Key stylized facts about globalization

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References for this lecture

- Textbook:
  - BBGV chapter 1 “The global economy”
  - BBGV chapter 2 “Getting the numbers right”
    - Study: 2.1, 2.2, 2.7, 2.8
    - Read only: 2.3, 2.4, 2.5, 2.6

- Further suggested readings:
  - Maddison A (2001) *The World Economy: A Millennial Perspective*. OECD Development Centre Studies
  - *When did globalisation start?* The Economist, Sep 23rd 2013
  - O’Rourke, K. H., and Williamson, J. G. (2002) *When did globalisation begin?* European Review of Economic History, 6(1), 23-50

http://foreignpolicy.com/2018/01/05/will-global-trade-survive-2018/

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ELEPHANTS IN THE ROOM

Will Global Trade Survive 2018?

Under Trump, the international trade regime is at risk. This year could see it topple.

BY ROBERT A. MANNING | JANUARY 5, 2018, 5:17 PM

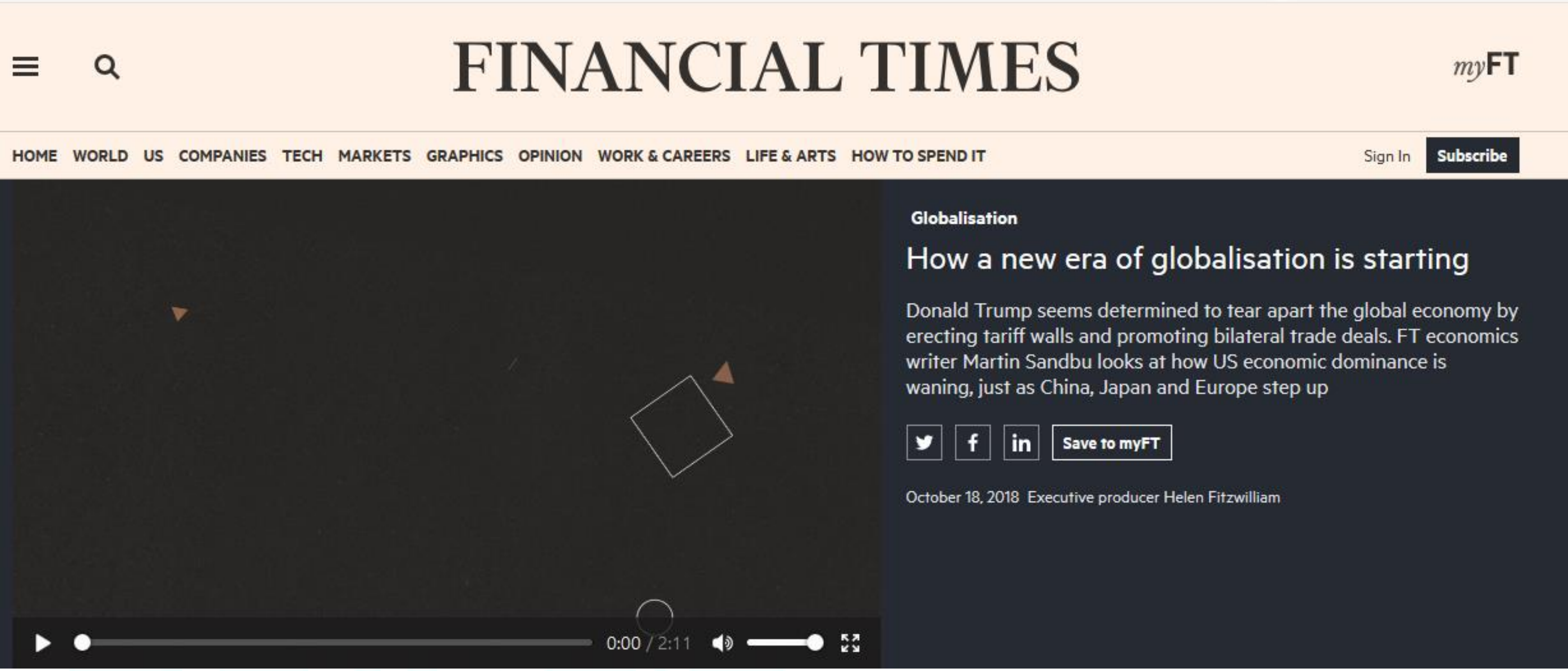
The future of the global trade system faces more risk and uncertainty than at any time since it was created after World War II. This year promises to be a decisive one for trade, with results likely for renegotiations on the future of the North American Free Trade Agreement (NAFTA), the U.S.-Korea Free Trade Agreement (KORUS), and the now Japan-led Trans-Pacific Partnership (TPP). Add to that the fate of the World Trade Organization, and 2018 could see a disruption of the global trade regime, which Trump views as the all-purpose villain destroying the U.S. economy.

Trade faces structural hurdles, challenges posed by fast-emerging new technologies, and not least, lingering populist-nationalist, anti-globalization backlash in the West. Last year's WTO ministerial meeting in Argentina ended indecisively on December 13. But the biggest wildcard impacting the future of trade is President Donald Trump's sharp reversal of the historical U.S. role.

Since it helped shape the General Agreement on Tariffs and Trade, the WTO's predecessor, in 1948, setting the rules for world trade, the United States has led every round of trade liberalization. For most of the past seven decades global trade grew twice as fast as the global economy. This era is over. Trump rode into office on his fury at trade and all trade deals, which he cast as the all-purpose cause of middle-class malaise. He denounced NAFTA and rejected the TPP, the WTO, and KORUS. He withdrew immediately from the TPP, which experts often described as a pillar of U.S. Asia strategy, and forced renegotiations of NAFTA and KORUS.

To be fair, Trump has a point: The American public does (mistakenly) blame trade for many of its woes. While trade was a large factor in the 1980s and 1990s, in this century the technology and automation have caused the vast majority of job losses. Moreover, updating trade accords to address rules for new technologies like digital commerce, the environment, and other factors is reasonable. The WTO has not completed a new round of global trade liberalization in two decades — the Doha Round is dead. And Trump has a point: China's admission to the WTO was based on assumptions that have proved false (for example, continued market reform and opening). The United States did not anticipate that China would so rapidly become the world's foremost trading power and adopt predatory, mercantilist trade and investment polices.

The United States, which accounts for only 13 percent of world trade, could find itself isolated under these conditions. The rest of the world is moving on. The EU is concluding trade pacts with Canada and Japan and seeking to pursue additional trade deals in Mexico and around the world. A revised TPP-11 is likely to be finalized in 2018. Ironically, the net effect, if Trump acts on his willfully ignorant views, may be that the United States will no longer be party to new trade liberalization arrangements and U.S. exporters will lose many market opportunities.



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FINANCIAL TIMES

Death of globalisation is greatly exaggerated

Forces connecting the world will prevail and consumers are the ultimate beneficiaries

David Hunt MAY 30, 2018

Shortly after Brexit and the US election of 2016, "nationalism" overtook "globalisation" as the more popular search term for the first time since Google's launch. Indeed, the dominant image today is of the nation-state striking back, with nationalist firebrands reasserting sovereign control over areas such as trade, migration, international treaties and intellectual property rights.

In reality, rumours of the death of globalisation are greatly exaggerated. Foreign direct investment flows across the G20 are now double those of levels in 2005, just before the financial crisis. Global supply chains account for one out of every five jobs across the planet. And beyond these traditional measures of globalisation, emerging markets are increasingly powering the global economy: trade between emerging markets has risen sharply from 25 per cent in 1995 to 40 per cent last year. That growth is set to continue. This year, leaders of 44 African countries created one the world's largest free trade blocs by establishing the African Continental Free Trade Area.

While the gains from globalisation are indisputable, the equitable division of these gains is a separate matter. Globalisation is often cast as the culprit in discussions on the growing income, job and wealth polarisation in the US and the UK. The winners of globalisation are seen to be the rising middle class in emerging markets as well as the top echelon of national income distributions; the losers, the middle class in wealthy, developed markets. We can debate the causes — including inflexible domestic labour markets, advances in technology, limited vocational programmes for re-training workers, and gaps in social safety nets — but the real frustration and sense of disempowerment that has helped fuel populist movements must be acknowledged.

This new wave of globalisation will be different than the past in three important ways. First, many more companies will adopt "multi-local" strategies to hedge their geopolitical exposure, aiming to source and manufacture products in a wide range of countries rather than depend on a single country. Hedging political bets will become the norm as sovereign geopolitical risks continue to threaten traditional supply chains.

Second, technology will drive platforms that benefit from large network effects to move across borders and take market share from local players. This "Facebook effect" will increasingly be seen across a broad range of industries. What started in social networking, digital advertising and sales is now happening in the entertainment content space, and will continue to extend to other industries.

Third, globalisation will move to the service industries. The last wave of globalisation was concentrated in manufactured goods in the industrial sector, taking advantage of advances in global supply chains and labour cost arbitrage. In the future, the gains from globalisation will increasingly be in highly skilled services. Want to have your MRI interpreted by a leading physician from a great hospital across the globe? Need expert help from a renowned adviser on financial services? We are not far from having these a click or video call away.

https://www.weforum.org/press/2017/01/president-xi-jinping-don-t-blame-economic-globalization-for-the-world-s-problems

President Xi Jinping: Don't Blame Economic Globalization for the World's Problems

Published

Tuesday 17 January 2017

But, Xi warned, "We should recognize that economic globalization is a double-edged sword. The pitfalls of economic globalization have been laid bare and we need to take these seriously." He added: "Nothing is perfect in the world. It is true that economic globalization has created new problems. But this is no justification to write off economic globalization altogether." Xi recalled that China had at first doubted the wisdom of joining the World Trade Organization, but had bravely gone ahead with membership and determined that it was the right strategic choice. "If one is always afraid of the bracing storm, one will get drowned in the ocean sooner or later," he said.

Xi called for efforts to rebalance economic globalization so that all people share in its benefits. This will require more effective international cooperation and new models of global governance, bold action and a commitment to avoid protectionism. "We should not develop the habit of retreating to the harbour whenever encountering a storm." Referring to the threat of protectionism, he predicted that "nobody will emerge as a winner in a trade war."

http://www.washingtonpost.com/wp-dyn/content/article/2011/01/28/AR2011012801651.html

washingtonpost.com > Business > U.S. Economy

Poll: Americans increasingly view global economy as a negative for U.S.

