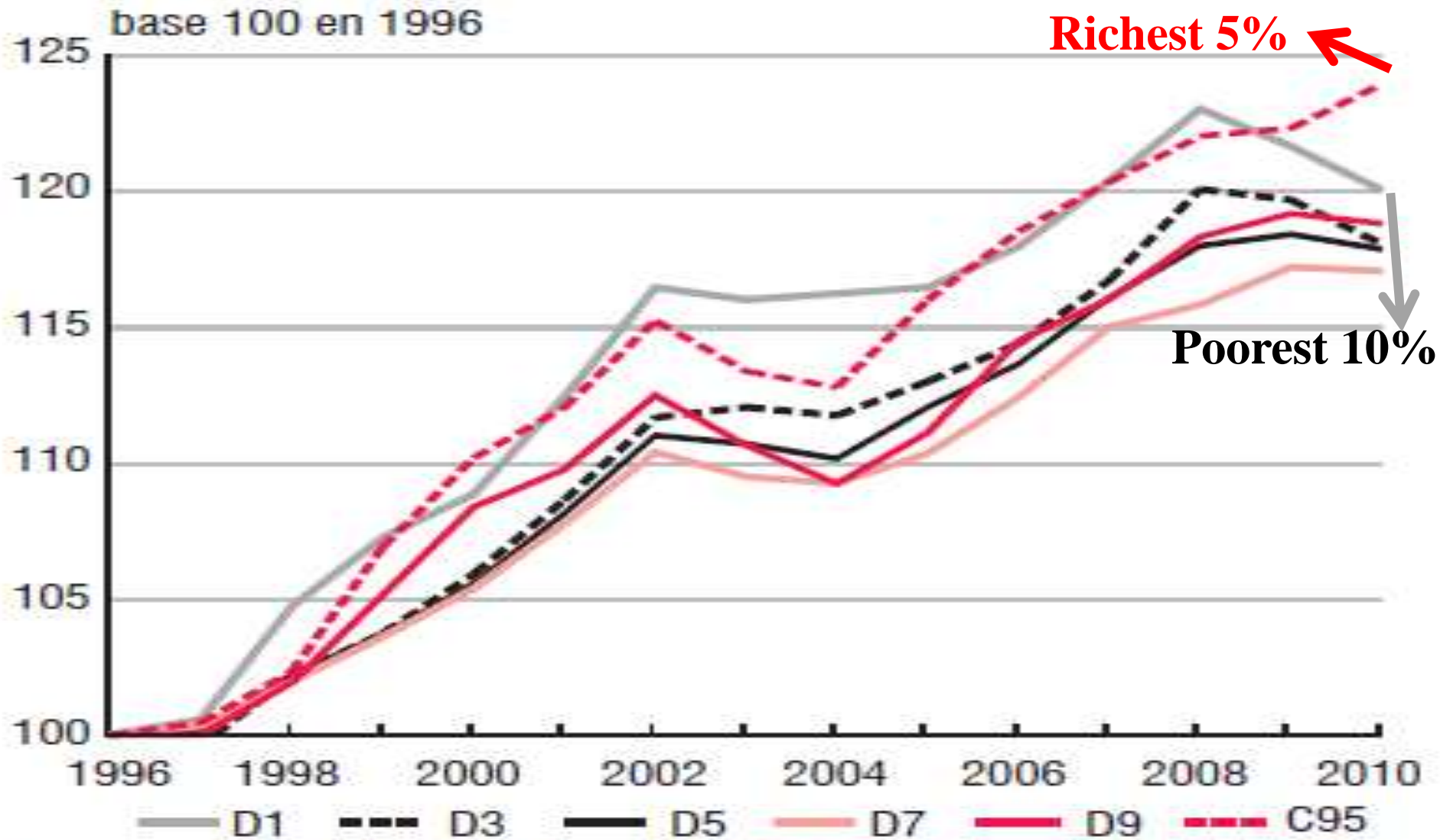


**Source:** [http://www.stateofworkingamerica.org/files//family\\_income\\_growth.xlsx](http://www.stateofworkingamerica.org/files//family_income_growth.xlsx) based on U.S. Census Bureau, Historical Income Tables, tables F.2, F.3, F.5 (CPS)

# The winner takes all: Share of the richest 10% Americans in total national income 1917-2010



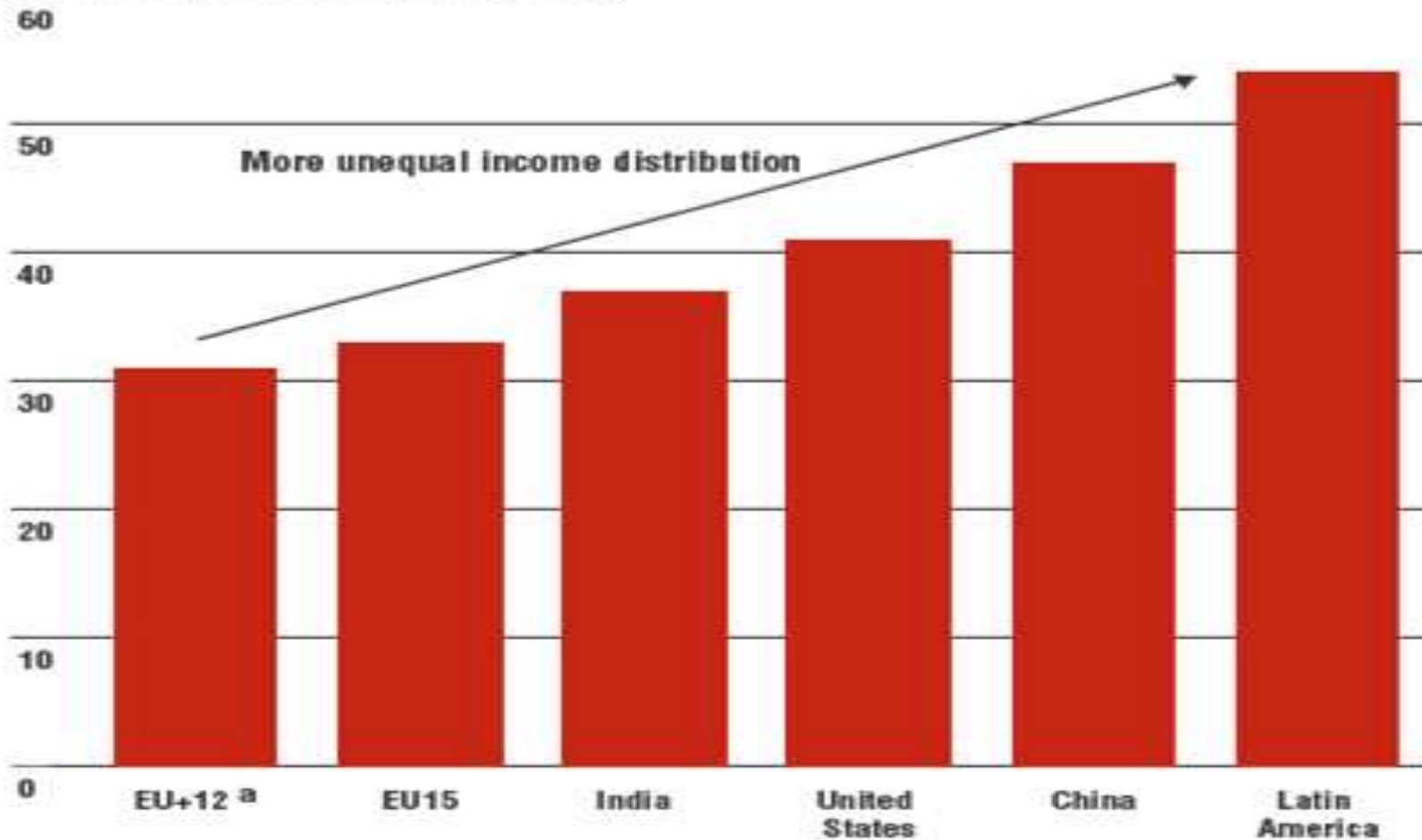
# France: Evolution in per capita income between 10% poorest and 5% richest 1996-2010



# Growing, but more inequal!

## Index of regional income inequality

*Gini Index, most recent survey (0-100)*



<sup>a</sup>European Union Nations that acceded in 2004 or later.

Source: UNDP, Human Development Report 2007/2008; World Bank.

