



Future of Globalisation

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1. Future of globalisation

“Let China sleep, for when she awakes, she will shake the world.”

Napoleon Bonaparte

1. Future of globalisation

- Drivers
- Consequences
- Challenges

2. Drivers of globalisation

- Behind globalisation are:
 - Declining communication and transport costs
 - Worldwide move to the market
 - Incorporation of billions of people into the world economy

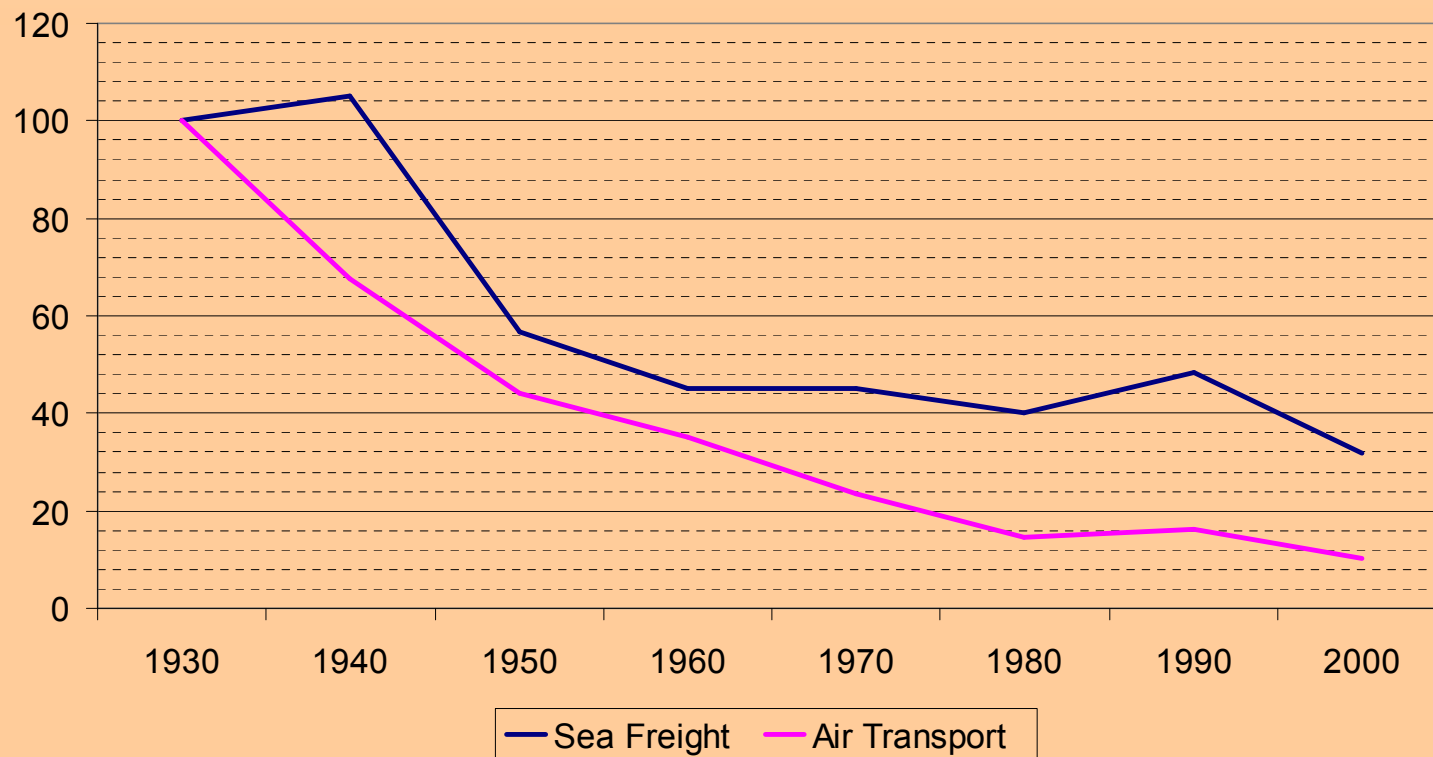
2. Drivers – declining costs

- Transport plays a more modest role in this era of globalisation than in the first one, in the late 19th and early 20th centuries
- The big transformation this time is the reduction in the marginal cost of collating and disseminating information to close to zero
- This “information revolution” is only just beginning
- We do *not* know its full implications

