

## Globalisation Gains and Strains in 2005

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### Introduction

Thank you for inviting me to contribute to your seminar on the economic and social impacts of globalisation. It's a broad and fascinating topic that can be examined from many different angles. I'll be commenting on a number of themes today including the impact of the adoption and spread of technologies, competition policy and how globalisation and trade agreements have affected economic development in some of the world's poorest countries. We didn't have any advance coordination among the speakers today and I apologize if some of what I will be saying sounds similar to points made by other speakers.

Many of you have probably read Martin Wolf's book "Why Globalisation Works". I want to set the stage for my remarks today by recalling a couple of brief passages from the early pages of Wolf's book. Brian Easton made the point that globalisation has been going on for about two hundred years now, and Wolf illustrates this. Recounting the extraordinary economic dynamism of the past two centuries and the divergence in performance across countries, Wolf writes:

"Between 1820 and 1998, world population rose almost six-fold, its GDP forty-nine fold and its GDP per head almost nine-fold. Between 1820 and 1998, real GDP rose nineteen-fold in Western Europe, the former British colonies of North America and Australasia.

In Japan, which was relatively poor in 1820, standards of living had risen thirty-one-fold by 1998. In the rest of the world, real GDP per head rose only five-fold. Almost every economy is richer than it was two centuries ago, but some have done much better than others."

"In 1820, the richest country in the world had a real income per head about four and a half times as high as the poorest. The ratio was fifteen to one by 1913, twenty-six to one by 1950, forty-two to one by 1973 and seventy-one to one by 2000. Not all is gloom. Africa's real average income per head is three times higher than it was a century ago; Asia's as a whole is up six-fold since 1820 and Latin America's nine-fold. In 1900, life expectancy was a mere twenty-six in today's developing world. It was sixty-four by 1999."

Wolf recounts some less happy statistics as well and I may come back a bit later to refer to those countries that have not done so well and discuss the reasons why that might have been the case. The

modern international economy is fascinating in part because it is in a constant state of flux. Dynamism is nowhere more evident than in the shifting competitive forces at work.

Everywhere, people are obsessed with the competitive strengths of China – and they should be. Two years ago, the soft-sided luggage industry shifted from Southeast Asia to China. Last year, China's share of the American market for soft-sided luggage grew from 13 percent to 74 percent and the average price to US consumers of this luggage fell by 60 percent!

Whether we are talking about trade agreements or reforming internal regulatory regimes, it's all about competition and it's about competition on a global level. No business any longer enjoys the luxury of a protected backyard market. To survive, business needs to be competitive both locally and internationally. Governments everywhere need to recognize and facilitate the dynamic and competitive environment that is globalisation.

### **Technologies and Competitiveness**

Since the bursting of the dot.com bubble, it's all too common for commentators to downplay the economic significance of communications technologies and the ICT sector more generally. Perhaps the ubiquitous nature of these goods and services has led to our becoming too easily jaded. The fact is, however, that much of our modern competitive environment is linked to ICTs, the way we use them, and the cost at which they are available.

At the start of this new century, the global telecommunications market was worth over \$US one trillion – making it the critical services market for global development. This market is today relatively open, but it wasn't always that way. Before the WTO's 1997 basic telecoms agreement, only 17 percent of the world's top twenty telecommunications markets were open to effective competition by foreign firms. Today more than 95 percent of global telecommunications markets are open to access by foreign competitors. At the same time, electronic commerce has grown wildly. In the United States, annual advertising revenue on the Internet exceeds US\$ 10 billion.

Because so much relies on an efficient telecommunications infrastructure, stronger trade disciplines to ensure cost basis, non-discriminatory access to unbundled elements of basic telecommunications networks and services are increasingly seen as the basic building blocks of an environment where new technologies used in conjunction with telecoms services can most efficiently contribute to overall economic growth.

According to the OECD, the generalised growth effects of telecommunications liberalisation can be demonstrated. Empirical evidence shows that developing countries with full telecom liberalisation have grown almost 2 percent faster than other developing countries. Pretty important stuff – and nobody would argue today that telecoms are not at the heart of the technology-intensive modern economy.

I cannot resist a short aside at this stage given the ongoing debate in Australia over the planned sale of the government's remaining share in Telstra. Telstra, the incumbent quasi-monopoly, has been vigorously opposing the government's plan to establish strong competitive safeguards to ensure that the post-T3 environment in the Australian market is one that provides opportunities to other carriers and benefits consumers.