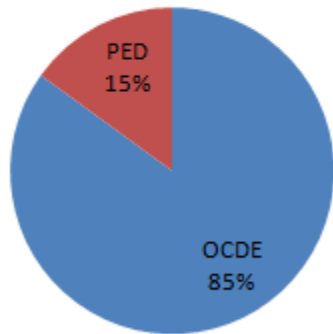
# Myth 2. Globalization leads to catching up between nations?

- **1820-1960: The Colonial era: diverging North & South**
- **1960-1990: the Development Aid decades**
- **1990-2013: the « catching up » myth: rising income gaps within and between nations**

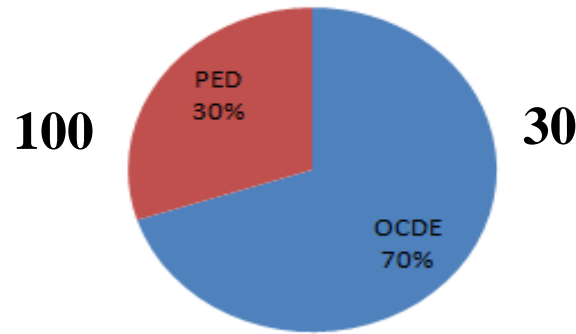


# The Global Economy: Yesterday, Today and Tomorrow

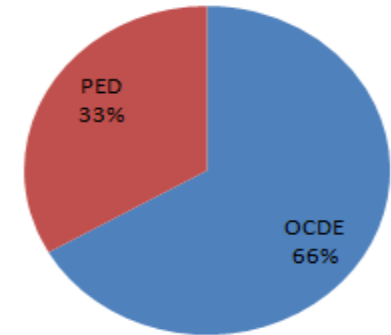