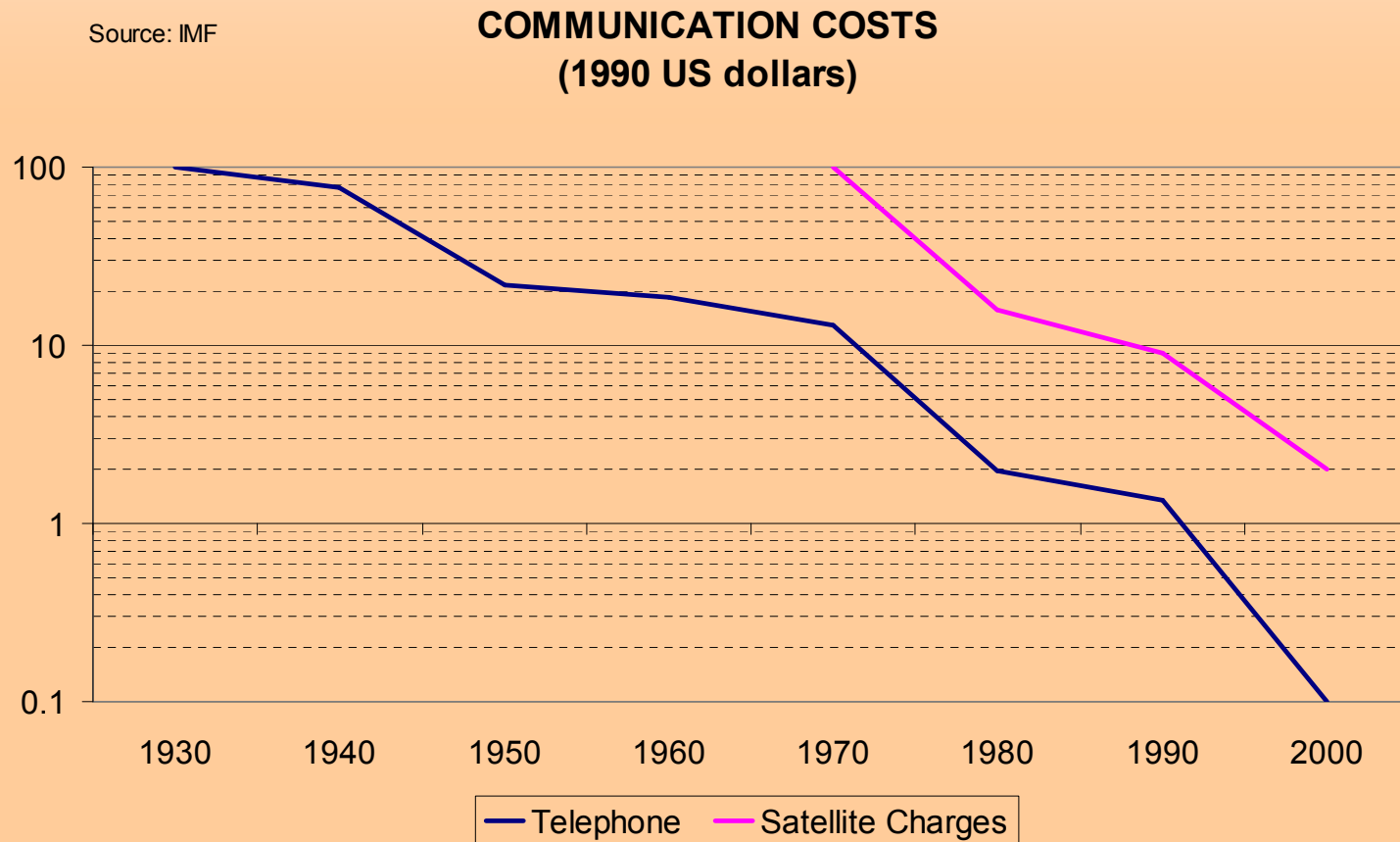
2. Drivers – declining costs

Source: IMF

TRENDS IN TRANSPORT COSTS (1990 US dollars)