By Jon Cohen and Peyton M. Craighill
Washington Post Staff Writers
Friday, January 28, 2011; 8:02 PM

A growing number of Americans consider the accelerating trend toward globalization a bad thing for the United States. At the same time, a majority now sees being the world's No. 1 economic power as an important national goal.

The numbers mark a turnabout over the past decade. In 2001, six in 10 Americans said tightening economic ties were a positive development. That dropped to 42 percent in 2003 and now sits as 36 percent.

Making Trade Globalization Inclusive

Joseph E. Stiglitz
ASSA Meetings
Philadelphia
January 2018

Concluding comments

- **Globalization was oversold**
  - Benefits were often smaller than claimed
  - And distributive effects larger
  - And little was done to protect the losers
- **General presumption is that trade globalization moved out the utility possibilities curve**
  - **To be sure of that one has to deal with certain market and political failures**
    - **Ensuring full employment**
    - **Improving risk bearing**
    - **Supporting technology**
    - **Facilitating reallocation of resources, including labor**
    - **And possibly managing the pace of globalization**
  - **But even then it would have left (unskilled) workers worse off**
  - Unless the inclusive policies just described were adopted

Seattle, WTO Ministerial Conference, Nov 30, 1999

What is globalisation (in your view)? Is it positive or negative?

GLOBALISATION IS:

1. Mostly positive as it helps in diffusing wealth worldwide
2. Mostly negative as it increases world inequalities
3. Do not know

The results of a poll in Italy in 2001

GLOBALISATION IS:

1. Mostly positive as it helps in diffusing wealth worldwide **27%**
2. Mostly negative as it increases world inequalities **34%**
3. Do not know **39%**

Before we start

Do you know:

- What is the GDP – Gross Domestic Product?
- What is an investment?
- What is capital?

- What is a demand function?
- What is a supply function?
- What is a monopoly or an oligopoly?

Discussion: what do we mean for globalization?

- **Cultural** globalization
- **Economic** globalization
- **Geographical** globalization
- **Institutional** globalization
- **Political** globalization

Cultural globalization

- Is there a ‘**global culture**’?
  - Access to similar ‘**cultural experiences**’ (e.g. Youtube ‘hits’, American movies, British and American music, etc.)
  - Access to ‘global’ **products** (e.g. Coca Cola, iPhone, etc.) that influence people’s behaviors

- **Fear** that increased cultural **homogeneity** may threaten local cultures and traditions
  - Very interesting issue to be studied (but not in an ‘Economics’ course…)

Economic globalization

- **Decline** of **national markets** and **rise** of **global** markets as the firms' focal point
  - For **production**, **sale**, **procurement** of inputs

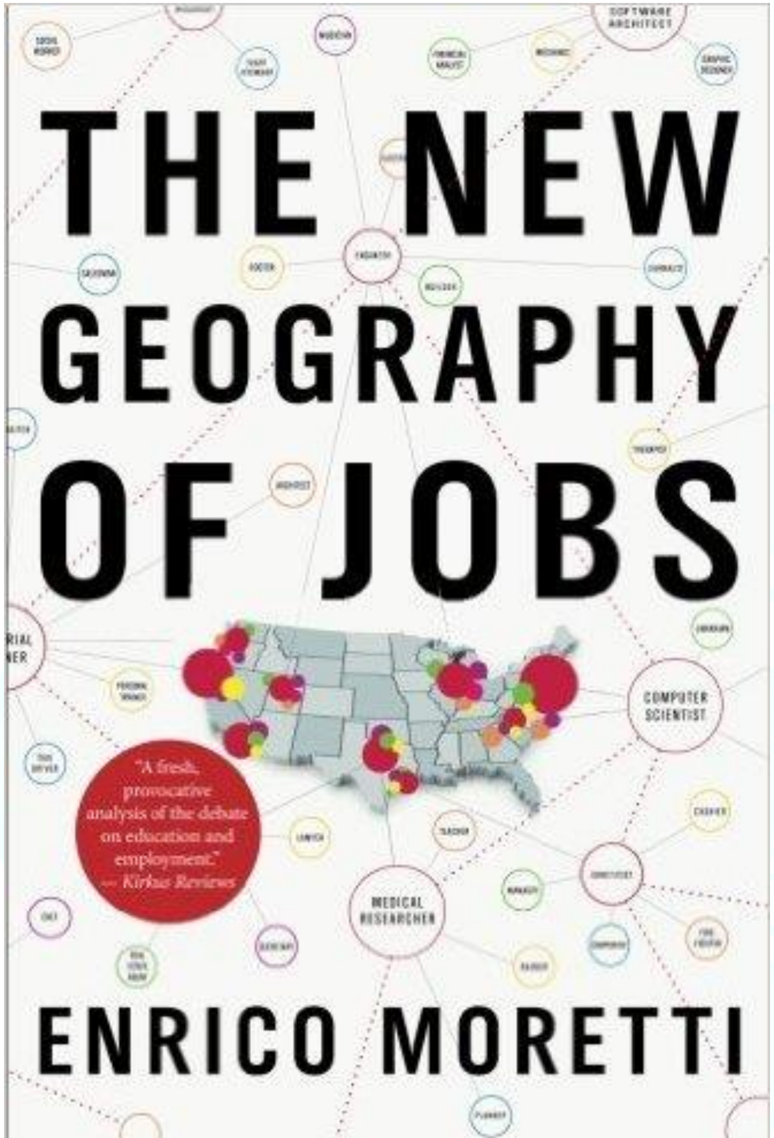
- Increased **interdependence** of national economies

- Greater **integration** (i.e. lower barriers across countries) of goods/services, labour and capital markets

Geographical globalization

- Reduced **travel time** and **costs** for:
  - **People** (e.g. high-speed trains, low-cost regional flights)
  - **Goods** (e.g. larger and faster cargo ships)
  - **Information** (e.g. internet broadband)

- Is the world **flat**(ter)?
  - **Location** in a specific place is still **very important** (but for **different reasons** than in the past)
    - Everyone (almost…) wants to start a business in SF!!!
    - …even though real estate costs in SF are way higher than in any small town in, say, Idaho, despite the same speed of internet connection



"Apple, for example. It employs 12,000 workers in Cupertino. Through the multiplier effect, however, the company generates more than 60,000 additional service jobs in the entire metropolitan area, of which 36,000 are unskilled and 24,000 are skilled. Incredibly, this means that the main effect of Apple on the region's employment is on jobs outside of high tech."
— Enrico Moretti, The New Geography of Jobs

"Attracting a new scientist, software engineer, or mathematician to a city increases the demand for local services."
— Enrico Moretti, The New Geography of Jobs

Institutional globalizatoin

- Spread of **universal institutional arrangements** across the globe

- Neo-liberalism diffusion throughout the world (aka **Washington Consensus**) through policies and programmes of IMF and Wolrd Bank

Political globalization

- **Fear** that large **multinational** entreprises (larger than many countries) will **substitute** nation **states** in taking decisions that affect the people
  - Multinational entreprises are **not democratic** as opposed to (some or many) nation states
  - In case of **international disputes** they have some possibility of **escaping jurisdictions**
  - **Race-to-the-bottom** in terms of corporate **taxation**, **rights** for workers and **environmental** standards

- Nation **states** maintain many **important 'functions'** that are at the core of sovereignity (e.g. defense and security, but also education, infrastructures, etc)

The four dimensions of <u>economic</u> globalization

- International movements of **goods and services** (import, export, subcontracting, international fragmentation of production)
- International movements of **capital** (financial exchanges, foreign direct investment, international fragmentation of production)
- International movements of **people** (migrations, international mobility of workers, students, researchers)
- International movements of **knowledge** (foreign patents, licences, agreements, R&D internationalisation, international mobility of workers, students, researchers)

Dimensions are interrelated

- International movements of people, capital, goods and knowledge have **different origins** and had different **patterns** over time but they are more and more **interrelated**

- **Capital** movements have **favoured trade** exchanges as well as movements of **people** and **knowledge**

- **People moving** across countries **bring knowledge** gathered elsewhere and activate import/export from/to countries of origin

Is economic globalization a new phenomenon?

- When we talk about globalization we often refer to the most recent **wave** of globalization (occurred in the last half century)

- Economic globalization was:
  - Very **important** already **centuries ago**
  - Did **not** increase **monotonically** since then but was rather characterized by various **waves**

TRADE

Developments of trade

- Important trade flows already in **ancient cultures** => Egypt, Greece, Roman Empire, China, India, Mesopotamia

- **Venice, 1000-1500 AD**
  - Radical **improvement** in shipbuilding and **navigation** (i.e. compass)
  - **New** long-range **routes** (including routes to China, remember the travel of Marco Polo around 1300 AD)
  - '**Invention**' of accounting and **banking**
  - Trade of **valuable items** (e.g. spices, silk)
  - The power of Venice as a commercial player **declined** after the **fall** of the **Eastern Roman Empire** (1492)

Developments of trade

- After the decline of Venice, **Portugal** took the lead in world trade
  - **New routes** to Africa, China and Japan
  - Key role in **exploration** of new lands (e.g. Vasco de Gama, Magellan), together with Spain (that financed the expedition of Cristoforo Colombo, who was Italian, though ☺)

- The globalization processes discussed so far were characterized by a **stable ‘price wedge’** (i.e. additional price for importing foreign goods) and expanding demand for **luxury goods**

Developments of trade

- The **Netherlands**, first, and **Britain**, afterwards, took over the Portuguese leadership in trade

- The success of **Britain** (XVIII century) was due to its **industrial leadership** and its **pro-trade** attitude
  - **Reduction** of **tariffs** on imported **agricultural** items, that allowed a **specialization** in **industrial** products

- This wave of globalization (**up to WWI**) and the one **after WWII** were driven by **reductions in the 'price wedge'**
  - Trade liberalization, collapsed transportation costs, better communication possibilities

Table 1.5 Price convergence and declining transport cost, 1870–1913

Transport cost reductions (index)		
American export routes, deflated freight cost	1869/71–1908/10	100 to 55
American east coast routes, deflated freight cost	1869/71–1911/13	100 to 55
British tramp, deflated freight cost	1869/71–1911/13	100 to 78
Commodity price convergence at selected markets (% deviation)		
Liverpool–Chicago, wheat price gap	1870–1912	58 to 16
London–Cincinnati, bacon price gap	1870–1913	93 to 18
Philadelphia–London, pig iron price gap	1870–1913	85 to 19
London–Boston, wool price gap	1870–1913	59 to 28
London–Buenos Aires, hides price gap	1870–1913	28 to 9