To its credit, the Howard Government understands the relationship between a competitive telecommunications environment and longer term economic growth. It is refusing to give in to pressure from Telstra. This is a living textbook case study.

The role of globalisation in IT production and prices and the impact of this globalized market on productivity is the subject of a fascinating monograph researched by Catherine Mann for the Institute of International Economics. Taking mid-point estimates, she starts from the presumption that IT prices fell 20 percent faster in the 1995-2000 period because production was globally integrated. The lower prices supported additional investment in IT at a considerably greater rate than would have been the case. In turn, higher GDP growth resulted from the faster gains in IT-enabled productivity. Mann calculates that if global integration of IT production had not occurred, productivity growth over the period might have been 2.5 percent instead of 2.8 percent and that annual real GDP growth might have been 0.3 percentage points lower. Cumulatively, over the seven years, the potential difference in GDP growth was US\$ 230 billion – and that is Mann’s conservative calculation!

Some time ago, the newspaper “the Australian” published a Special Report on Broadband that tied the importance of competition together from a very practical standpoint that we can all easily understand. This is all the more applicable today in the light of the Telstra debate. Under the title “Monopoly suppliers delay fast net access” the Australian’s journalists documented the importance of a competitive telecommunications environment for access to broadband, broadband speeds once accessed and the costs to users of these services in various markets.

The internal Japanese market is not normally cited for its competitive environment; however, in the Japanese broadband market, where there is fierce competition between a wide range of providers, broadband services are by far the fastest and cheapest you’ll find anywhere in the world. Prices are thirty-five times less than in the USA for access and download speeds. A Japanese user can download an entire movie over the Internet in 20 minutes. It takes six hours to do that in the USA and 12 hours in Switzerland. Trying to download the movie over a standard dial-up modem would take up to seven days.

In economies where there is no competition, where there is really no choice except for the incumbent provider – such as Swisscom in Switzerland, prices are higher and speeds are slower. In France, where France Telecom still dominates the telecommunications business, broadband services are 100 times more expensive than in Japan. In Switzerland they are 110 times more expensive. If you need broadband for business, think of what these differences can mean to your competitiveness. And probably most technology-intensive sectors have good reasons to use broadband for business.

Not too long ago, I read an article in the Los Angeles Times about radio-tagged product codes and radio frequency ID’s. Radio-tagged product codes are a kind of souped-up wireless bar code that is now moving off the drawing board and into the physical world. Radio-tagged frequency ID’s often involve the use of electronic chips imbedded in packaging and shipping containers. In part for inventory control purposes and in part to address security-related concerns in international trade, large retailers and producers like Wal-Mart in the USA and Proctor & Gamble globally have already started to mandate the use of radio-tagged product codes and RFIDs by their suppliers in order to better track product movements. It’s easy to see how the big retailers benefit. But are there broader implications?

You bet there are. We need to care about these developments because this technological innovation and its practical application to the real world has tremendous implications for logistics and inventory control. This technology is also key to ensuring that security concerns and anti-terrorism measures do not slow international trade in a damaging way. Wide-spread use of these technologies also means that in a few short years, consumers are going to be able to check a radio-tagged product code in the store or even at home and be able to tell:

- where a product was produced,
- who produced it and with what kind of inputs and chemical processes,

- how the product was shipped,
- the route it took to the point of retail,
- its nutritional content (if a food),
- whether it was produced in accordance with sustainable development principles and so-on.

Information overload? Maybe. The point, however, is that consumers that are this well informed are likely, where they can afford it, to buy a product not on the basis of its final physical characteristics but rather on the basis of how comfortable they are with the way in which the good was produced.

There are some other, very good reasons, to introduce these new technologies into our everyday commercial life. IT applications in health services can show dramatic results. In the United States, for example, adverse drug events cause an estimated 372,000 preventable injuries and deaths per year. By some estimates, the introduction of an electronic medical records system, combined with bar-coding prescription medication and blood products, could prevent up to 80,000 adverse drug events a year. And there is a big benefit to the economy as well: today's level of adverse drug events in the USA is said to cost upwards of \$5 billion annually in extra hospital expenses.