1945



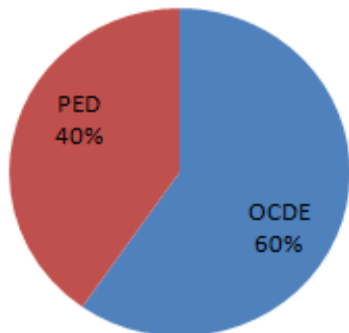
1960



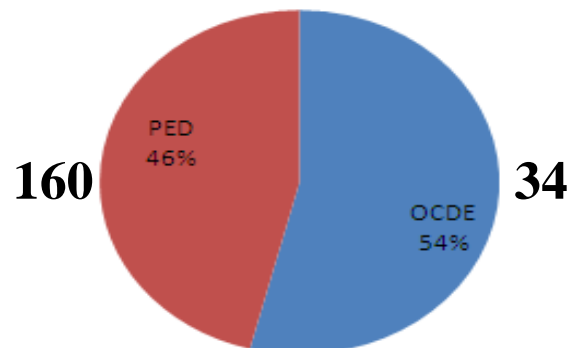
1980



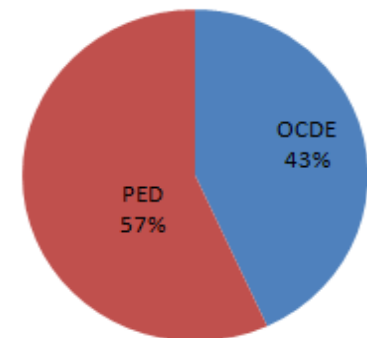
2000



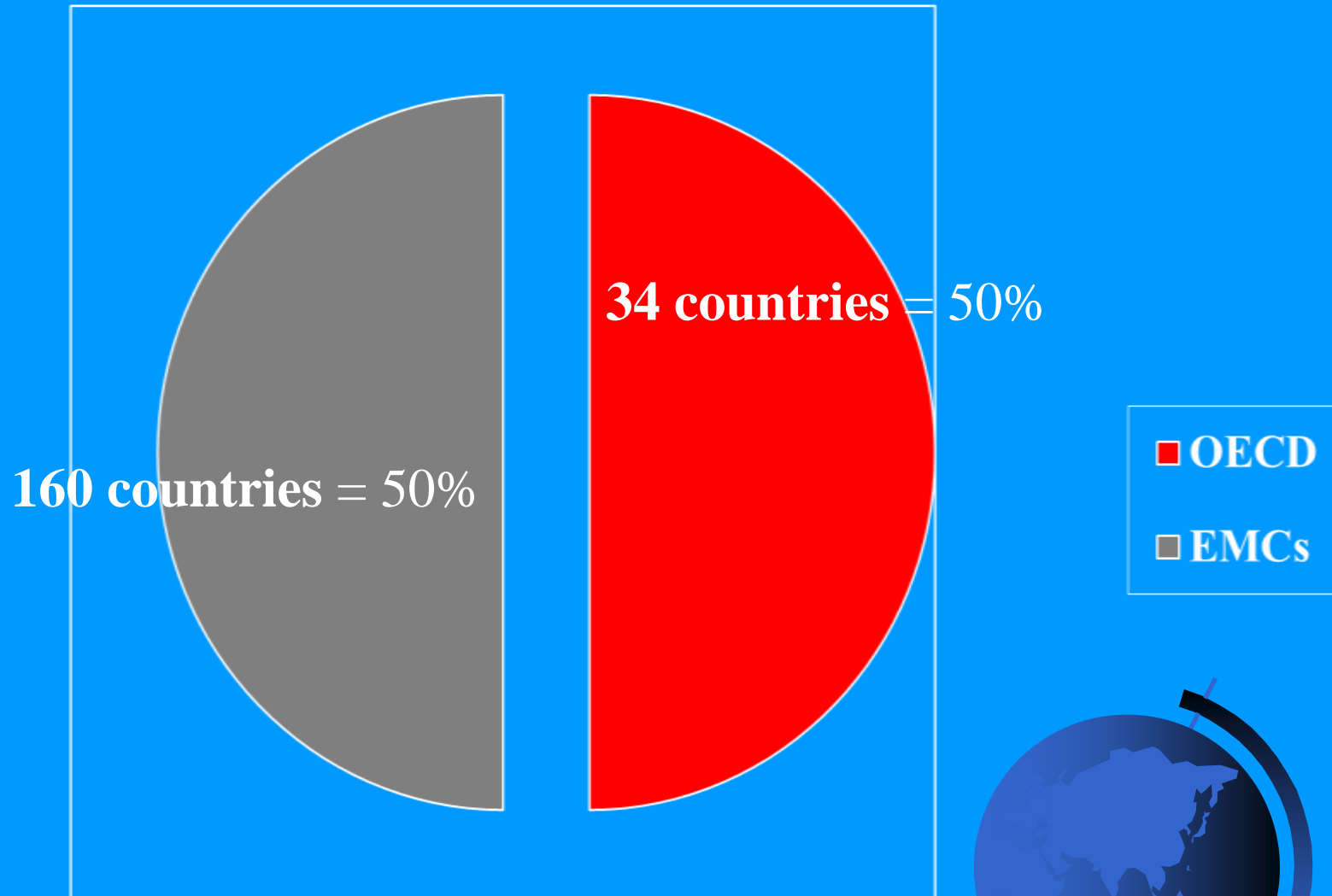
2010



2030



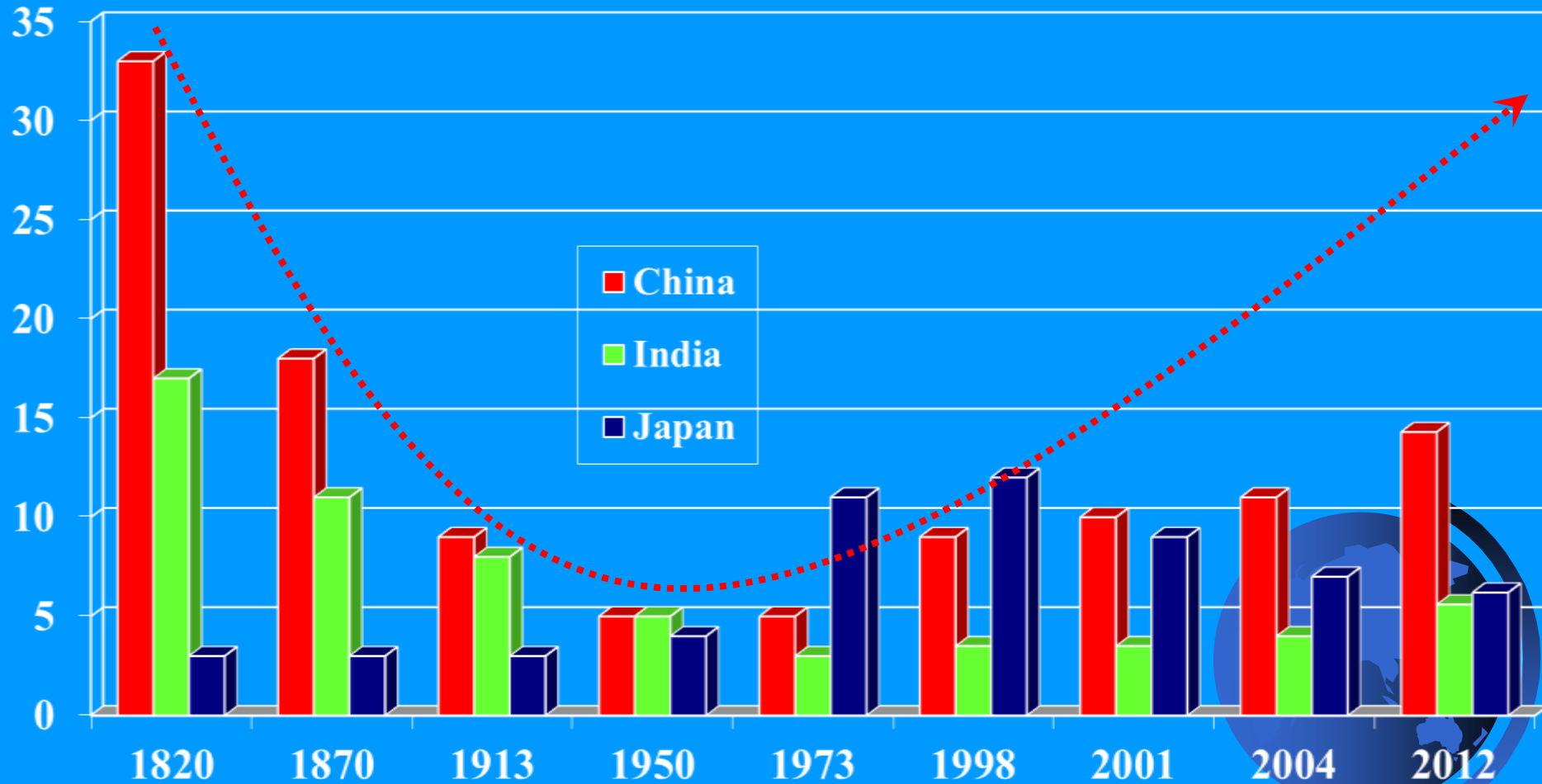
# 2013 Global economic divide : GDP %



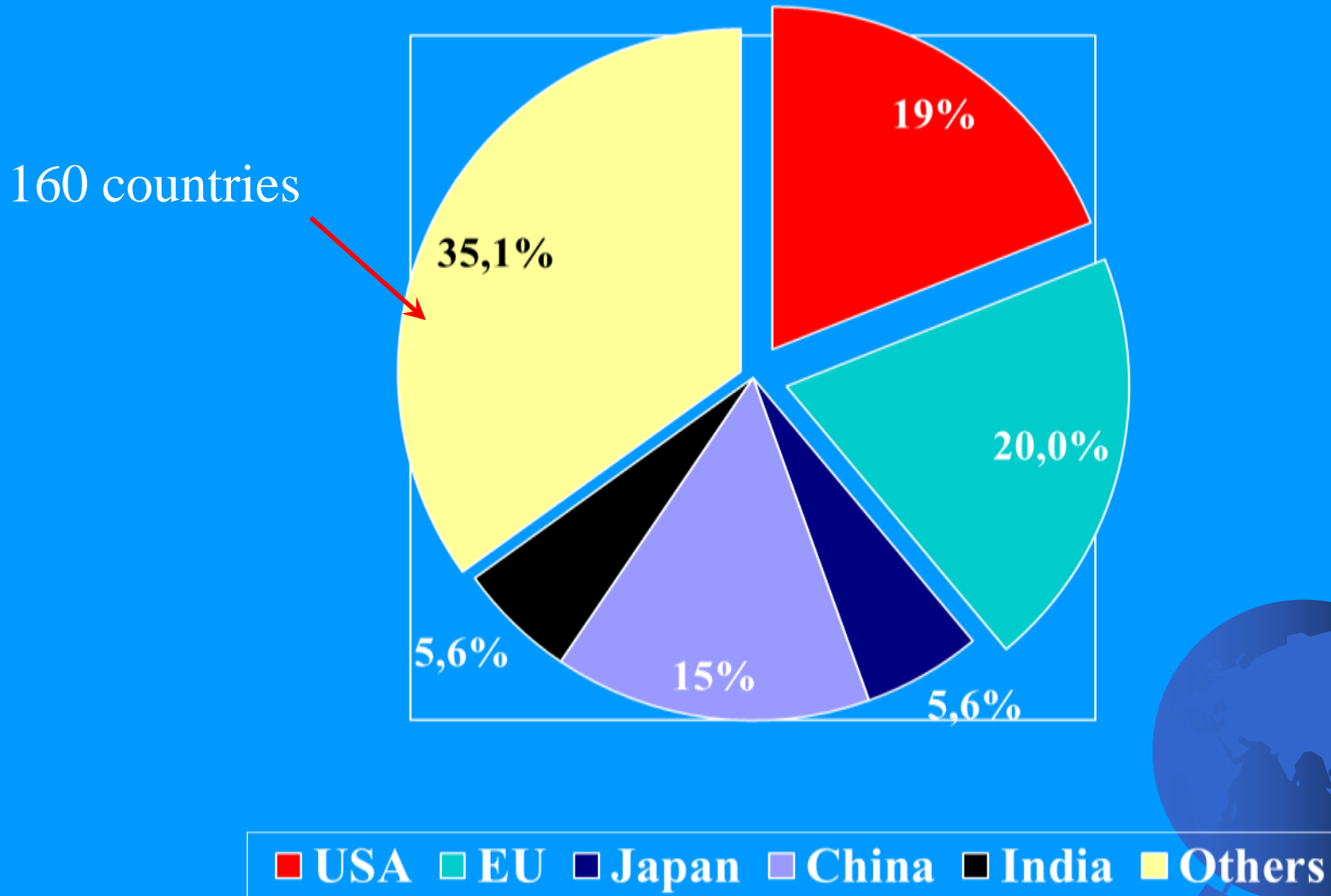
# China is back!