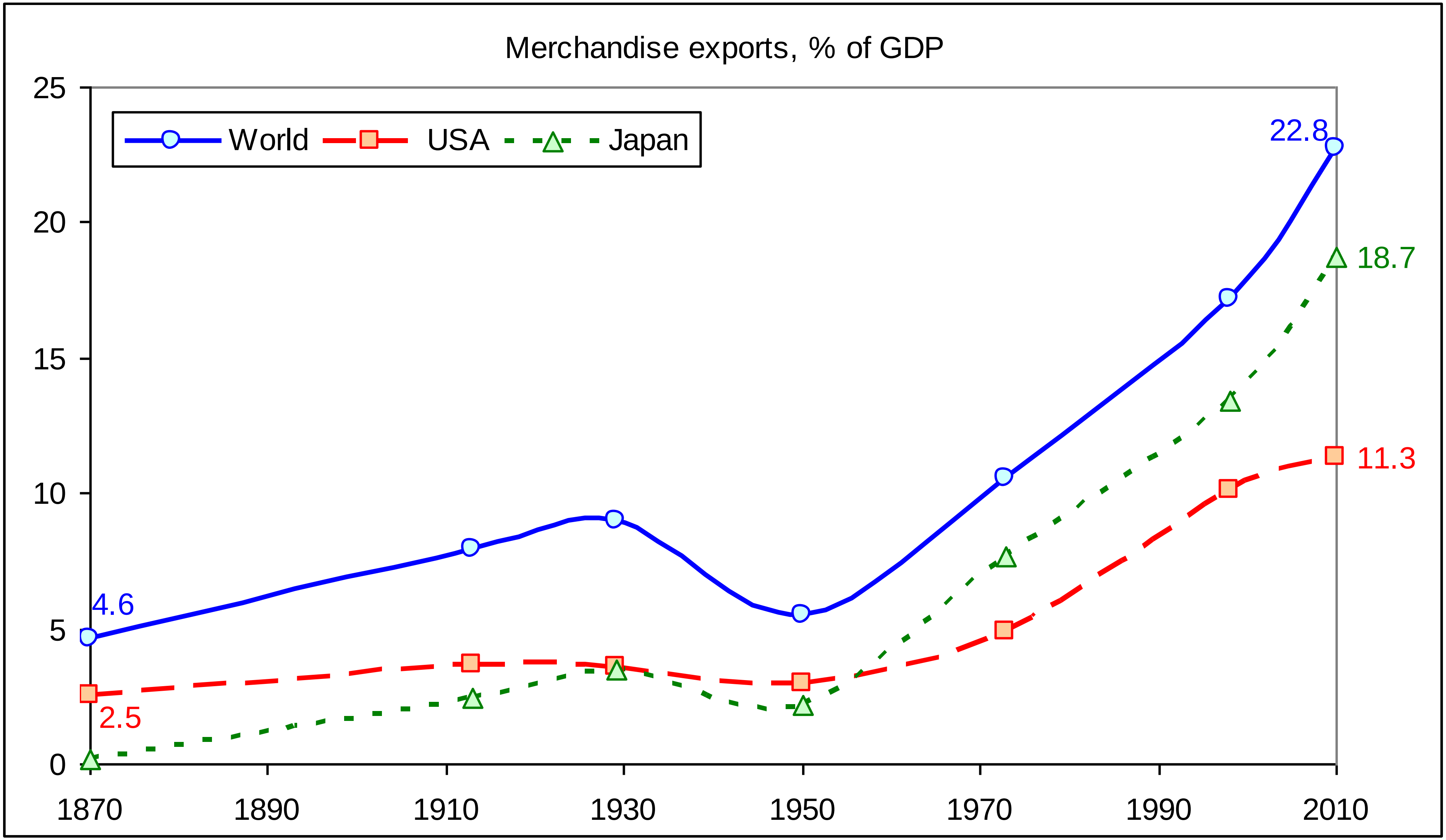
Source: O'Rourke and Williamson (2000, table 1).

Table 1.6 Tariffs on manufactures for selected countries, 1820–2010, per cent

	1820[a]	1875[a, b]	1913[a, b]	1931[c]	1950[c]	2010[c]
Denmark	30	15–20	14	–	3	1.9 (EU)
France	Prohibition	12–15	20	30	18	1.9 (EU)
Germany	–	4–6	13	21	26	1.9 (EU)
Italy	–	8–10	18	46	25	1.9 (EU)
Russia	Prohibition	15	84	Prohibition	Prohibition	6.0
Spain	Prohibition	15–20	41	63	–	1.9 (EU)
Sweden	Prohibition	3–5	20	21	9	1.9 (EU)
Netherlands	7	3–5	4	–	11	1.9 (EU)
UK	50	0	0	–	23	1.9 (EU)
USA	45	40	44	48	14	3.0

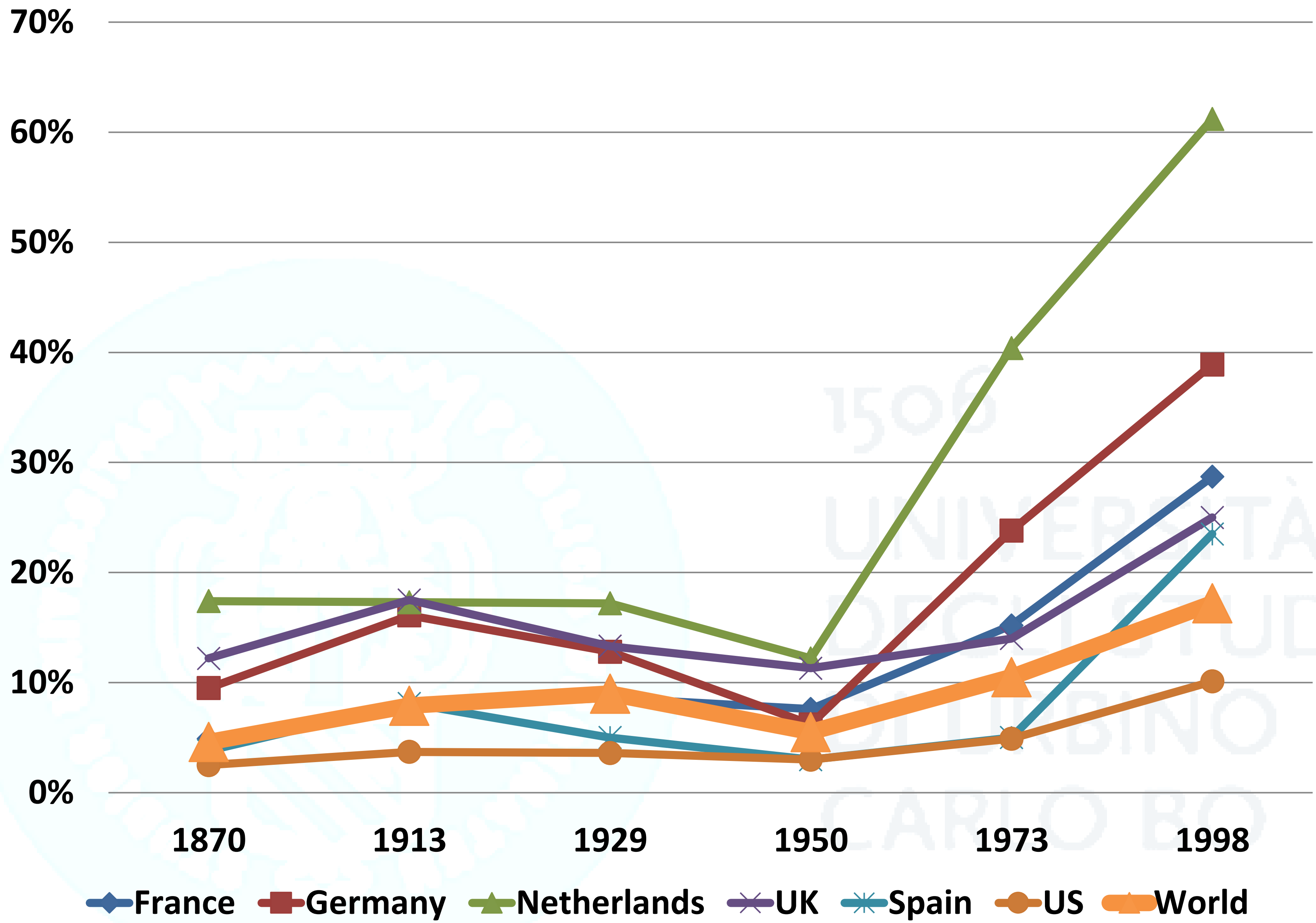
Sources: [a] Baldwin and Martin (1999, table 8); [b] O'Rourke and Williamson (1999, table 6.1); [c] World Development Indicators Online; – = data unavailable.

