

Does Globalization Hurt ?

I- Economic Liberalization



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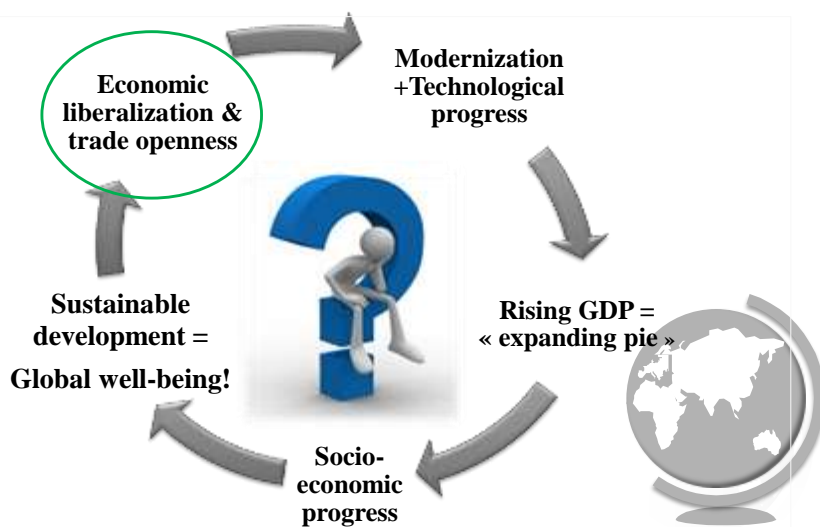
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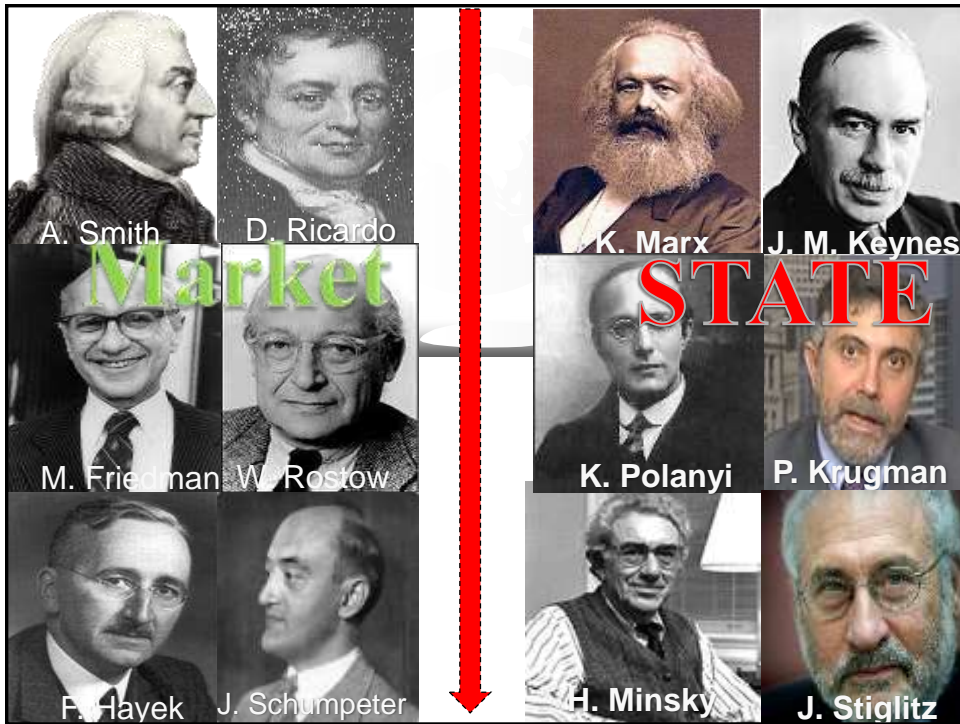
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The globalization narrative is questioned!



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For/Against?



“ Globalization is an endeavor that can spread worldwide the values of freedom and civil contact !”
A. Greenspan

“Globalization, like the telephone, is both a blessing and a curse... A giant wave that can either capsize nations or carry them forward on its crest...” **J. Stiglitz**



*There is no point in being « for » or « against » globalization. Like the weather, it is just there! One should concentrate on how to live with it, **maximize its benefits**, and minimize its cost!*

Gen. Colin Powell



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At the heart of the socio-economic and political debate =
State versus market forces