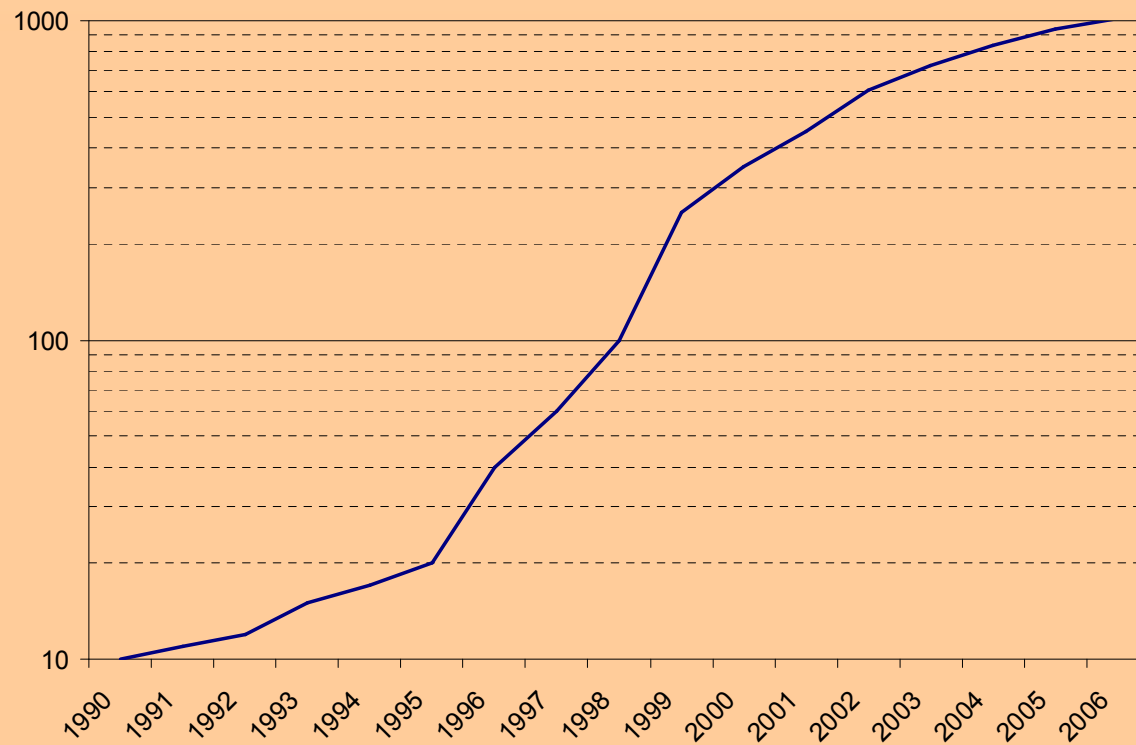
2. Drivers – declining costs



2. Drivers – declining costs

Source: Internet World Stats

INTERNET USERS (m)



2. Drivers – declining costs

INTERNET PENETRATION JANUARY 2006

	Share of World Population	Share of Internet Usage	Internet Penetration
Africa	14.0%	2.5%	2.7%
Asia	56.4%	34.1%	9.0%
Europe	11.4%	28.5%	37.4%
Middle East	4.1%	2.2%	8.2%
North America	5.1%	23.4%	68.1%
Latin America	8.5%	7.4%	12.9%
Oceania/Australia	0.5%	1.8%	52.8%
World	100.0%	100.0%	14.9%

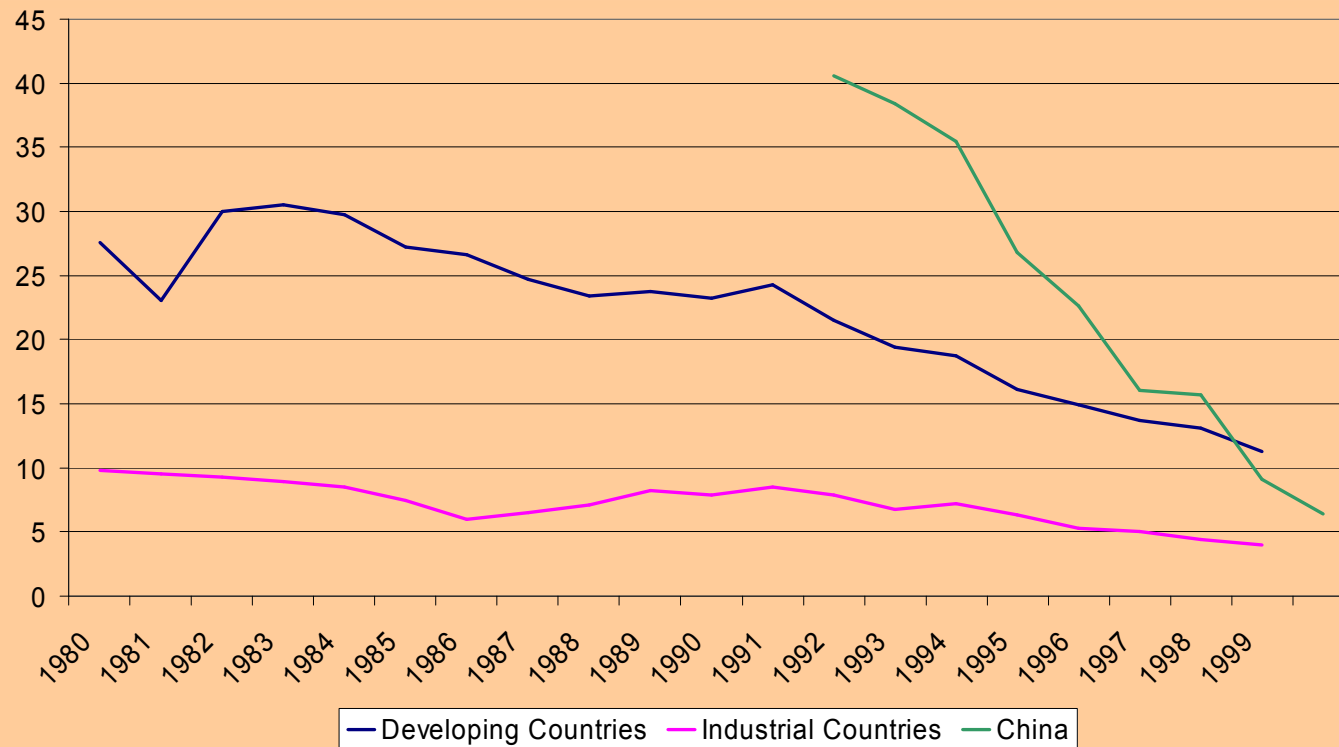
Source: Internet World Stats, <http://www.internetworldstats.com/stats.htm>