Figure 1.10 Two 'waves' of globalization, merchandise exports, per cent of GDP

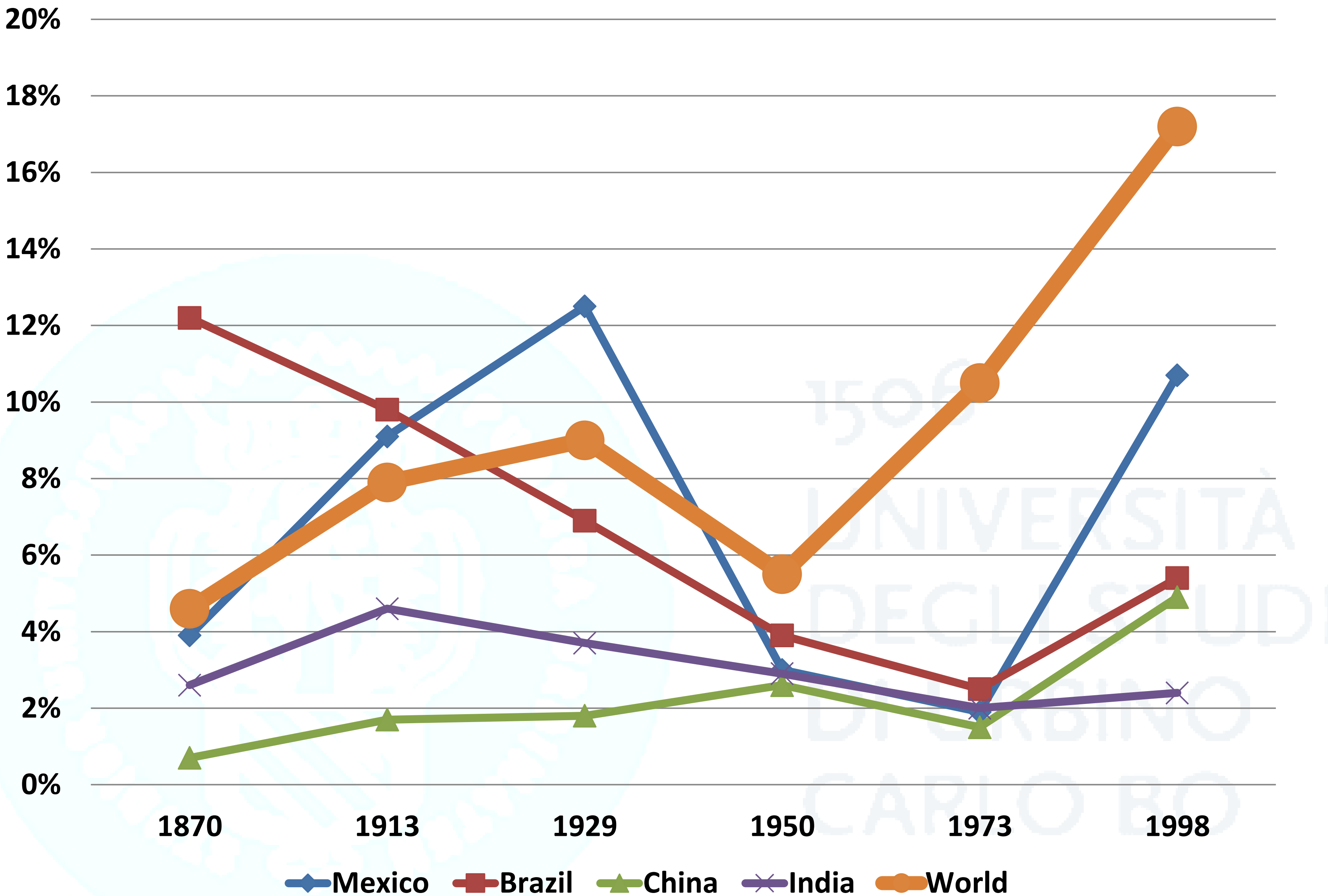


Data sources: Maddison (2001, table F-5) in constant 1990 prices, extended to 2010 using WTO International Trade Statistics and World Development Indicators Online.

Merchandise Export as Per Cent of GDP, 11 Countries and World, 1870-1998. Source: Maddison (2001)



Merchandise Export as Per Cent of GDP, 11 Countries and World, 1870-1998. Source: Maddison (2001)



Modern history of trade

- Rapid **rise** of trade **barriers** after **WWI** and the **Great Depression** (1929) up to the end of **WWII** (1945)
- **Negative** impact on economic **growth**
- **After WWII trade** has been seen as a tool to **promote pacific relationships** between countries
  - Creation of **GATT** (General Agreement on Tariffs and Trade, then transformed into WTO), **OECD** (Organisationi for Economic Co-operation and Development) and the **World Bank**
  - Remarkable increase of **trade** and **income** worldwide
  - Sometimes, the sudden **'forced' opening to trade** mandated by international organizations generated the collapse of the industries of the country ➔ e.g. USSR post-1991; Asian Tigers 1997-1998

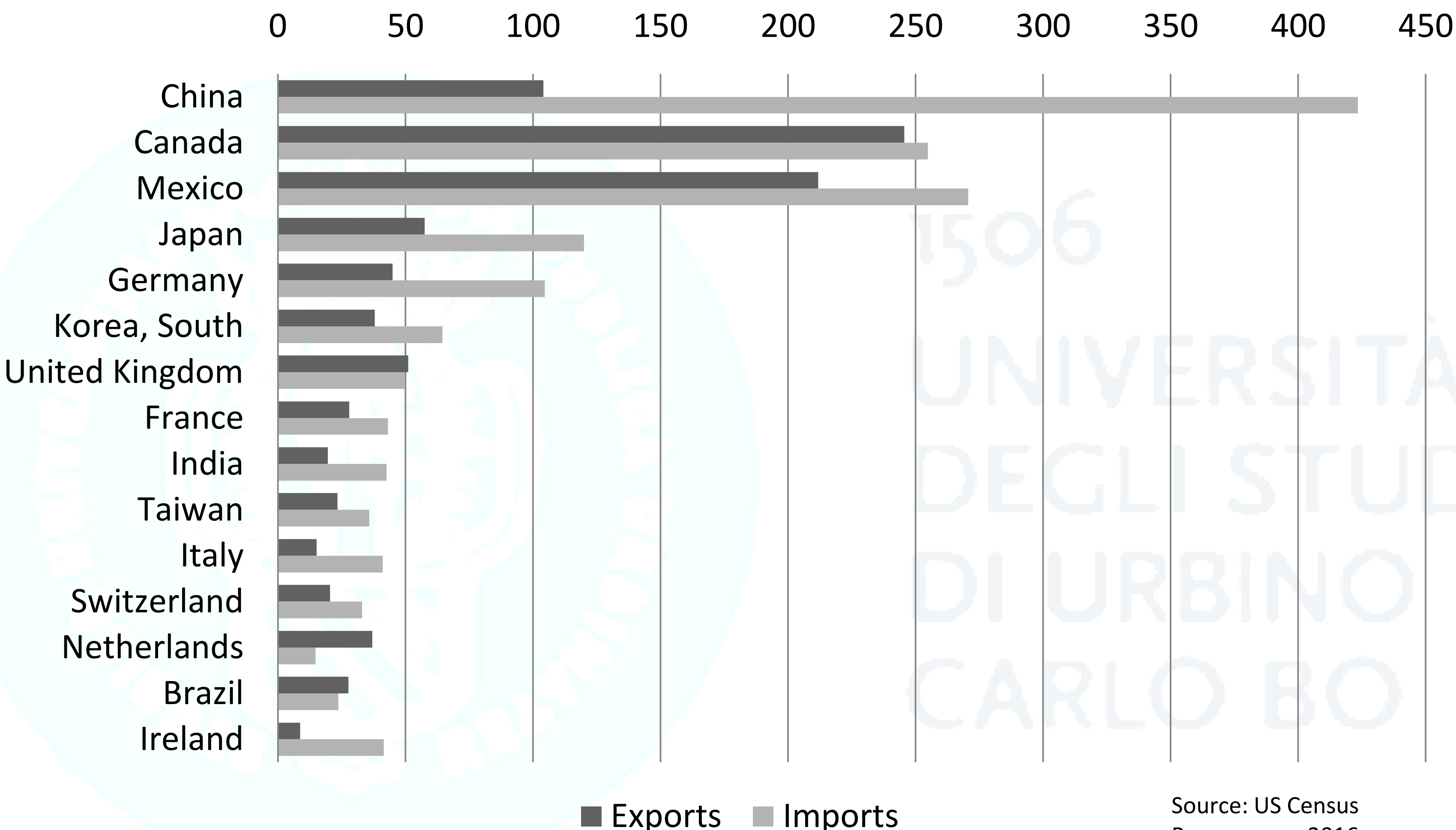
What kind of trade?

- **Before** the **industrial revolution** the bulk of long-distance **trade** consisted of **noncompeting products**
  - Products that were **not produced** in the **importing** regions (e.g., spices, silk)

- In the early **nineteenth century**, it also covered significant amounts of **basic goods**, such as wheat, and **simple manufactures**, such as textiles

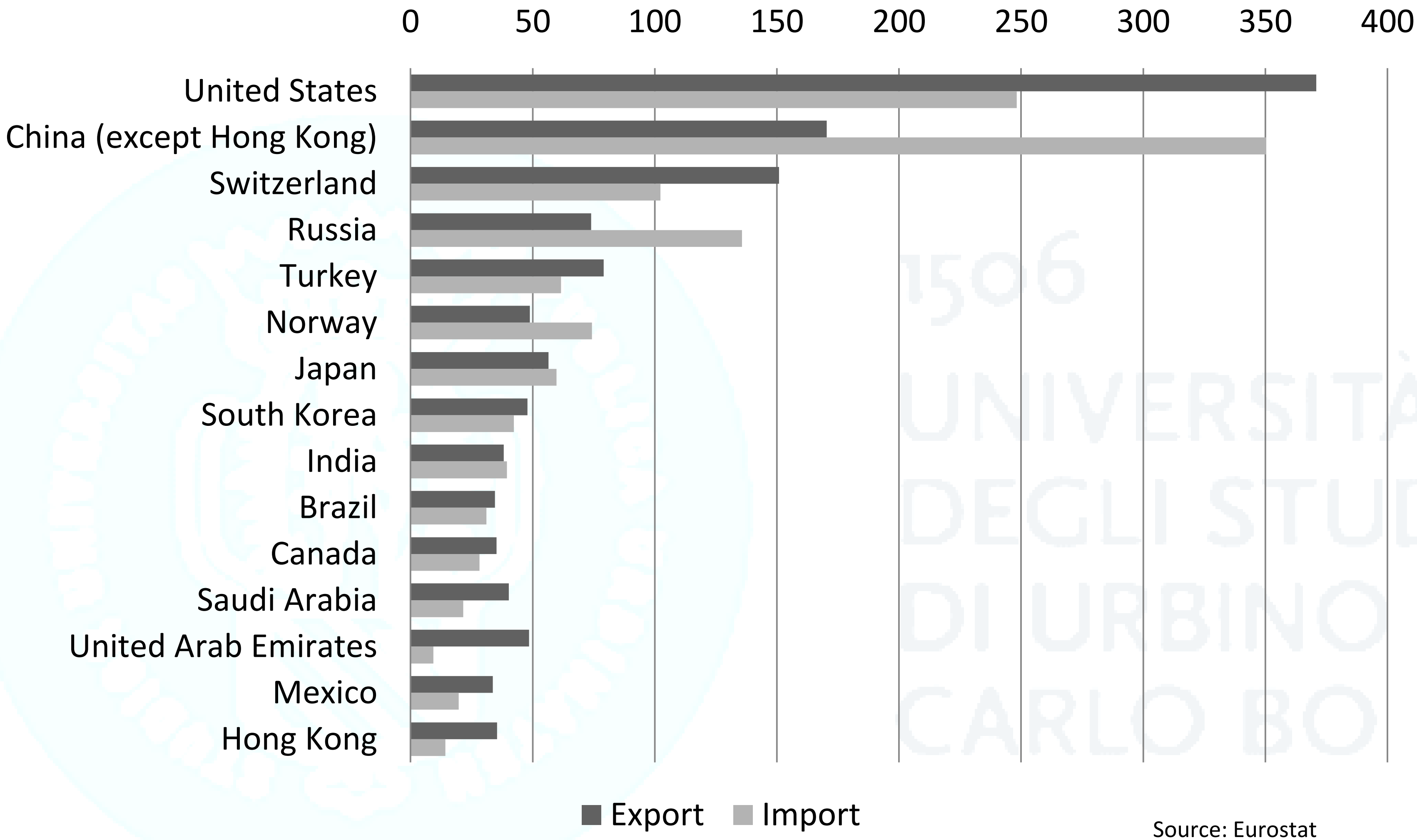
- During the nineteenth century, **trade expanded** rapidly, partly because of an incredible **decline** in **transport costs** and partly because of the **rise of manufacturing**
  - **Railway** and **steamship**
  - **Panama** and **Suez** Canals

Who trades with the U.S.?