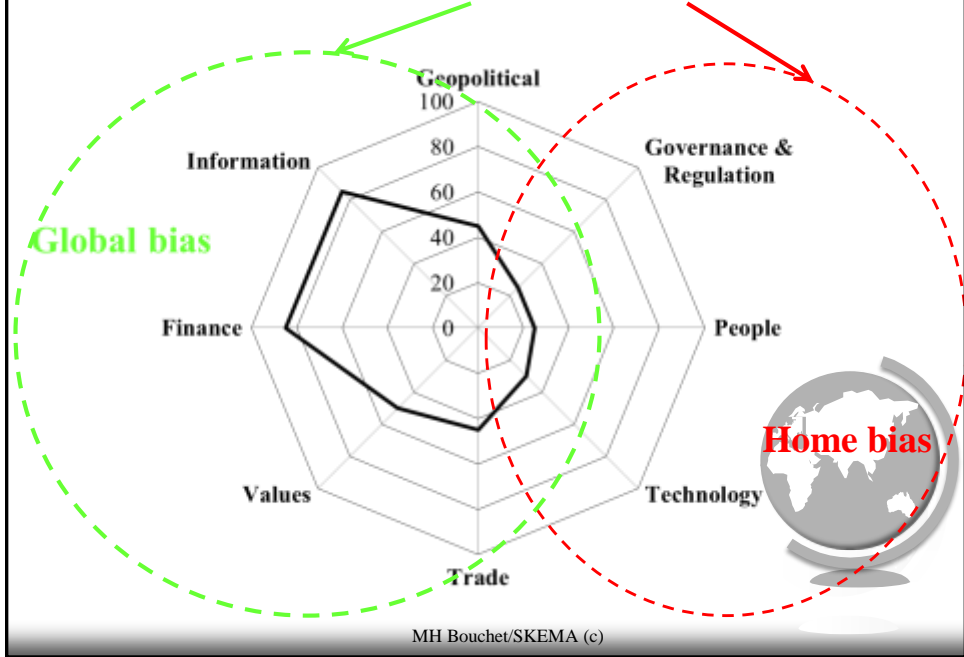


2019-20 = Globalization backlash!

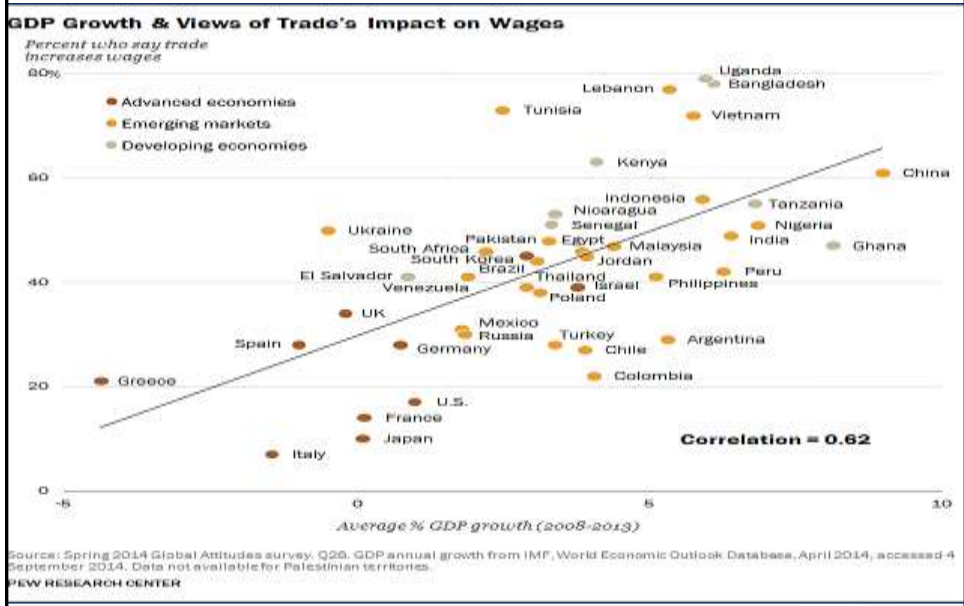
- ☞ **D. Trump**'s tighter protectionist stance with China + rejection of Trans-Pacific Partnership and re-negotiation of NAFTA with Canada and Mexico: "Globalization has made the financial elite who donate to politicians very wealthy ... but it has left millions of our workers with nothing but poverty and heartache"
- ☞ Brexit saga
- ☞ Upheaval in Brazil, Philippines, Mexico...
- ☞ **Bavaria** is turning against further liberalization: EU-free trade deal with Canada (investor protection clause)



Globalization = **New world** + **Old world**



« Is globalization a *threat* for job creation and well-being»?



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Decoupling:

Globalization has subordinated politics to economics and economics to finance

Two-fold emancipation

Phase I: 1960s-80s = Liberation of economic system from political system

Phase II: Since 1990s = Liberation of financial system from economic system



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Decoupling I

Gradual emancipation of **economics** from **politics**

1. Flexible exchange rates 1970s
2. Economic and trade liberalization (IMF/GATT/WTO)
3. Privatization (1970-80s until 2015!)
4. Economic automatic pilot (Maastricht 1992)
5. Washington consensus (1990s)
6. Rating agencies



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Washington Consensus: One-size fits all!