2. Drivers – move to the market

- The last 25 years has seen a global liberalisation revolution
- It culminated with the fall of the Soviet empire between 1989 and 1991
- And the subsequent reunification of Europe
- Despite financial crises, terrorism and war, there has been no reversal of this trend
- The “second globalisation” is still well under way

2. Drivers – move to the market

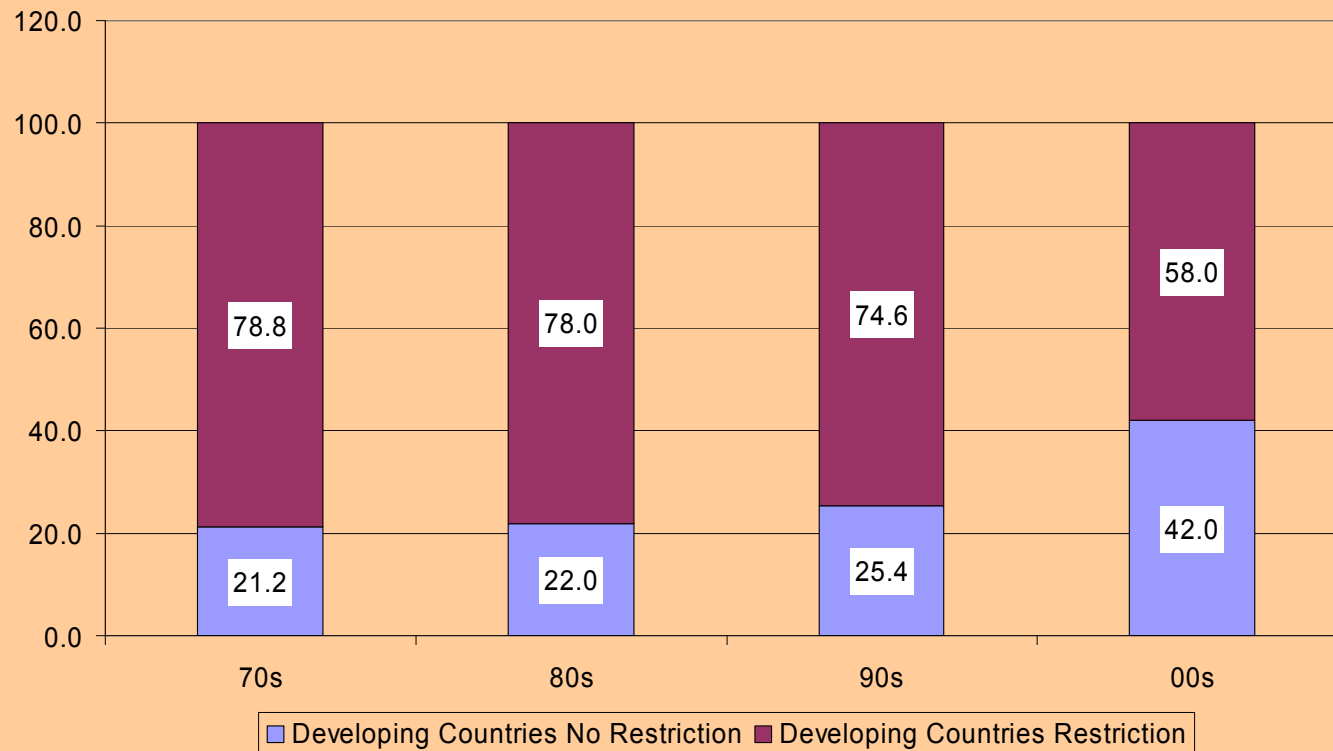
TRENDS IN AVERAGE TARIFF RATES
(per cent, unweighted - weighted for China))