Source: US Census Bureau, year 2016

Who trades with the EU?



Source: Eurostat

INVESTMENTS

Trade vs investments

- To serve a **foreign market**, firms may:
  – Produce at home and **export → trade**
  – Produce (and thus **invest**) **abroad → Foreign Direct Investment** (FDI)

- The **value chain** of production may also be **fragmented** and **located** in a **variety of countries**

- **Foreign production** (of any kind) requires an **investment abroad**

Figure 2.1
Home firm decision tree

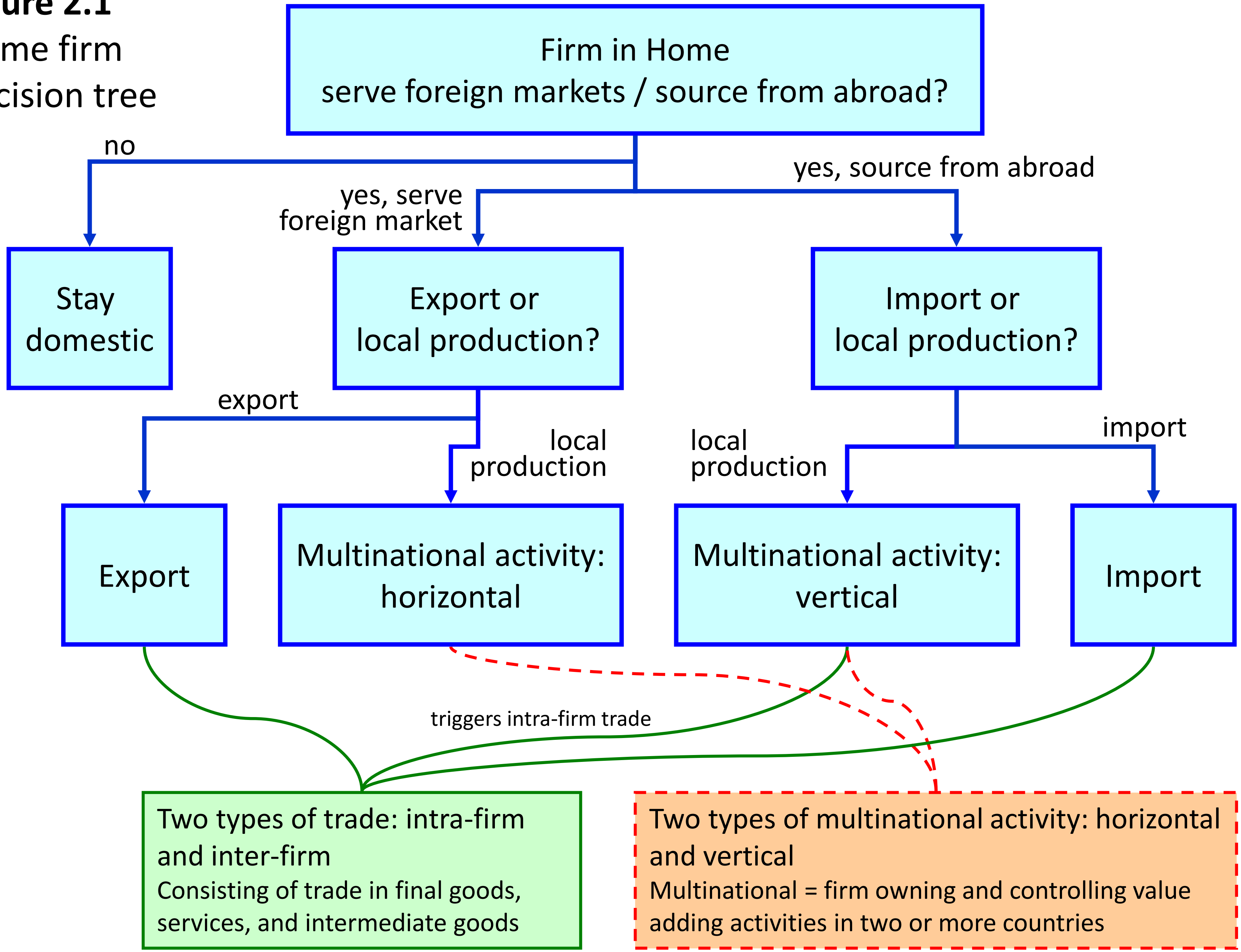
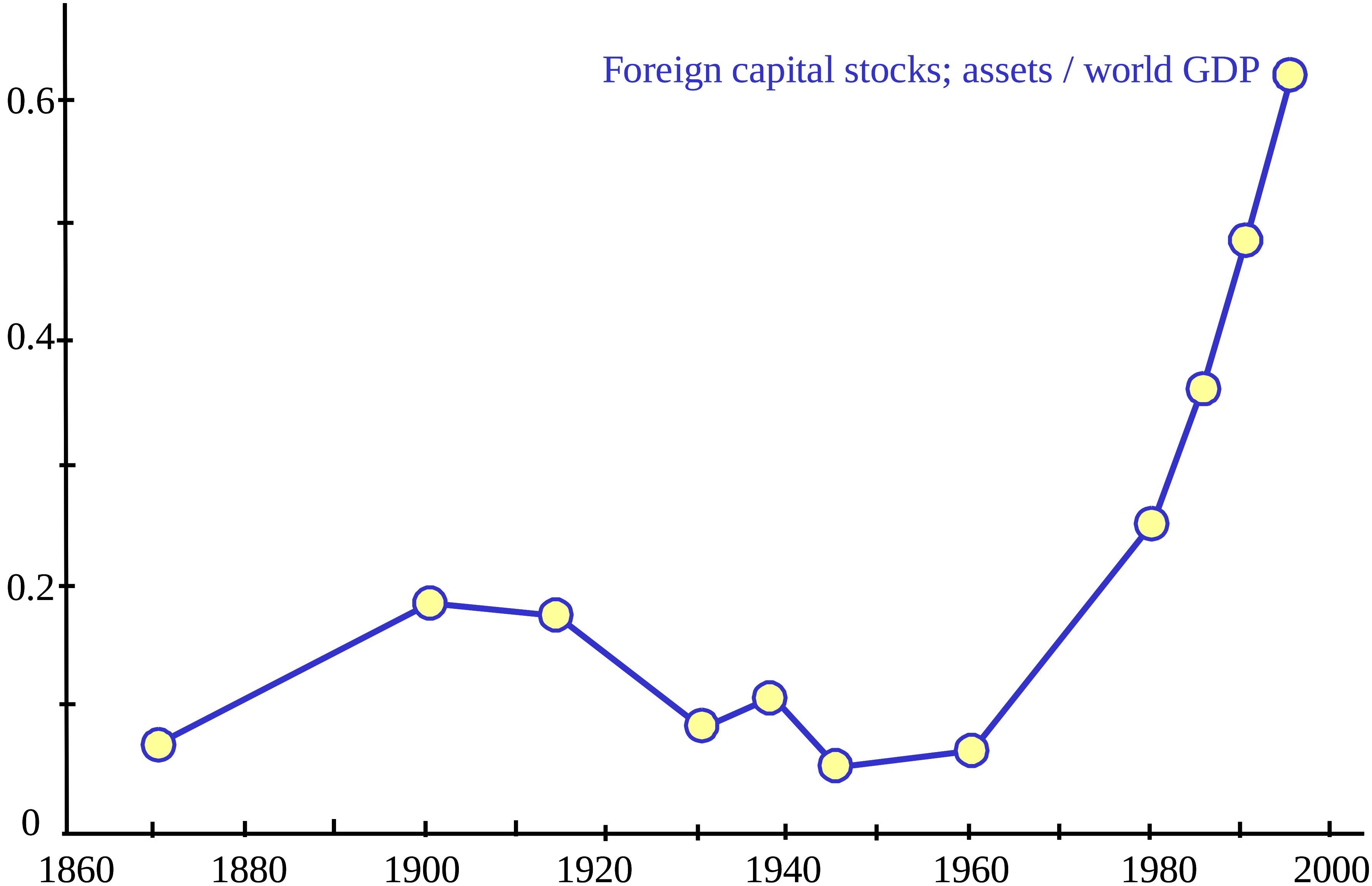


Figure 1.13 Foreign capital stocks; assets/world GDP, 1860–2000



Source: Based on Obstfeld and Taylor (2003).