Share of Global GDP % : 1820-2012

China= 15%  
Japan= 5,6%  
India= 5,6%



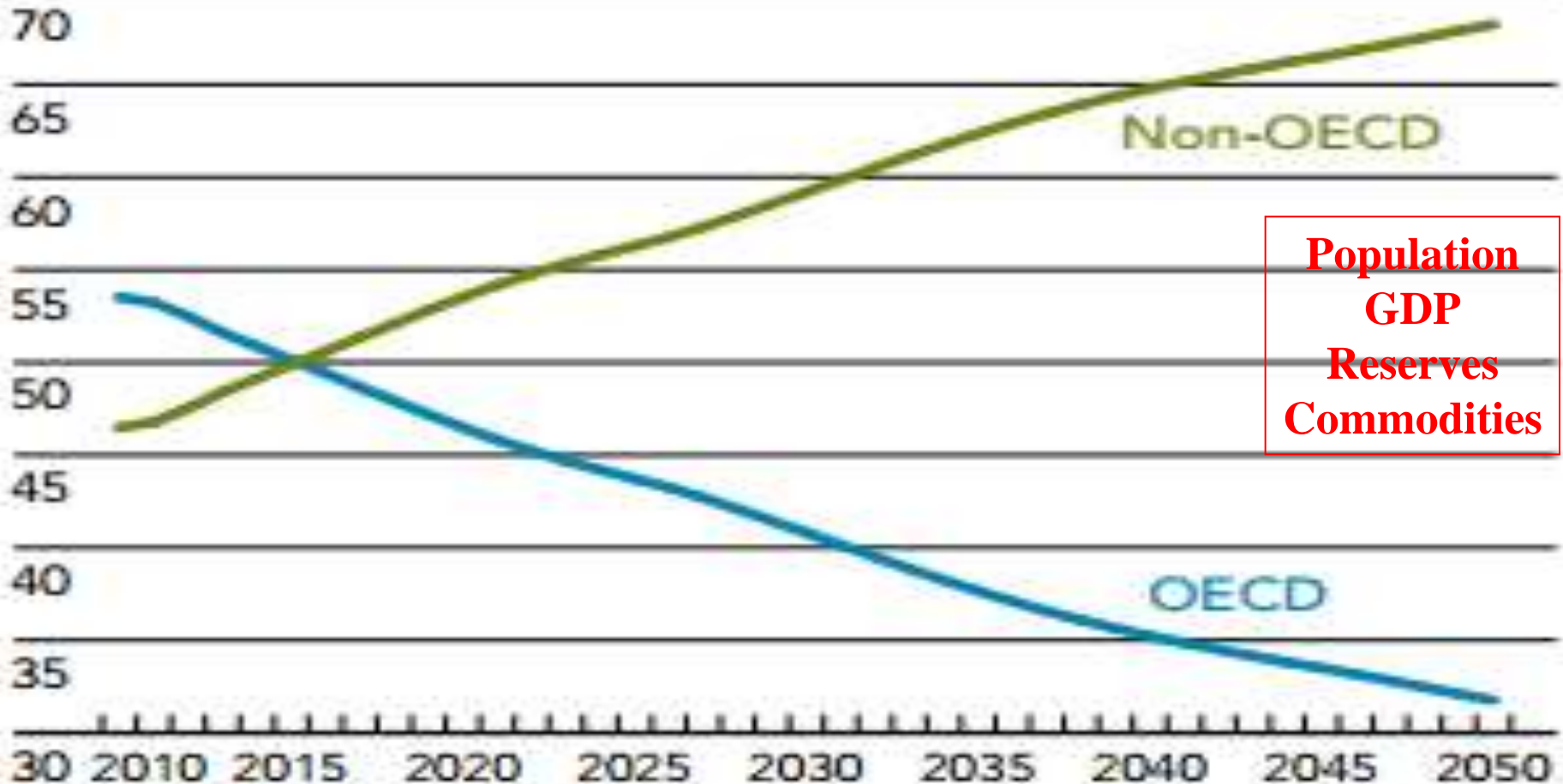
# Regional shares of global GDP in ppp



Though 2015 might see a global economic power shift, the non-OECD include **160 countries**, including many stubbornly poor!

## Traditional, Four-Component Power Forecast

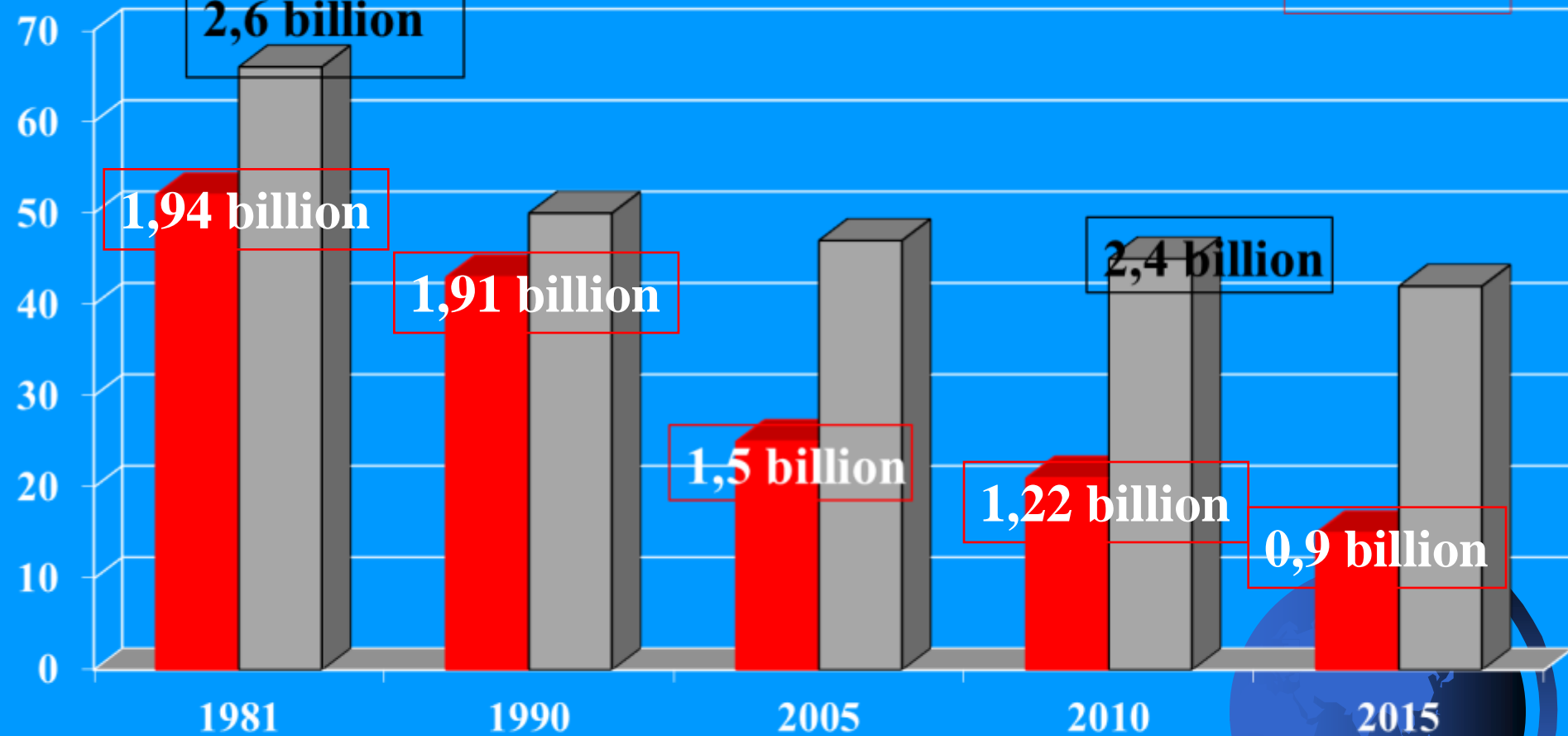
Index



**Population**  
**GDP**  
**Reserves**  
**Commodities**

# Stubborn world poverty

% of population

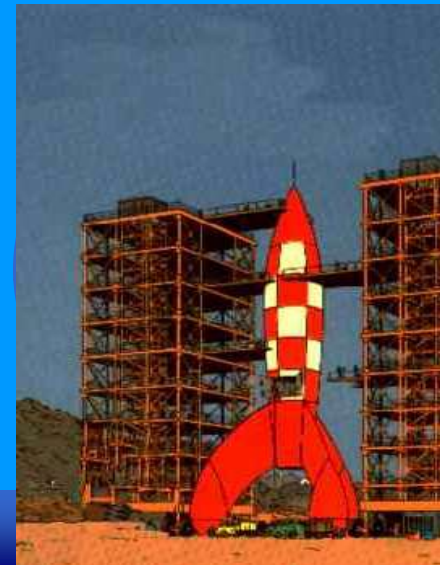


# Myth 3

☞ Globalization = End of cyclical boom and bust

## Facts:

- Sustained, meteoric growth in emerging economies may no longer be possible (growth slowdown in Brics + social unrest)
- The great “**age of industrialization**” may be behind us
- Something special about the 20th-century? mix of widespread, well-paying manufacturing jobs, higher education, rise of a middle class that acts as voters and taxpayers
- End of high growth success stories?
- Global crisis = spill-over effect
- In search of new growth engines?