Clearly the introduction of these new technologies has undeniably important commercial consequences for producers and traders as well as welfare implications for consumers. These technologies are changing production and shipping methods, affecting consumer preferences and dramatically impacting productivity. Businesses' future competitiveness is likely to depend on the extent to which they embrace these new goods and services and that can be affected importantly by whether or not governments adopt policies that facilitate the adoption of the new tools of the trade. Of course, this is where the trade negotiations come into the picture.

### The WTO Round

Not surprisingly, these technology and competitive issues feature very importantly in modern trade negotiations. This is true of the many regional agreements under negotiation and it is true of the global trade negotiations at the WTO in Geneva. Clearly, the biggest potential economic gains from trade negotiations are those of the Doha Round. The launch and conduct of this "Doha Round" has been enormously complicated from the start. The first complication comes from the sheer number of countries involved in the talks. In addition to WTO's 148 member governments, nearly thirty other countries in the process of joining the organisation are permitted to participate in the negotiations.

The second complication arises out of the large number of difficult issues on the table. Agricultural export and domestic subsidies are the main target for many developing countries as is enhanced market access for farm products. Tariffs on industrial goods need to be cut significantly, including those of developing countries. A new round of negotiations on market access for internationally traded services is designed to dramatically expand opportunities for services providers of both developed and developing countries. GATT rules governing the use of antidumping measures and those covering free trade agreements are under negotiation. Not only do the 180 countries at the table have an obligation to negotiate on all of these topics, but they must also agree on them all at the same time in a package referred to as the "single undertaking".

An important third complication is the requirement to reach consensus amongst the participants. The Round can be successfully concluded only when all of these countries agree that they can live with the results.

But a successful Doha Round will contribute importantly to greater global economic integration, growth and poverty alleviation.

Industrial tariff reductions are a very important component of the “development” aspect of this negotiation. And it’s not all in North-South trade. Improved access to developing country markets for industrial products is important for exporters in other developing countries. Between 1990 and 1999, the share of intra-developing country trade in manufactures increased from 29 to 34 percent.

Agriculture is of course central to any successful outcome in the WTO talks. We all know about the three pillars of this negotiation and it is now clear that market access is far more difficult to address successfully than are the issues of domestic support and export competition. We spend a lot of time talking about agriculture trade in New Zealand, Australia and the USA – but on a relative basis, the biggest gainers from a good result on agriculture are the developing countries.

But much of this gain could be lost if the Doha result permits numerous exceptions for designated “special” and “sensitive” product categories.

Here’s a statistic that I think illustrates why we don’t want to see “sensitive products” excluded from meaningful results in the Round. Global protectionism in sugar and extremely high prices for sugar in protected developed country markets has created a situation where 10 million tons of sugar consumption annually have been displaced by sugar substitutes.

The WTO negotiations are not addressed to investment, but they are very much concerned with trade in services and there is today a very strong connection between the two. This is due in part to the fact that most services are still not easily traded cross-border and require a local presence in the economy in which they will be provided. Today, more than 2/3 of all foreign direct investment flows are services-related, with services industries accounting for more than 60 percent of world FDI stock – compared to about 25% in the 1970s.

Countries need investment for development. If today most of this investment is services-related, then it is clear that open services trade regimes will attract more investment. It doesn’t take rocket science to see that the current failure to enhance market access through the WTO services negotiations can only impact negatively on countries’ ability to attract investment and stimulate growth.

Finally, a few words on the positive implications for our region of a successful result in trade facilitation negotiations. Believe it or not, today the average customs transaction involves 20 to 30 different parties, 40 documents and 200 data elements, 30 of which are repeated as many as 30 times. This costs money and breeds opportunities for corruption.

It has been estimated that a one percent reduction in transport and logistics costs could represent an increase in Asian GDP of \$3.3 billion. A recent suggested that if we could bring APEC’s under-achievers in trade facilitation to just one-half the level of APEC’s top performers, we could see an annual increase in APEC trade of as much as \$280 billion. Even if these estimates are off by as much as 50%, the numbers are still huge.

All of these potential gains sound very impressive, but unfortunately, the Doha Round is in serious trouble these days. When he reported to WTO Members at the end of July, outgoing WTO Chief, Dr. Supachai summed up the situation in the negotiations by saying that the negative side of the ledger outweighs the positive. Where progress has been possible, it has often come at a high cost in terms of time and negotiating resources. Advances made have been uneven across negotiating areas and progress sporadic within specific areas.