2. Drivers – move to the market

Source: IMF

THE DECLINE OF EXCHANGE CONTROLS
(share of countries with restrictions, per cent)

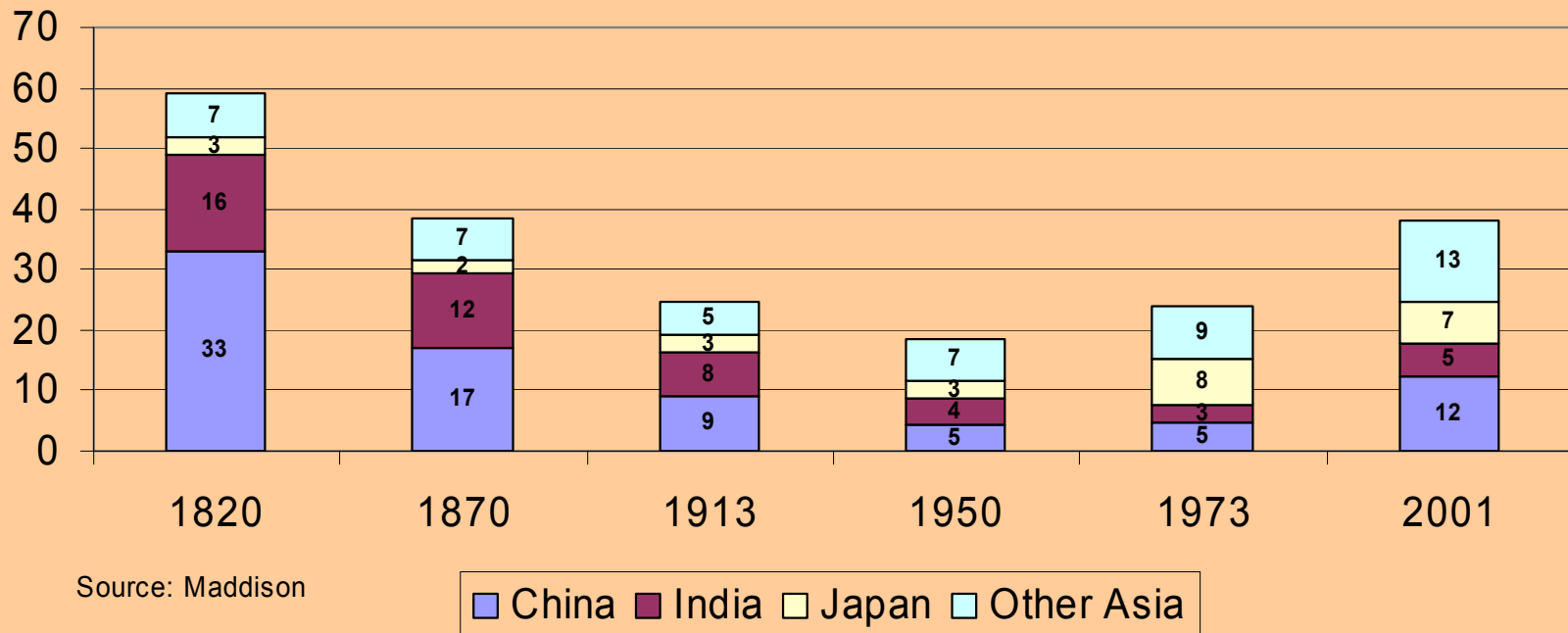


2. Drivers – Asia's rise

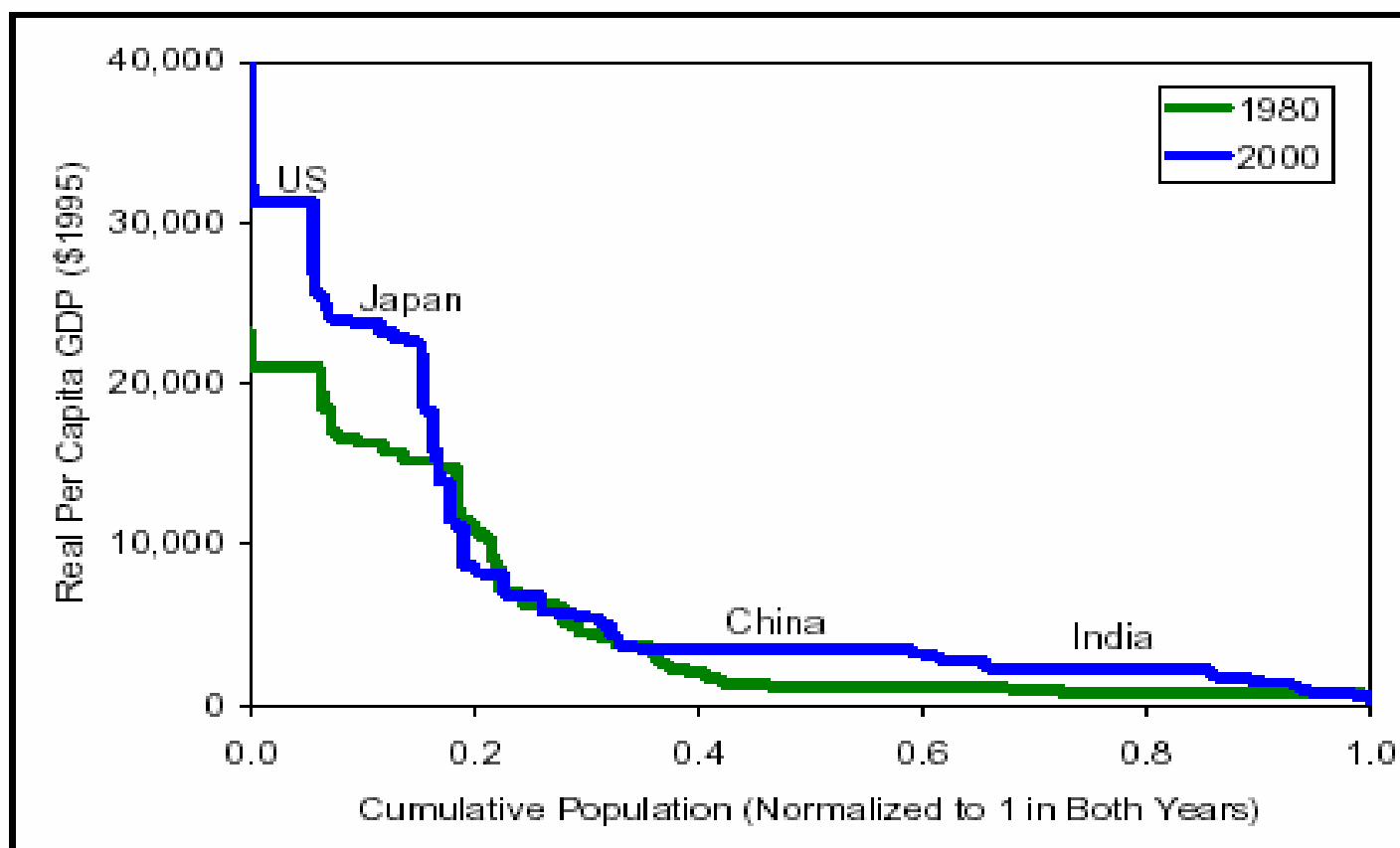
- The final driver is Asia's rise
- This is the third great transformation since the industrial revolution:
 - Early 19th century: rise of the UK
 - Late 19th and early 20th centuries: rise of US, Germany, Japan and Russia
 - Post-second world war: rise of Asia - from Japan's surge to the rise of China and India
- East and south Asia contain more than half of humanity
- This then must be the beginning of the end of the era of dominance by Europeans and their colonial offshoots