# Long-term decline in economic growth?

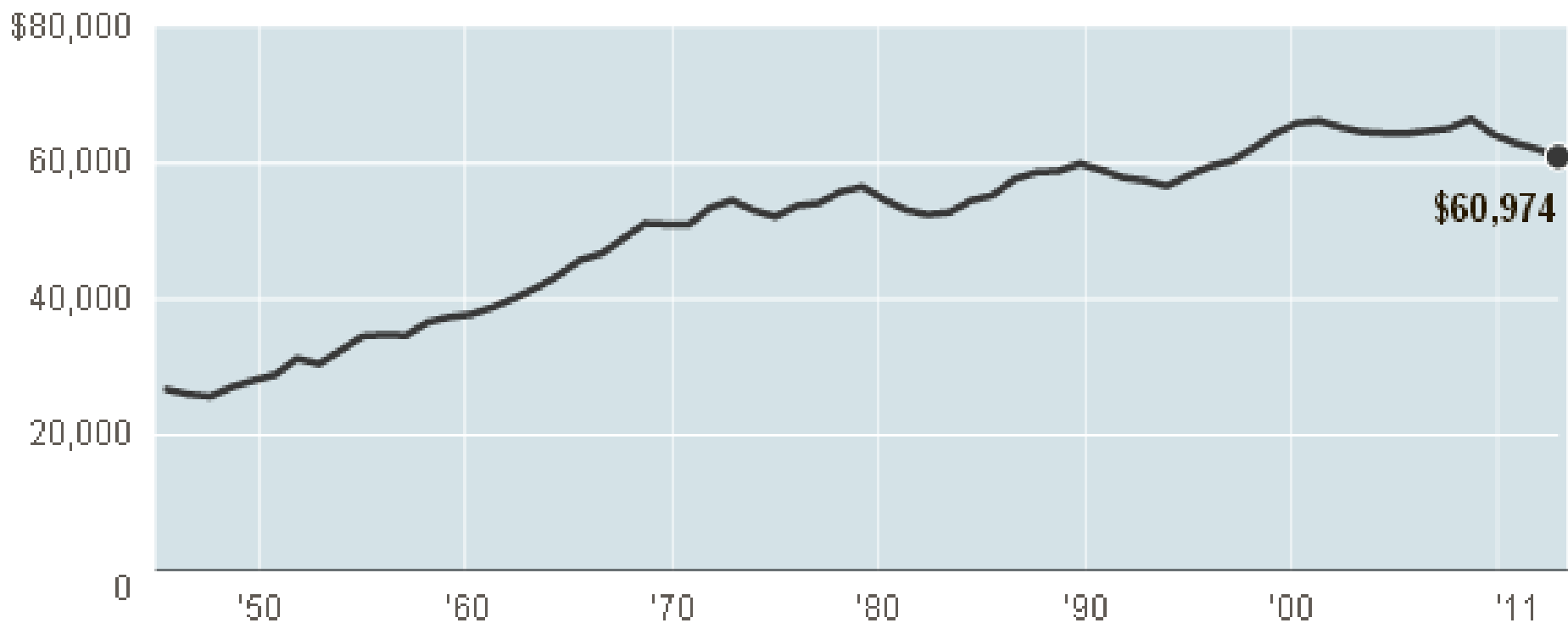


1. **RISE OF AUTOMATION** in manufacturing and sometimes even in services (harder for EMCs to compete with low wages): bad news for China?
2. **GLOBAL SUPPLY SOURCES** scattered across many countries : bad news for South Korea, that built a nearly complete domestic industrial supply chain?
3. **WIDER ECONOMIC GAPS** within and between nations
4. **AGING POPULATIONS and falling fertility rates:** many lower-income countries will be old before they are rich  
Emergence of **DEVELOPMENT ENCLAVES** : parts of countries will stand out as advanced or wealthy (Richard Baldwin)

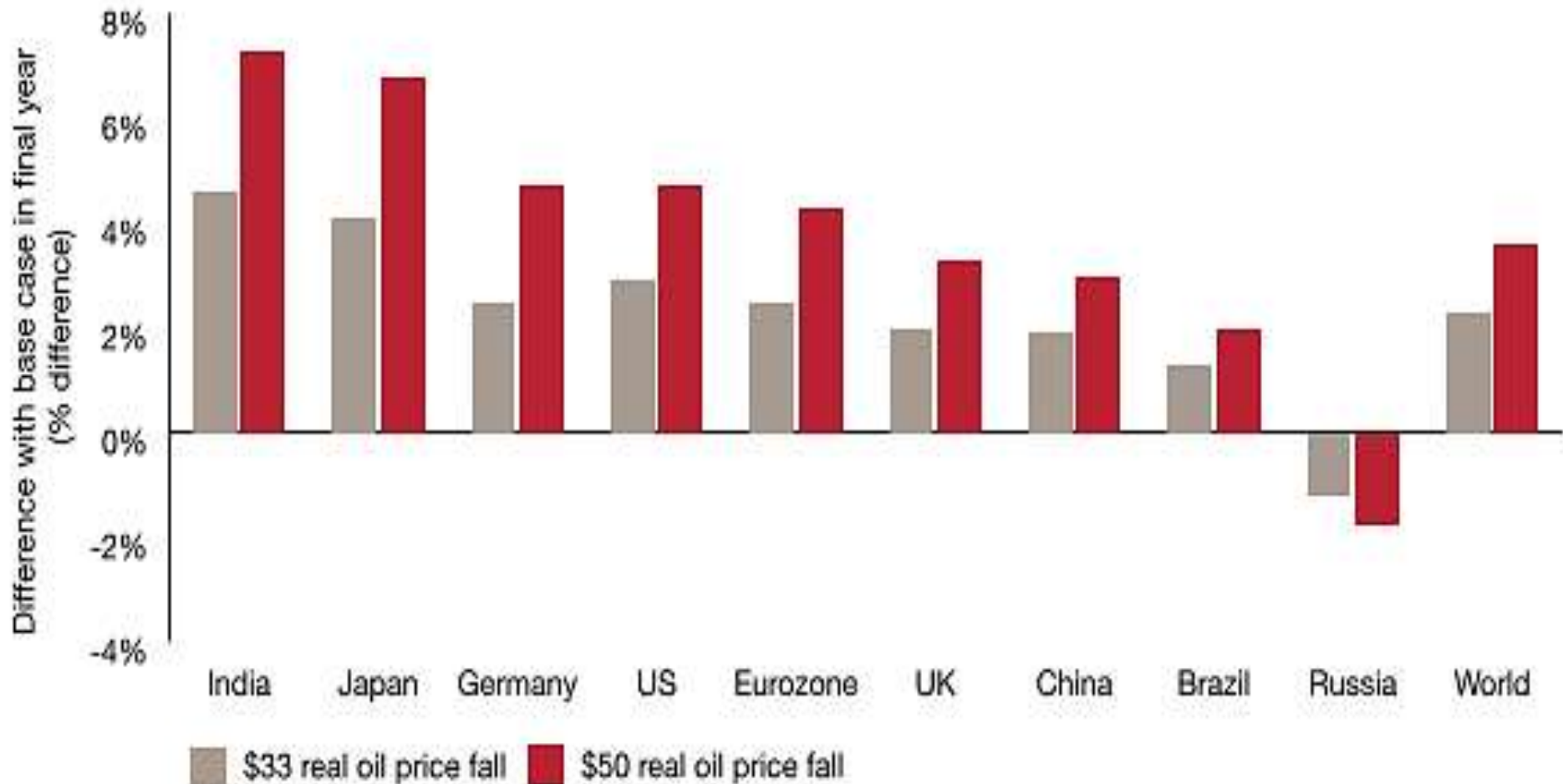
For the first time since the Great Depression, US median family income has fallen: the notion of « American dream », mass upward mobility, is eroding. Economic stagnation brings pessimism, political turmoil and a lack of social progress.