“Ten rules” of Market-economic policy

John Williamson (IIE 1990)

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



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

Country	Rating	Outlook
Australia	AAA	Negative
Canada	AAA	Stable
Denmark	AAA	Stable
Germany	AAA	Stable
Hong Kong	AAA	Negative
Liechtenstein	AAA	Stable
Luxembourg	AAA	Stable
Netherlands	AAA	Stable
Norway	AAA	Stable
Singapore	AAA	Stable
Sweden	AAA	Stable
Switzerland	AAA	Stable
Finland	AA+	Negative
Austria	AA+	Stable
Guernsey	AA+	Stable
Isle of Man	AA+	Stable
United States	AA+	Stable

Cambodia	B	Stable
Cameroon	B	Stable
Ethiopia	B	Stable
Fiji	B	Stable
Ghana	B	Stable
Lebanon	B	Stable
Rwanda	B	Stable
Argentina	B-	Stable
Belarus	B-	Positive
Belize	B-	Negative
Egypt	B-	Positive
Greece	B-	Stable
Pakistan	B-	Positive
Ukraine	B-	Stable
Jamaica	CCC+	Negative
Venezuela	CCC	Negative
Grenada	SD	Negative
Puerto Rico	D	Negative

S&P's summer 2016

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Multinationals, transfer pricing, and lower profit taxes

- ☞ Economic globalization has increased opportunities for tax avoidance through **intra-group loans and profit shifting** to low corporate tax jurisdictions.
- ☞ “Optimizing” transfer prices helps MNCs to shift revenues and profits to tax heavens, hence **tax base erosion**.
- 1. In France, manipulation of transfer prices by MNCs **worsens the trade deficit by 10%**. The under-reported taxable income due to transfer pricing strategies on both X and M = > \$8 billion. The related missing tax revenues = 10% of the corporate tax paid by multinational groups located in France.
- 2. French MNCs then repatriate under-reported taxable revenues, after having been taxed at a lower rate in the foreign country, **inflating accordingly the FDI income credit in the balance of payments**.

Source: V. VICARD, Banque de France, May 2015

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Globalization stimulates (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

Source: Salvatore (Fordham 2010)

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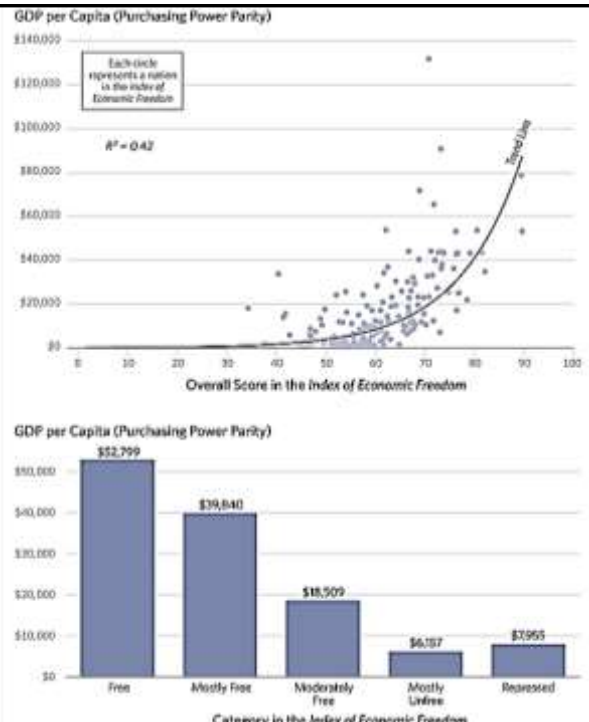
Highly significant relationship between economic freedom and per capita GDP.

Countries moving up the economic freedom scale show increasingly high levels of average income.

But what about development and wealth distribution?

Source: Heritage Foundation 2015

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Is David Ricardo right or wrong?

Assumption:

Trade openness and economic liberalization are expected to expand market scope for poor countries producing raw materials, hence higher income and better development prospects!