2. Drivers – Asia's rise

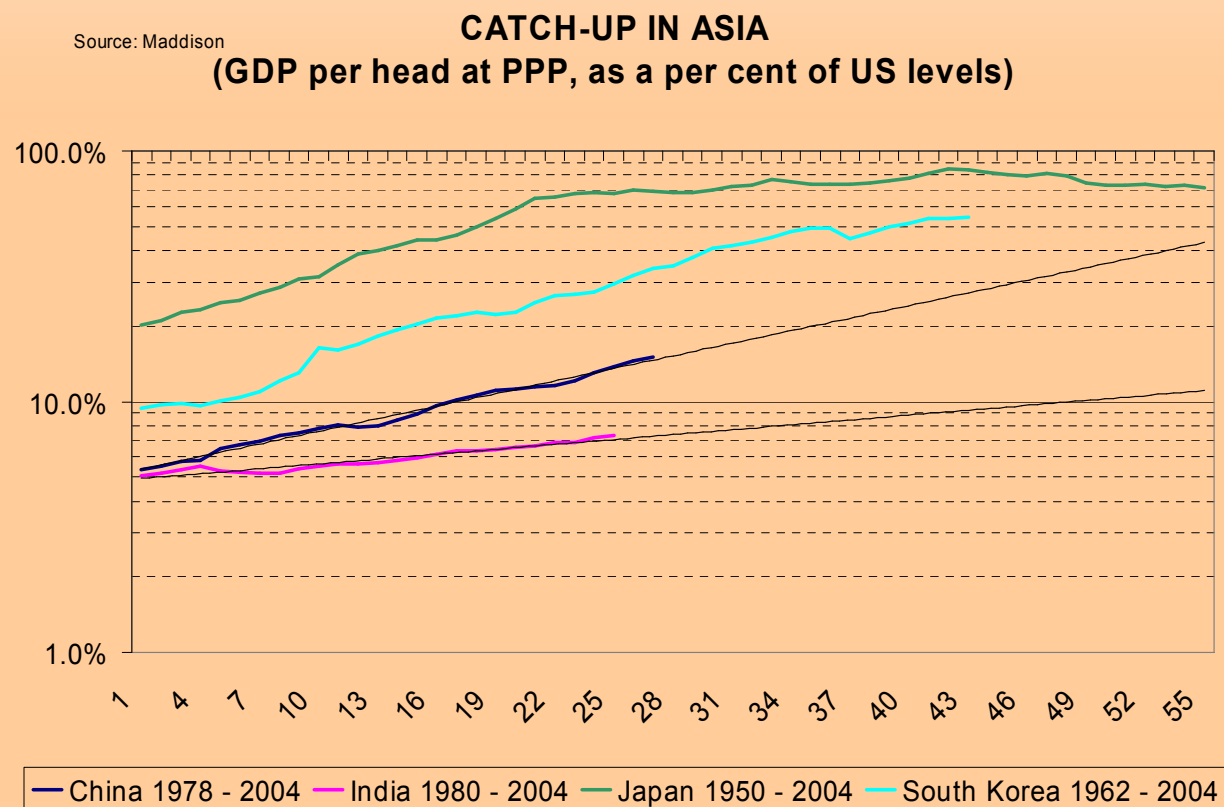
ASIA'S SHARE IN WORLD GDP (at PPP)