Two weeks ago, business leaders from 23 countries joined forces to signal a “wake-up call” that there is a real risk of failure in the WTO talks and warned that failure in Hong Kong would have serious consequences for worldwide economic growth. The business community is right to warn WTO Members of the dangers of failure in this negotiation. Right now there are dozens of unresolved issues on the table in Geneva and experience has shown that you cannot present Ministers from 148 countries with more than a handful of political issues to resolve in their four-day meeting. It is going to be a very difficult job to boil down the issues in just a couple of months between now and the end of November.

### China and the WTO

No discussion of the benefits of globalisation and the emerging outlook for international trade can be complete without reference to China and the increasingly important place China occupies in the global economy. I suspect, this is hardly a message that needs repeating before a sophisticated audience. China’s economic growth is nothing short of phenomenal and since the country joined the WTO in 2001, this growth has been accelerating. The rate of growth is all the more astounding when we look at the base on which we calculate statistics such as per capita GDP.

Chinese GDP continues to grow by more than 9 percent year on year. Trade is a huge part of this, with the ratio of exports to GDP hitting nearly 31 percent and imports to GDP ratio of 30 percent (by comparison, in the USA the ratio is much lower – with exports at around 11 percent of GDP and imports at around 15 percent). Two years ago, China replaced France as the world’s fourth largest auto producer. Last year, auto production rose to 5.15 million units and China moved into the number three slot ahead of Germany. Per capita GDP by the end of this year is estimated at US\$ 1,342 – an increase of more than \$400 per capita since China joined the WTO and no small feat when we consider the 1.3 billion person base.

Foreign direct investment in China exceeded \$60 billion last year, although this figure may be somewhat misleading. It has been reported that partly in response to China’s WTO membership, many Chinese businesspeople channel investment funds through foreign third parties and then back into China in order to secure better legal protection, tax concessions and otherwise more favourable treatment. By some estimations, about half of the foreign direct investment flowing into China originated in China!

If you are interested in how China fits into the globalisation picture, I can recommend to you UNCTAD’s recent Trade and Development Report for 2005, sub-titled “New Features of Global Interdependence”. The report describes how the growth dynamics in China and other Asian economies have had positive effects for many developed and developing countries. Many of these countries benefit directly from the surge in import demand from the fast growing Asian economies. Others have benefited more indirectly because of the positive growth effects in the economies of their main trading partners.

And the multiplier effect goes on....UNCTAD points out that the steep rise in commodity prices occasioned by China’s strong demand has benefited others even if their own exports to China are relatively small. But China’s increasing participation in international trade has also challenged other developing countries because its activities have contributed to the fall in export prices of manufactures that it produces and exports alongside other developing countries. This is going to lead to the need to accelerated structural changes in many developing countries.

To prosper and develop, developing countries will need to adopt a flexible policy stance and be ever ready to adapt to a changing international economic environment.

## Conclusions

In my remarks today, I've covered a range of topics that illustrate the gains that can be realised out of our current international trading environment. I've looked at the impact of new technologies on competitive position of companies and how these developments are reflected in the ongoing trade negotiations at the WTO and in a regional level. As is appropriate for our setting, I've talked a bit about China and its transition into the WTO.

There are many critics of globalisation and a smaller number of vocal defenders. In addition to our friend Martin Wolf, one such defender of the benefits of globalisation is Columbia University Professor Jagdish Bhagwati, who has authored a book entitled "In Defense of Globalisation: How the New World Economy is Helping Rich and Poor Alike". Bhagwati characterises as "rubbish" claims that globalisation and engagement with the rest of the world increases poverty. To prove his point, he uses the examples of India and China.

Indian economic growth averaged only about 4 percent per year during the three decades that it maintained a closed economy and the poverty rate stuck at around 55 percent. Opening the economy over the past twenty years has increased growth and investment and lowered the poverty rate to 26 percent. China's experience has been similar, but more spectacular: between 1978 and 1998, the poverty rate in China dropped from 28 percent to 9 percent.

Statistics can often be used to obscure underlying realities. But there is nothing obscure about the kind of numbers cited Wolf and Bhagwati. Globalisation and liberalisation of trade have made a real contribution to economic development and poverty alleviation.

I think it should be pretty evident that the world doesn't need less globalisation.

Thank you for your attention.