Foreign Direct Investment

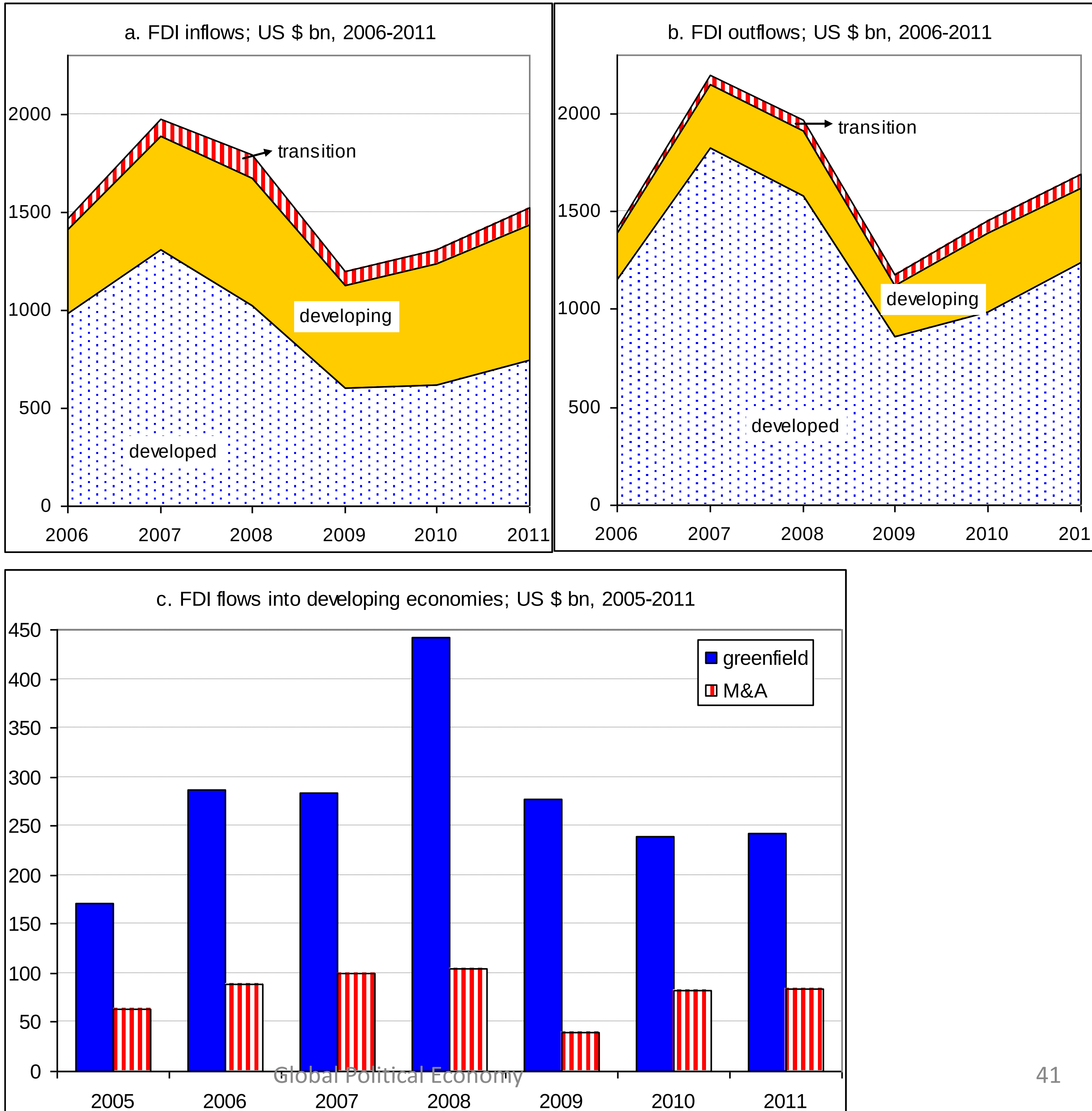
Definition (UNCTAD, 2006):

"A <u>Foreign Direct Investment</u> (FDI) is an investment involving a ***long-term relationship*** *and reflecting a* ***lasting interest and control*** *by a resident entity in one economy (parent enterprise) in an enterprise resident in an economy other than that of the parent entrerprise (affiliate enterprise or foreign affiliate).*

FDI implies that the investor exerts a ***significant degree of influence on the management*** *of the enterprise resident in the other economy. Such investment involves* ***both*** *the* ***initial transaction*** *between the two entities and* ***all subsequent transactions*** *between them and among foreign affiliates."*

Figure 2.6

FDI flows, 2005-2011



Source: based on data from UNCTAD, World Investment Report 2012; developed = developed economies; developing = developing economies; transition = transition economies.

Table 2.4 Inward FDI stock; US $ bn, 2009

a. USA inward FDI stock			b. Germany inward FDI stock		
Total	2,253	%	Total	909	%
United Kingdom	454	20.1	Netherlands	230	25.3
Japan	264	11.7	Luxembourg	127	14.0
Netherlands	238	10.6	United States	98	10.7
Canada	226	10.0	France	96	10.5
Germany	218	9.7	Switzerland	75	8.2
Switzerland	189	8.4	United Kingdom	73	8.1
France	189	8.4	Italy	47	5.1
Luxembourg	128	5.7	Austria	25	2.8
Australia	46	2.0	Japan	20	2.2
Spain	44	1.9	Sweden	18	2.0

c. Japan inward FDI stock			d. Australia inward FDI stock		
Total	189	%	Total	224	%
United States	75	39.7	United States	66	29.5
Netherlands	36	19.1	United Kingdom	42	18.6
Cayman Islands	17	9.0	Japan	25	11.1
France	15	8.0	Netherlands	17	7.7
Singapore	11	5.6	Switzerland	14	6.0
United Kingdom	7	3.9	Germany	10	4.2
Germany	7	3.8	France	9	4.1
Switzerland	5	2.6	Canada	7	3.1
Luxembourg	4	2.3	Singapore	7	3.1
Hong Kong	3	1.4	Hong Kong	7	2.9

Source: OECD Foreign Direct Investment Position database; German and Australian data for 2008.

Table 2.7 FDI inflows and outflows, as % of total flows

	Developed economies		Developing economies		Transition economies	
Period	In	Out	In	Out	In	Out
1980-89	74.7	94.0	25.3	6.0	0.0	0.0
1990-99	68.1	88.0	30.8	11.7	1.0	0.4
2000-09	65.1	85.0	31.3	13.2	3.9	1.8

Source: UNCTAD

Multinational enterprises (MNEs) are key actors in the globalisation process

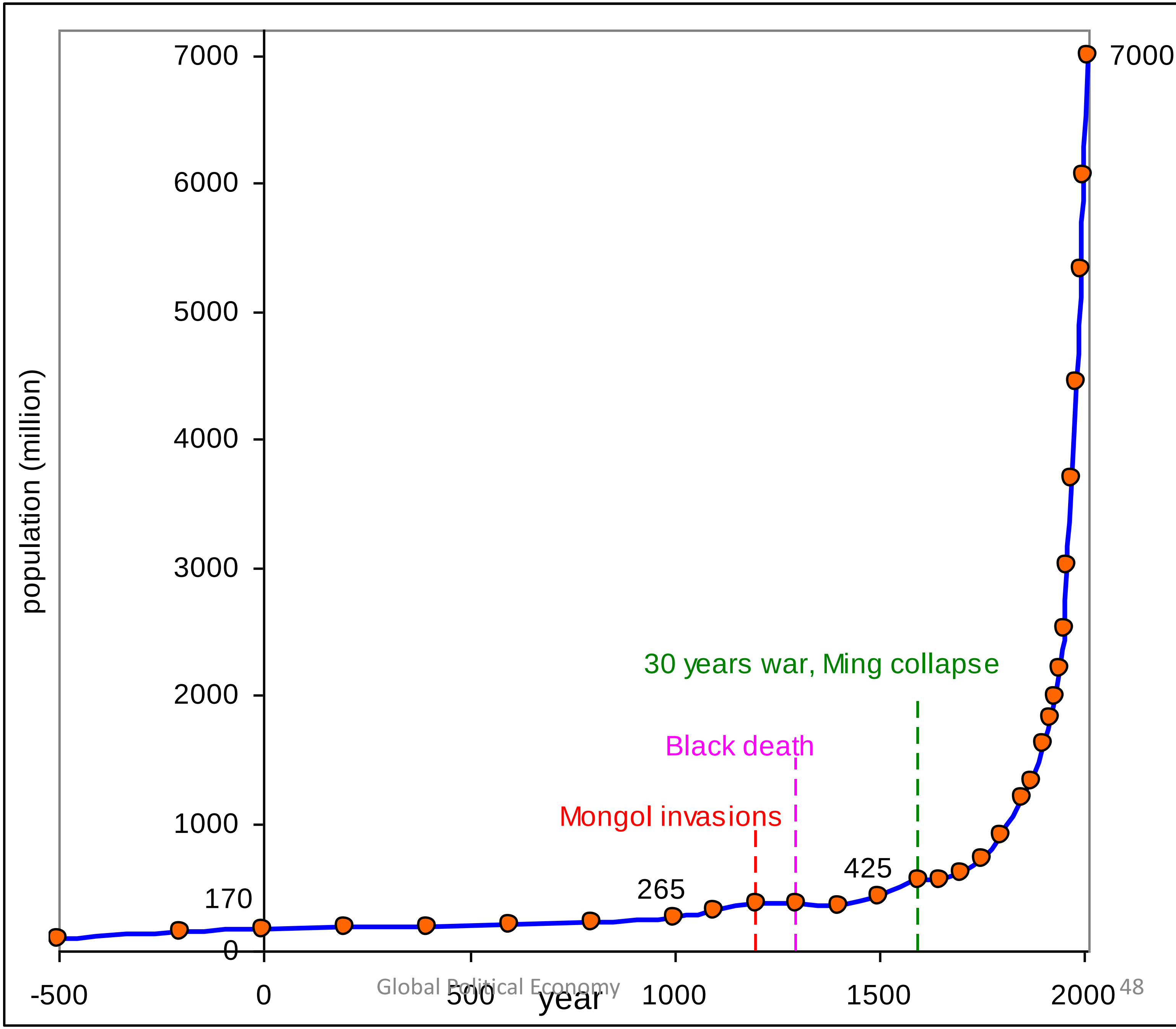
- MNEs are the only responsible for **FDI**
- MNEs are key actors in **import/export**
- MNEs' **subsidiaries** abroad play a significant **role** in **foreign economies**
- MNEs' activities have (positive and negative) **indirect effects**
- MNEs are key players in **R&D** and **innovations**

- Imagine you are the **CEO** of **Ford** and you want to **enter a new market** (either through export or FDI) for the new **Ford Ka**
- You should **choose** among these countries:

Country	Population (in million)	GDP (in bn$)	GDP per capita (in $)
India	1,293	8,700	6,600
China	1,376	20,853	15,095
Japan	127	4,901	38,731