## Median Family Income

Adjusted for inflation in 2011 dollars



# Shale gas revolution: Global winners and losers of lower global oil prices (% change in GDP)

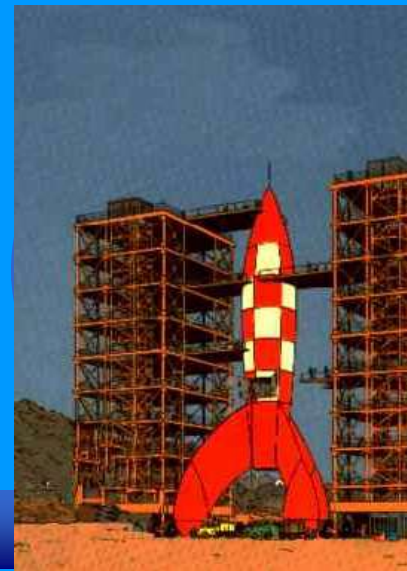


Source: PwC analysis using NIGEM

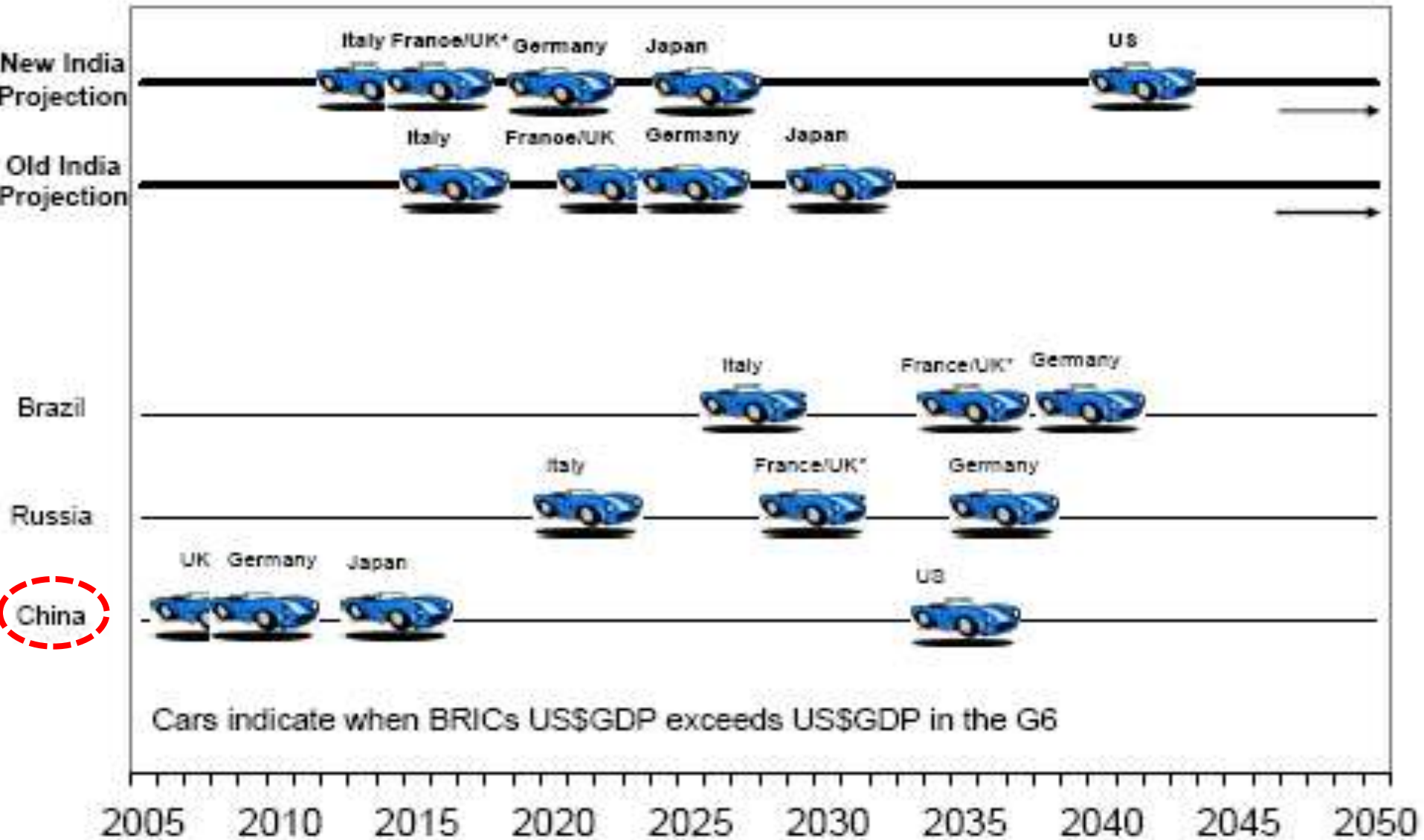
# Myth 4

## Globalization = Growth take-off for all

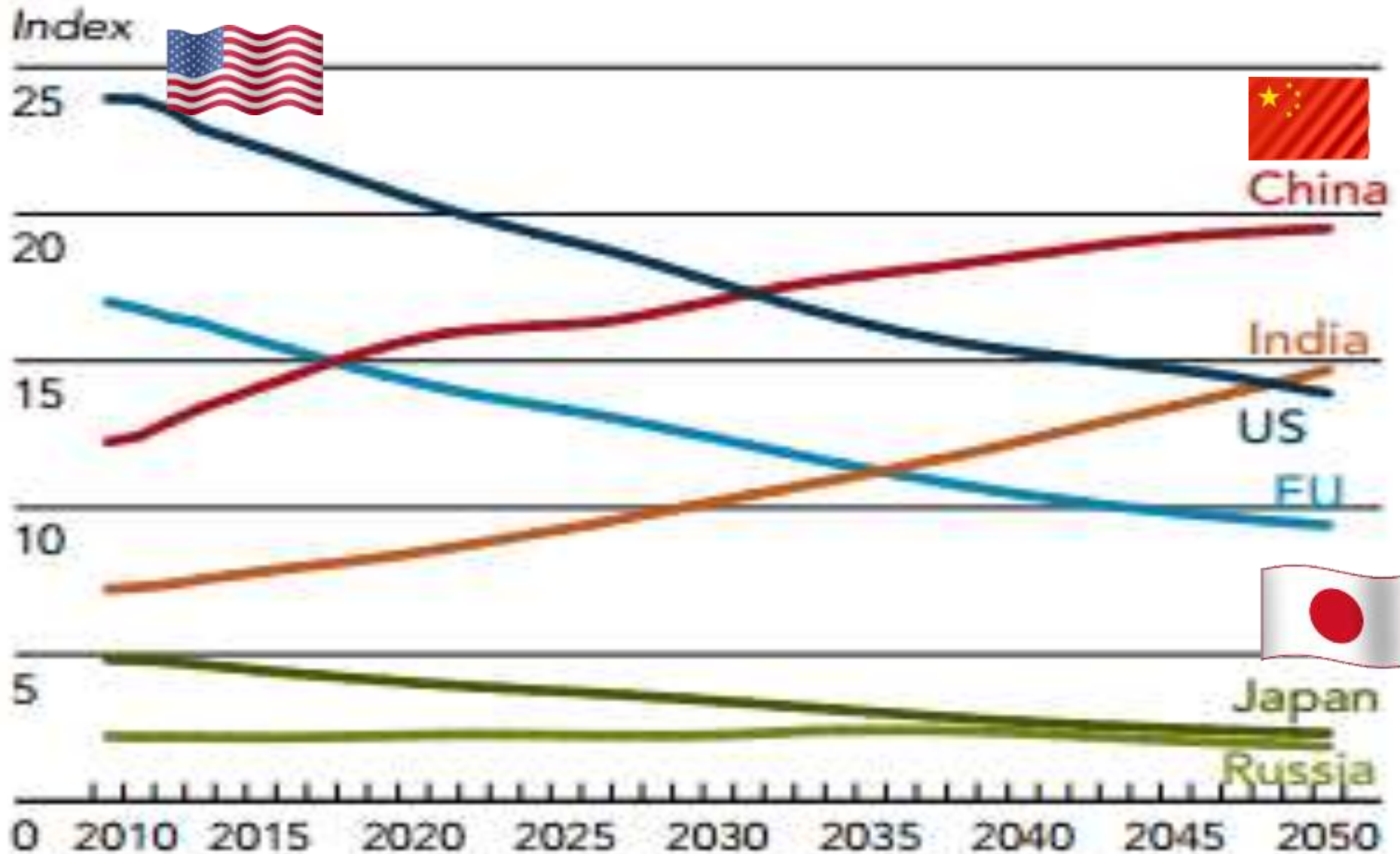
- Globalization is a dynamic growth engine whose momentum helps countries take off ?
- Facts: Taking off is still a remote dream for many developing countries even though GDP per capita rises