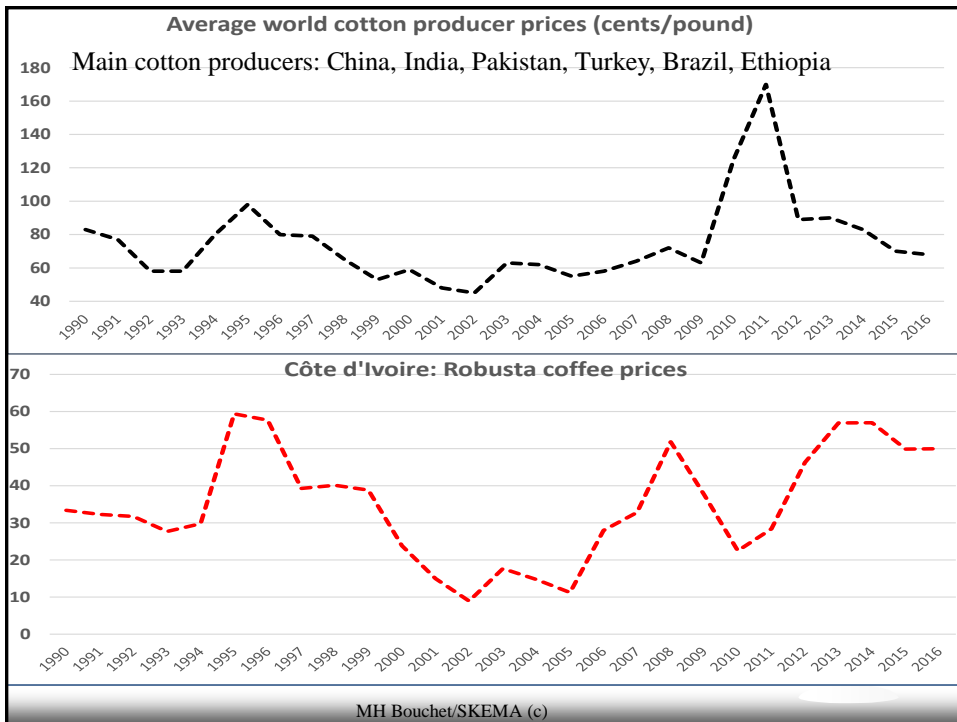


FACT= Trade openness increases dependency on volatile markets

☞ Global **commodity price volatility and declining terms of trade** make poor countries poorer



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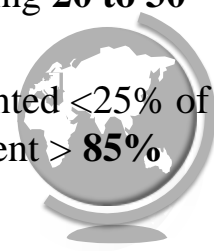


Does globalization lead to commodity price volatility?

☞ Don't blame the physical market fundamentals: the main drivers of commodity price bubbles are **traders**

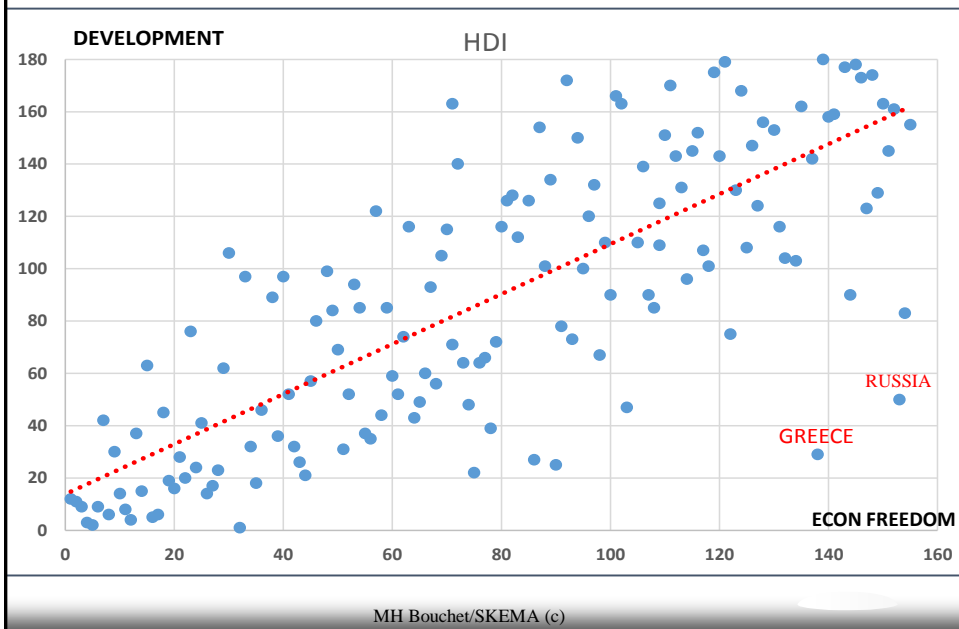
➤ Supply and demand changes in the « real economy» do not cause sharp volatility contrary to exchange-traded derivatives on commodity markets now being **20 to 30 times larger** than physical production

➤ Financial investors and traders, who accounted <25% of all market participants in the 1990s, represent > **85%** today: herd instinct and price bubbles!



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Correlation economic freedom-human development ?



Conclusion: Stiglitz or Greenspan?

☞ The Globalization debate is ideology-driven

What is sure is that:

1. Globalization is rooted in economic liberalization and trade openness: acceleration since the 1960s
2. Globalized markets are poorly regulated and volatile: spill-over leads to crisis contagion
3. Economic liberalization can lead to worsening income distribution: regulation matters!
4. In 2019-20, rising backlash and growing protectionist, nationalist and populist stances against globalization



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