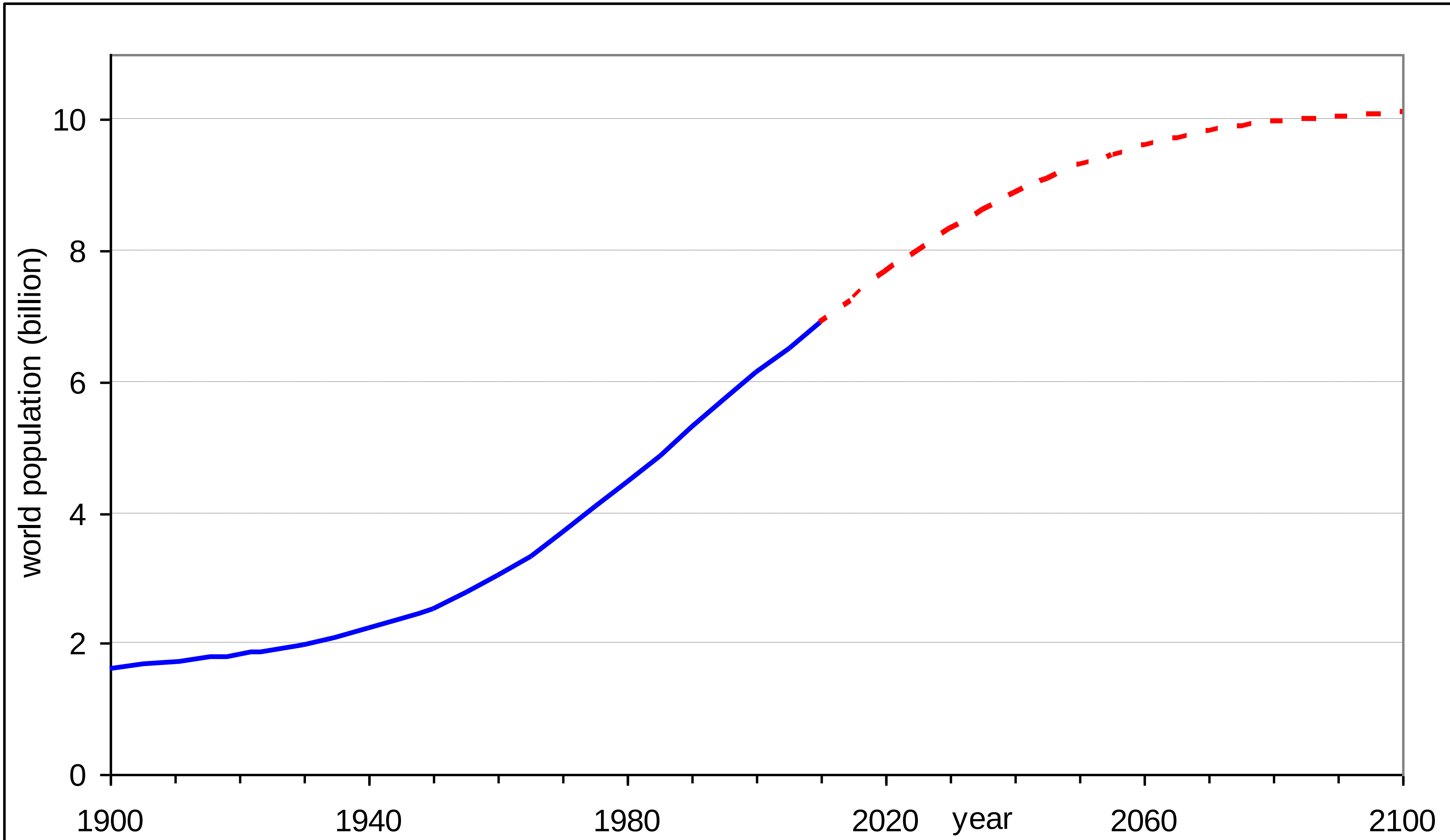
POPULATION

Figure 1.2 Development of world population over the last 2,500 years



Data sources: Kremer (1993, table 1) and UN Population Division World Population Prospects: The 2010 Revision.

Figure 1.3 Development in world population, UN projection to 2100



Data source: UN Population Division World Population Prospects: The 2010 Revision, medium variant

Table 1.1 The twenty countries with highest population and population density, 2010

Rank	Country	Population	Country	Density
1	China	1,338	Macao SAR, China	19,416
2	India	1,171	Monaco	17,704
3	United States	309	Singapore	7,252
4	Indonesia	240	Hong Kong SAR, China	6,783
5	Brazil	195	Gibraltar	2,924
6	Pakistan	174	Bahrain	1,660
7	Nigeria	158	Bermuda	1,292
8	Bangladesh	149	Malta	1,291
9	Russian Fed.	142	Bangladesh	1,142
10	Japan	127	Sint Maarten (Dutch part)	1,113
11	Mexico	113	Maldives	1,053
12	Philippines	93	Channel Islands	807
13	Vietnam	87	West Bank and Gaza	690
14	Ethiopia	83	Barbados	636
15	Germany	82	Mauritius	631
16	Egypt	81	Aruba	597
17	Iran	74	St. Martin (French part)	556
18	Turkey	73	Mayotte	552
19	Thailand	69	San Marino	526
20	Congo DR	66	Korea, Rep.	504

Source: World Development Indicators Online; population in million, population density in people per square kilometer

Table 1.2 Population projections, 2000–2050, the world and continents

	Population		Total fertility		Life expectancy		Median age	
	2010	2050	2010	2050	2010	2050	2010	2050
World	6896	9306	2.45	2.17	69.3	75.6	29.2	38.5
Africa	1022	2192	4.37	2.89	57.4	68.2	19.7	27.4
Asia	4164	5142	2.18	1.88	70.4	76.7	29.2	41.9
Latin America[a]	590	751	2.17	1.79	74.7	79.8	27.6	42.3
Europe	738	719	1.59	1.91	76.5	81.7	40.1	45.5
Northern America	345	447	2.04	2.07	79.0	83.2	37.2	40.5
Oceania	37	55	2.45	2.21	77.7	82.5	32.8	38.5

[a] Unless otherwise specified, the term ‘Latin America’ includes the Caribbean throughout this book.

Data source: UN Population Division, World Population Prospects: The 2010 Revision.

Notes: Population in millions, total fertility in average number of children per woman. Data for total fertility and life expectancy at birth are five-year estimates (for 2010–2015 and 2045–50). The projections for 2050 are based on the UN’s medium variant.

What is behind these trends?

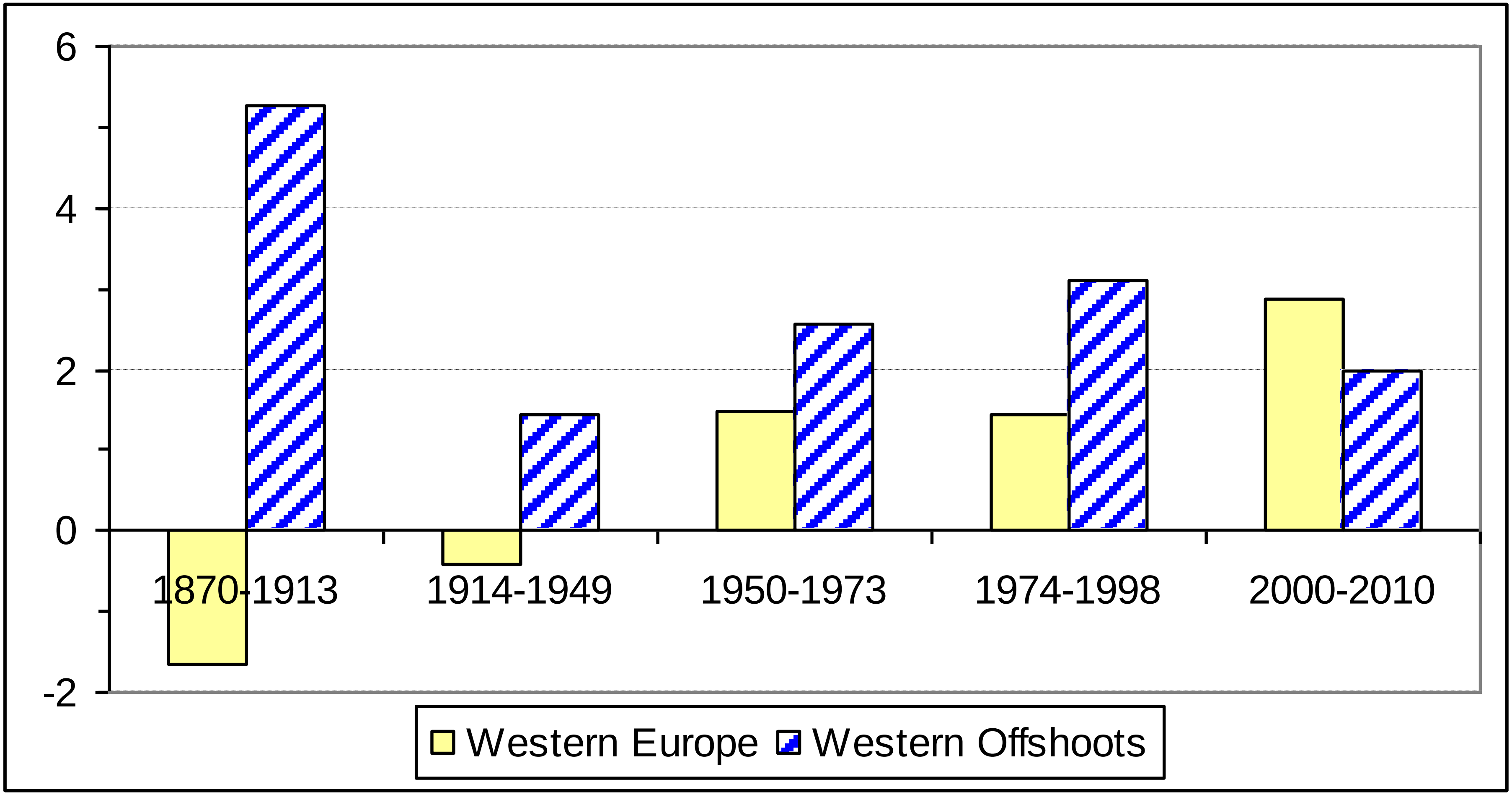
- Incredible improvements in **living conditions** lead to **reduced mortality** and increased **life expectancy**

- The **demographic transition** (i.e. stabilisation of global population) is almost completed, on average, with decreasing fertility in most countries

Capital vs labour

- International **integration** of **capital markets** lead to very large movements of capital
- Is this **true** for **labour**? ➔ **migration**

Figure 1.14 Relative migration flows, Western Europe and Western Offshoots, 1870–2010, per 1,000 inhabitants



Data sources: Net migration in the period (Maddison, 2001, table 3-4) is divided by the (simple) average population and length of the period, normalized per 1,000 inhabitants; updated for the period 2000-2010 with data from UN Population Division, Migration Section; Western Europe consists of Belgium, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, and UK.