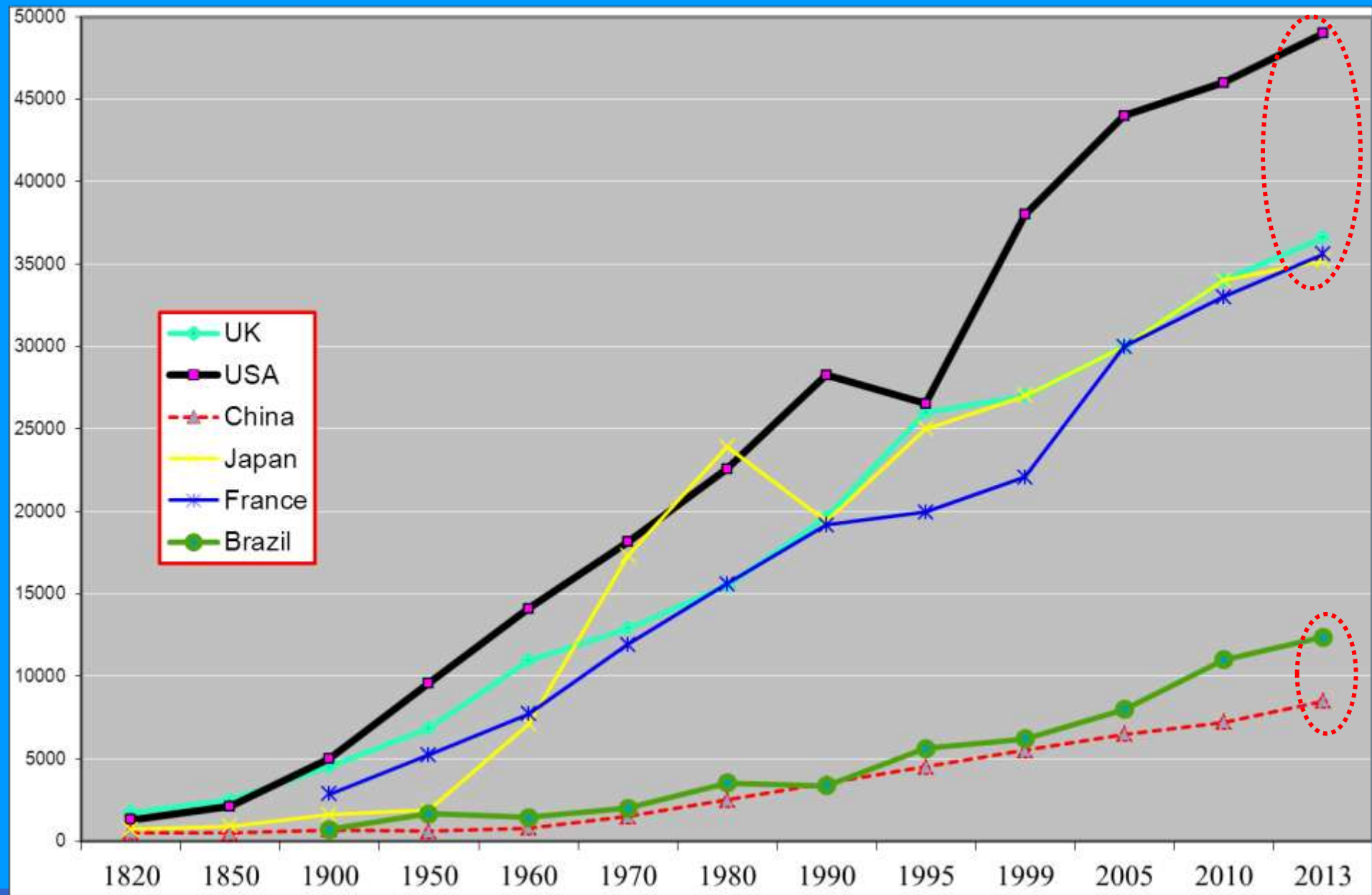
# The BRIC's catch up process



# When do the curves cross?



# Taking off? US\$-GDP per capita (on ppp basis)



**Myth 5 - Financial Globalization stimulates Economic Growth:**  
it would equalize marginal returns to capital around the world, transfer savings from rich to poor, and enhance risk sharing, growth and convergence.

### 1- Fischer, Summers, Kose...

☞ Openness to global capital flows = higher capital efficiency North-South + technology spillover + FDI  
➡  $\Delta$  GDP

### 2 - Stiglitz, Krugman, Rodrik, Lane...

☞ Financial and capital account liberalization = capital flow volatility + financial crises  
➡ capital controls + Tobin tax



See: Prasad-Rogoff IMF-Harvard 2006 and P. Lane, BIS Dec. 2012

# Empirical evidence?

1. No clear evidence that financial globalization improves institutional quality and macroeconomic discipline
2. Strong evidence that financial integration promotes overall financial sector development and corporate governance
3. Strong evidence that financial sector development increases FDI and portfolio equity flows, domestic investment and growth
4. **Premature financial liberalization leads to capital flow volatility and financial crisis**



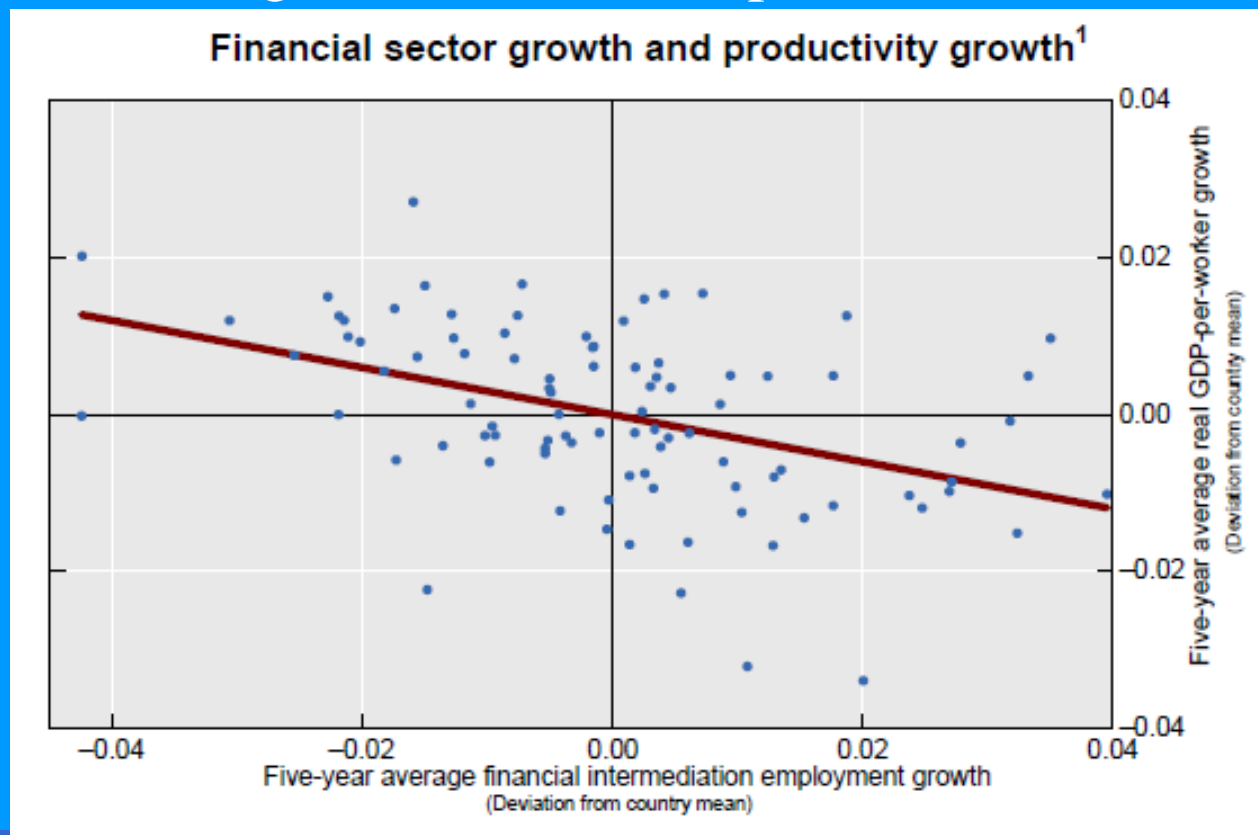
# Financial development can become a drag on productivity and real economic growth

The **inverted U-shaped** effect of financial development:

A fast growing financial sector is detrimental to productivity growth

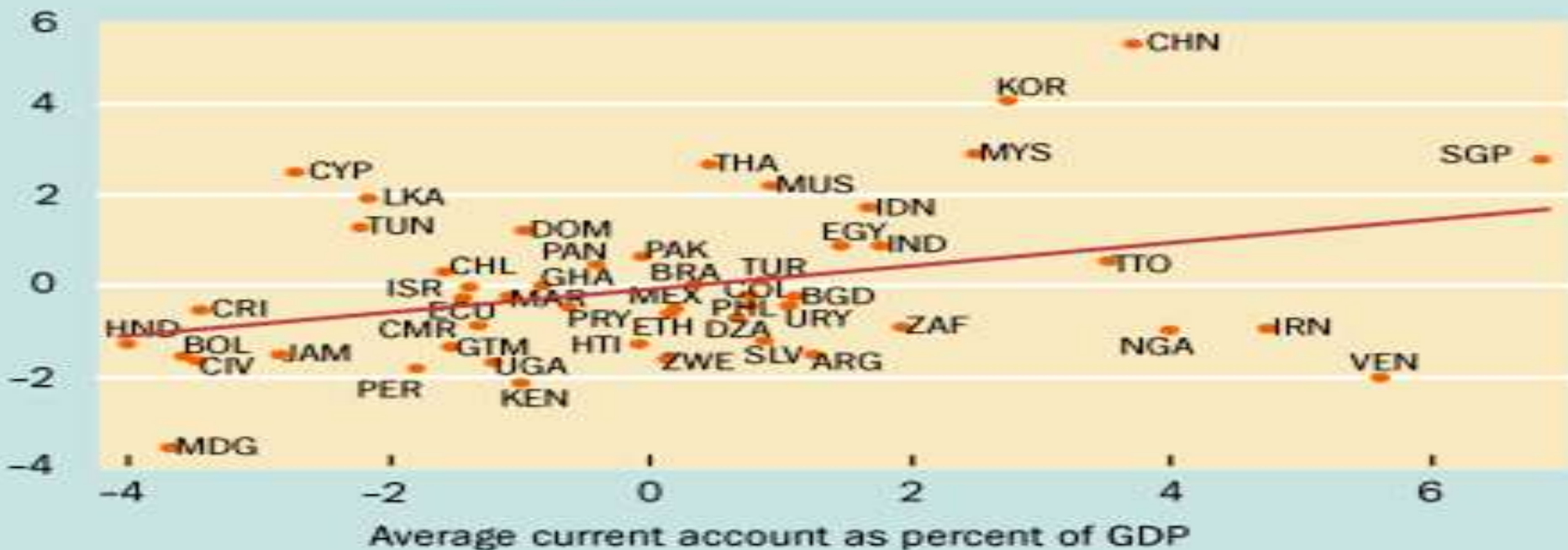
Too high a ratio of private credit/GDP and fast growing financial sector mean that essential resources will get drawn at the expense of the real economy:

**More finance  
is not better**



# Developing countries that have relied less on foreign capital have grown faster! (IMF/03-2007)

(average per capita GDP growth, percent)



Source: Authors' calculations.

Note: Sample excludes Nicaragua.

ARG=Argentina, BGD=Bangladesh, BOL=Bolivia, BRA=Brazil, CHL=Chile, CHN=China, CIV=Côte d'Ivoire, CMR=Cameroon, COL=Colombia, CRI=Costa Rica, CYP=Cyprus, DOM=Dominican Republic, DZA=Algeria, ECU=Ecuador, EGY=Egypt, ETH=Ethiopia, GHA=Ghana, GTM=Guatemala, HND=Honduras, HTI=Haiti, IDN=Indonesia, IND=India, IRN=Iran, Islamic Republic of, ISR=Israel, JAM=Jamaica, KEN=Kenya, KOR=Korea, Republic of, LKA=Sri Lanka, MAR=Morocco, MDG=Madagascar, MEX=Mexico, MUS=Mauritius, MYS=Malaysia, NGA=Nigeria, PAK=Pakistan, PAN=Panama, PER=Peru, PHL=Philippines, PRY=Paraguay, SGP=Singapore, SLV=El Salvador, THA=Thailand, TTO=Trinidad and Tobago, TUN=Tunisia, TUR=Turkey, UGA=Uganda, URY=Uruguay, VEN=República Bolivariana de Venezuela, ZAF=South Africa, ZWE=Zimbabwe

# VIDEO : Joseph Stiglitz on the pitfalls of Globalization



<http://www.youtube.com/watch?v=sV7bRLtDr3E>

# CONCLUSION

**Globalization contributes to boosting Economic Growth coupled with volatility, financial crises, and wealth gap both within and between countries**

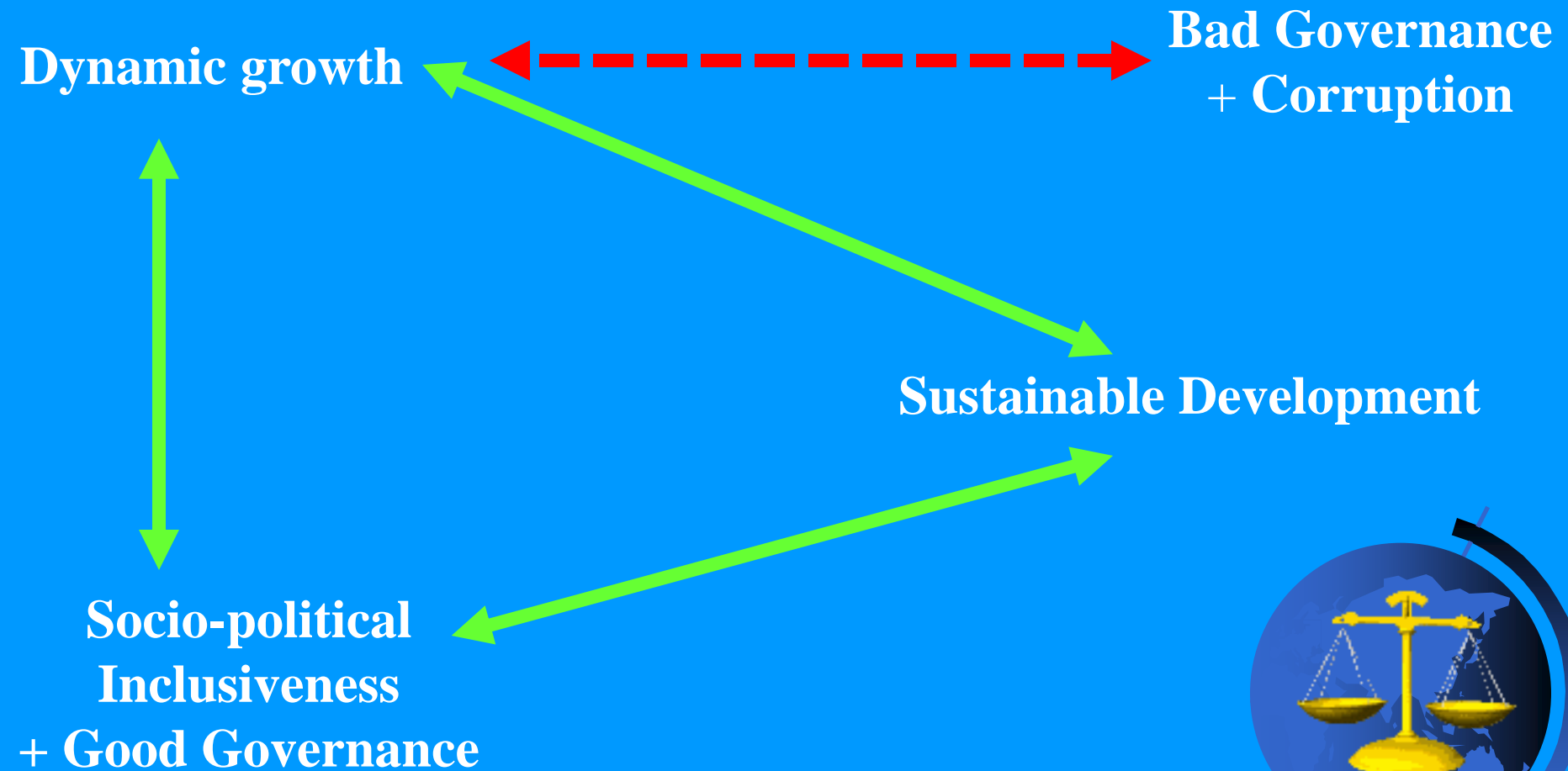


Sustainable growth requires social mobilization  
and political stability  
within a « nation » rather than in a « country »

☞ Development = social inclusiveness  
 $\Sigma$  (policy choice + political choice)



# Trilemma of growth and development?



# Globalization is not be be blamed for low HDI

1	Norway
2	Australia
3	United States
4	Netherlands
5	Germany
6	New Zealand
7	Ireland
8	Sweden
9	Switzerland
10	Japan
11	Canada
12	Korea
13	Iceland
13	Hong Kong
15	Denmark

HDI-UNDP 2013

170	Malawi
171	Sudan
172	Zimbabwe
173	Ethiopia
174	Liberia
175	Afghanistan
176	Guinea-Bissau
177	Sierra Leone
178	Guinea
178	Burundi
180	Central African
181	Eritrea
182	Mali
183	Burkina Faso
184	Chad
185	Mozambique
186	Niger
186	Congo (DR)