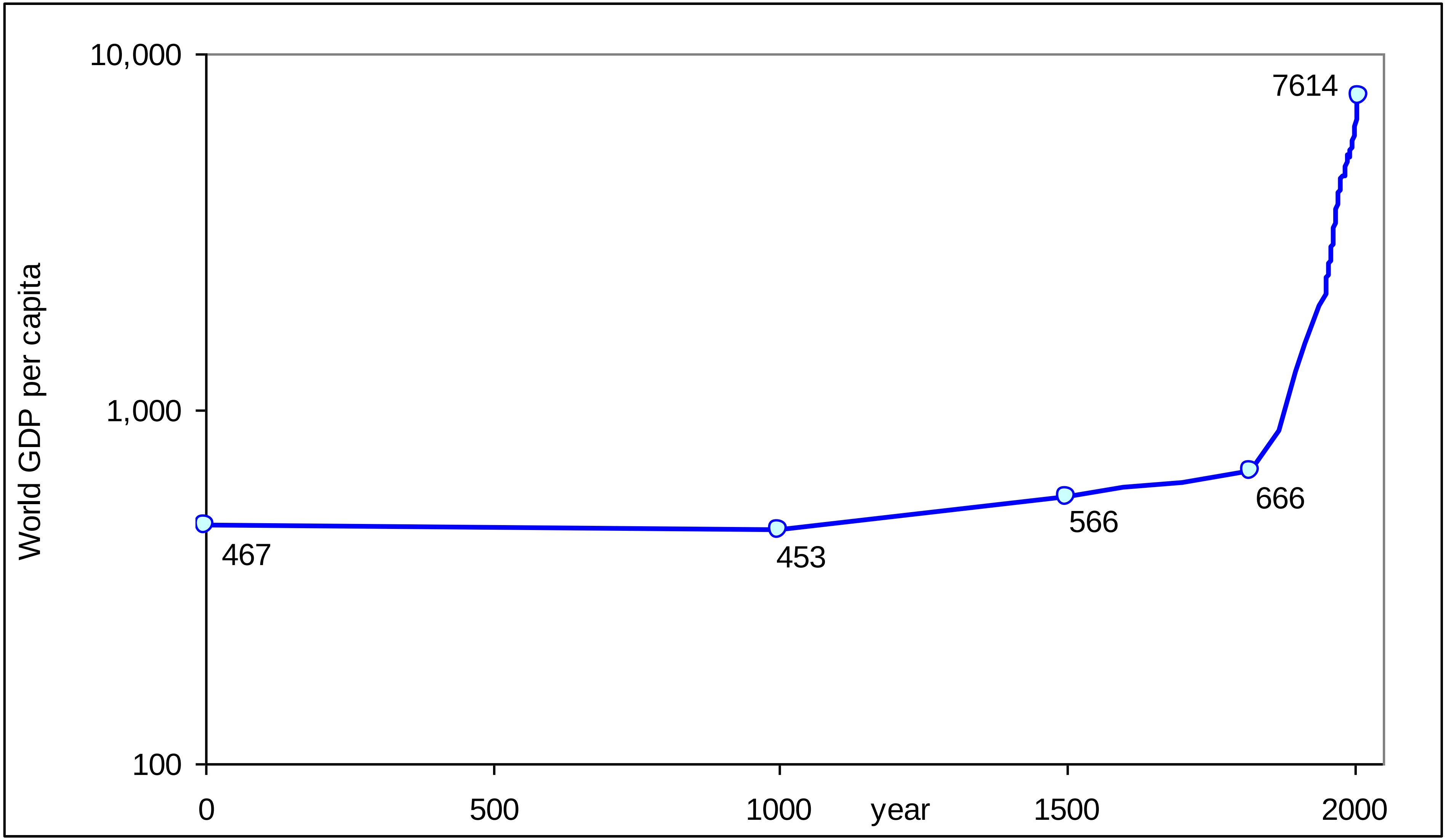
Globalization and migration

- **Heterogeneity** in **real wages** should **induce** substantive **migration** of workers
  - Wages are high where the **supply** of **workers** is **low** for a given demand for labour

- This massive migration **does not happen** for many reasons:
  - High **adjustment costs** (monetary and non-monetary) of moving from one country to another
    - **Language** barriers
    - **Cultural** barriers
    - Strong **ties** with home country/town
  - Regulatory **barriers** to migration (e.g. quotas, bans, etc)
  - **Excess demand** is not for workers ‘in general’ but for **specific** profiles (i.e. **skills**)
  - …

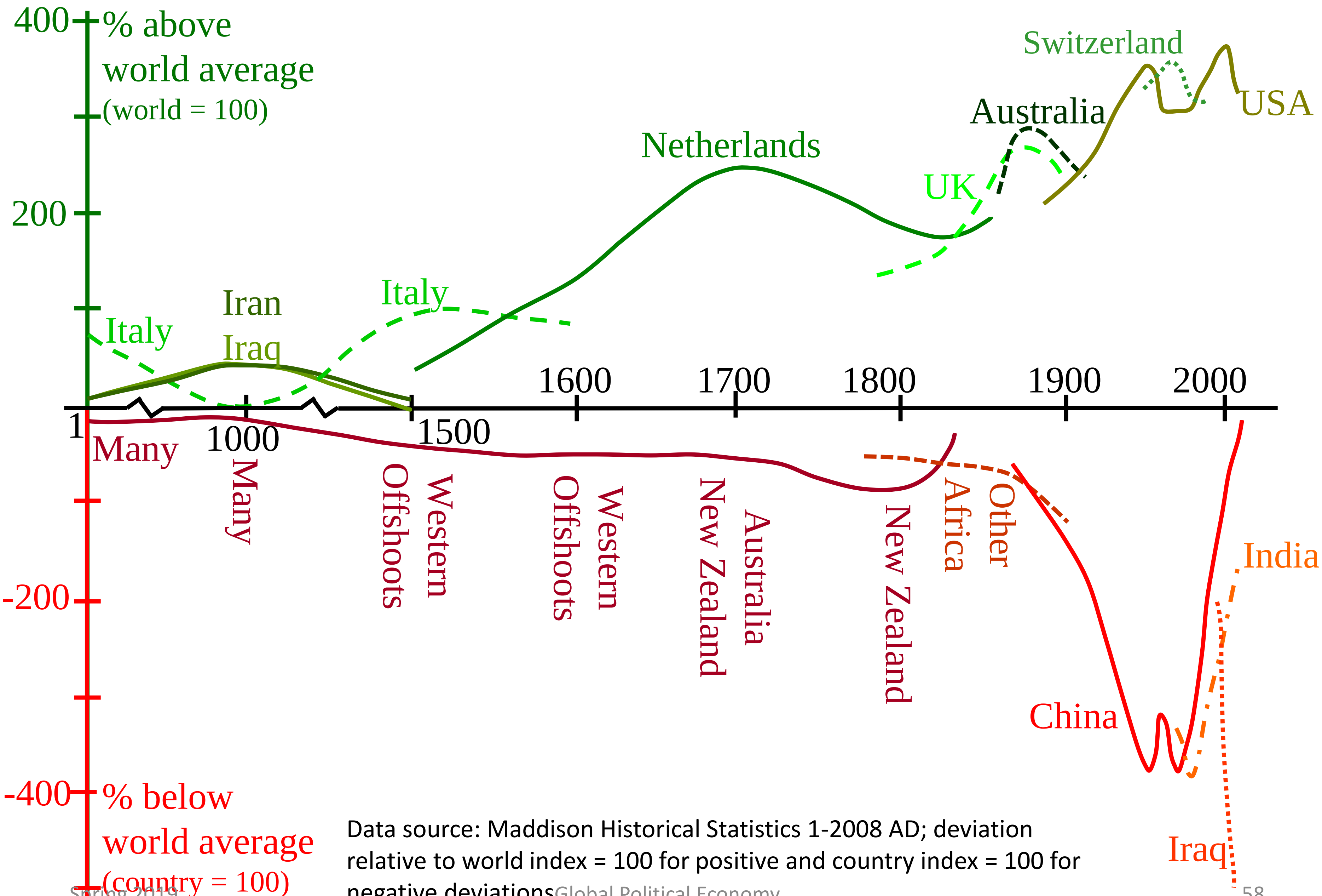
GDP

Figure 1.6 Development of world *per capita* income over the last 2,000 years, logarithmic graph



Data source: Maddison Historical Statistics 1-2008 AD; 1990 international Geary-Khamis dollars

Figure 1.8 Leaders and laggards in GDP *per capita*: a widening perspective



Data source: Maddison Historical Statistics 1-2008 AD; deviation relative to world index = 100 for positive and country index = 100 for negative deviations.

Take home messages (I)

- Economic globalization is **not new** and **not monotonic**
- It is a **multi-dimensional** process (trade, investments, migration, knowledge)
- **Two waves** of globalization driven by both reduced **transportation costs** and reduced **trade barriers**
- **MNEs** are at the **core** of globalization

Take home messages (II)

- **FDI** generally flow **from 'North' to 'North'**
- **Labour** is **not** as **mobile** as capital (i.e. migration, or absence thereof, is not explained by wage differentials)
- **Population** and **GDP** play an important role in **determining** internationalization **choices**
- Strict **connection** between **internationalziation** and economic **growth**

KOF-ETH (Zurich) index of economic globalization

i) Actual Flows	(50%)
Trade (percent of GDP)	(22%)
Foreign Direct Investment, stocks (percent of GDP)	(27%)
Portfolio Investment (percent of GDP)	(24%)
Income Payments to Foreign Nationals (percent of GDP)	(27%)
ii) Restrictions	(50%)
Hidden Import Barriers	(23%)
Mean Tariff Rate	(28%)
Taxes on International Trade (percent of current revenue)	(26%)
Capital Account Restrictions	(23%)

KOF index of economic globalization

1970			2016		
Rank	Country	Index	Rank	Country	Index
1	Luxembourg	91.96	1	Singapore	96.06
2	Singapore	85.39	2	Ireland	93.08
3	Ireland	77.88	3	Luxembourg	91.80
4	Belgium	74.83	4	Netherlands	90.89
5	Switzerland	69.58	5	Malta	90.28
6	Seychelles	66.13	6	United Arab Emirates	88.39
7	Panama	65.68	7	Hungary	86.85
8	Botswana	64.92	8	Estonia	86.11
9	Netherlands	63.33	9	Belgium	85.95
10	Canada	62.97	10	Bahrain	85.51
	…			…	
32	United States	47.20	62	Italy	67.02
59	Italy	40.54	89	United States	59.40