2. Drivers – Asia's rise

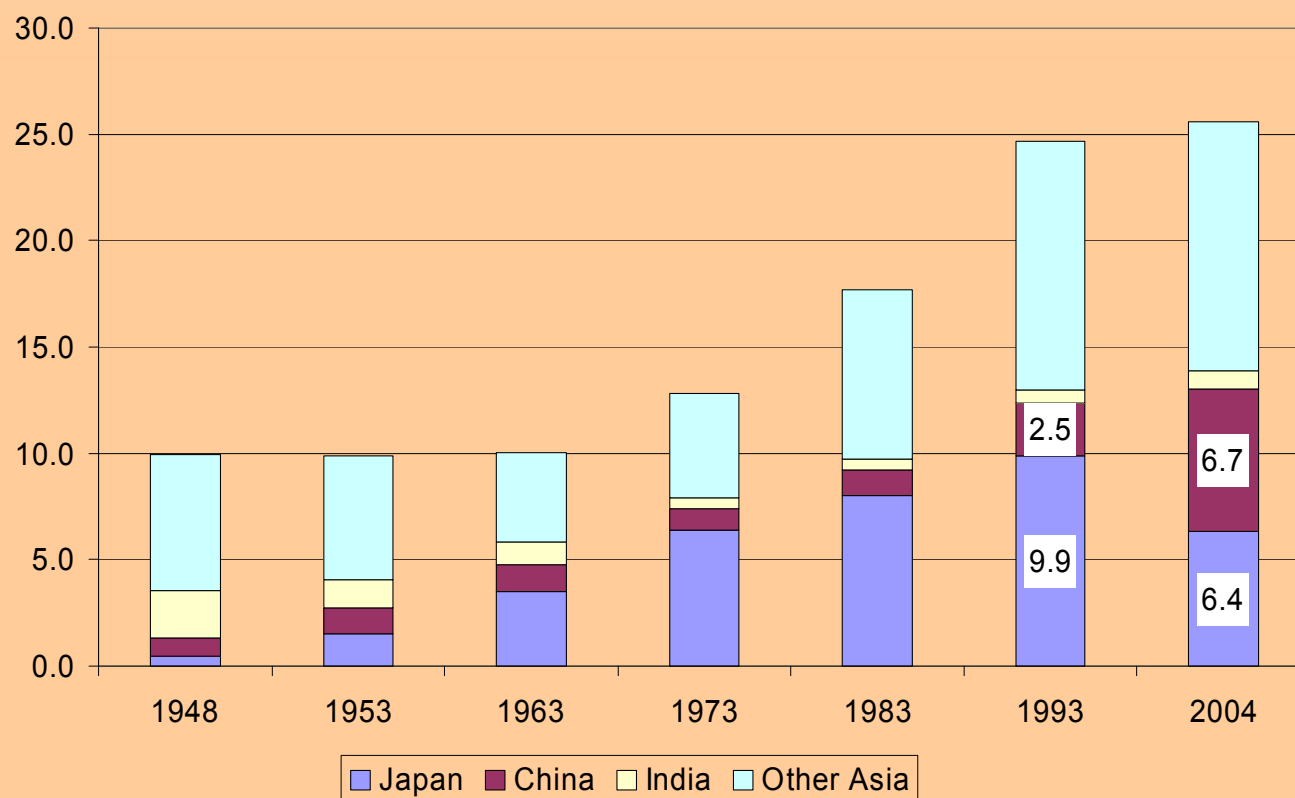


2. Drivers – Asia's rise

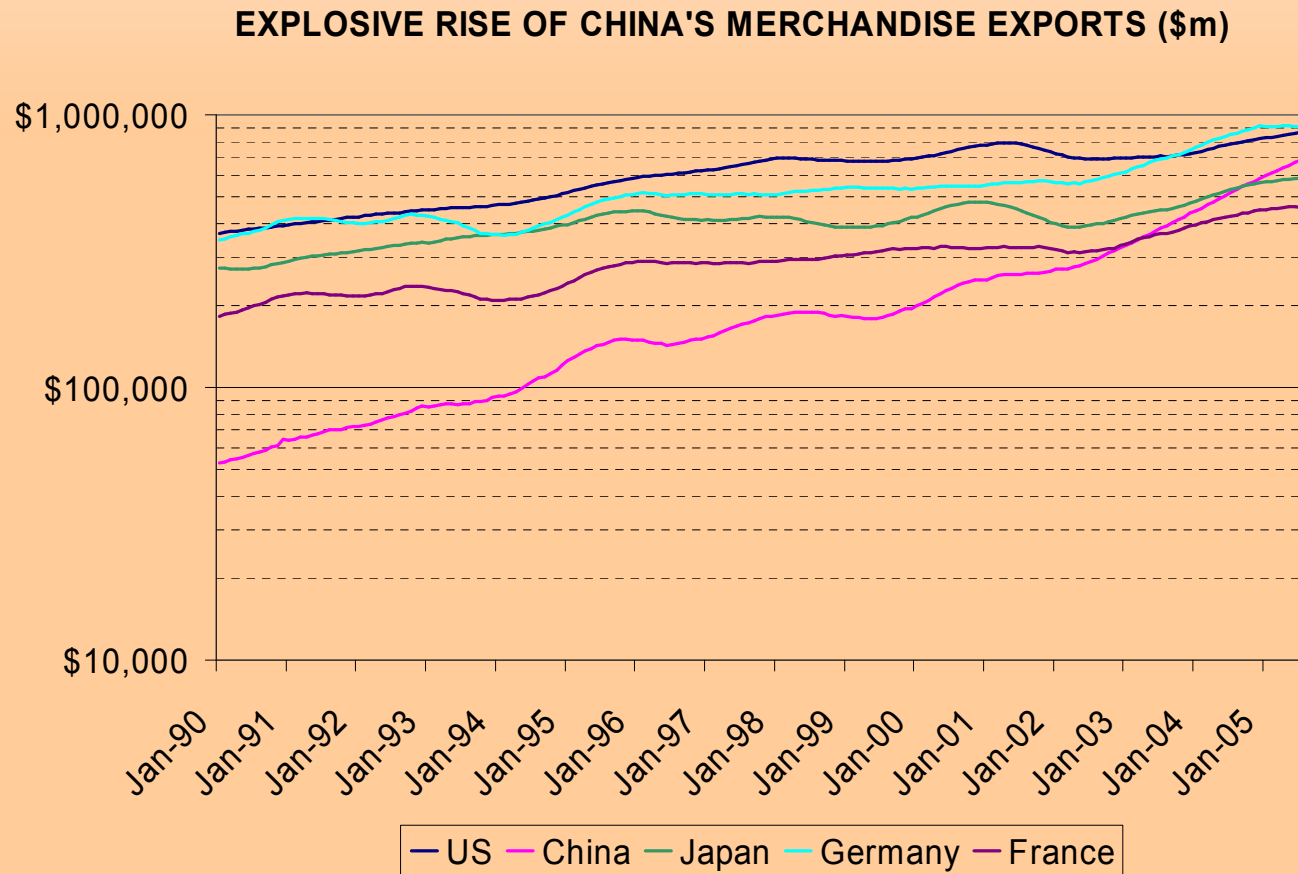


2. Drivers – Asia's rise

SHARES OF ASIA IN WORLD MERCHANDISE EXPORTS (per cent)



2. Drivers – Asia's rise



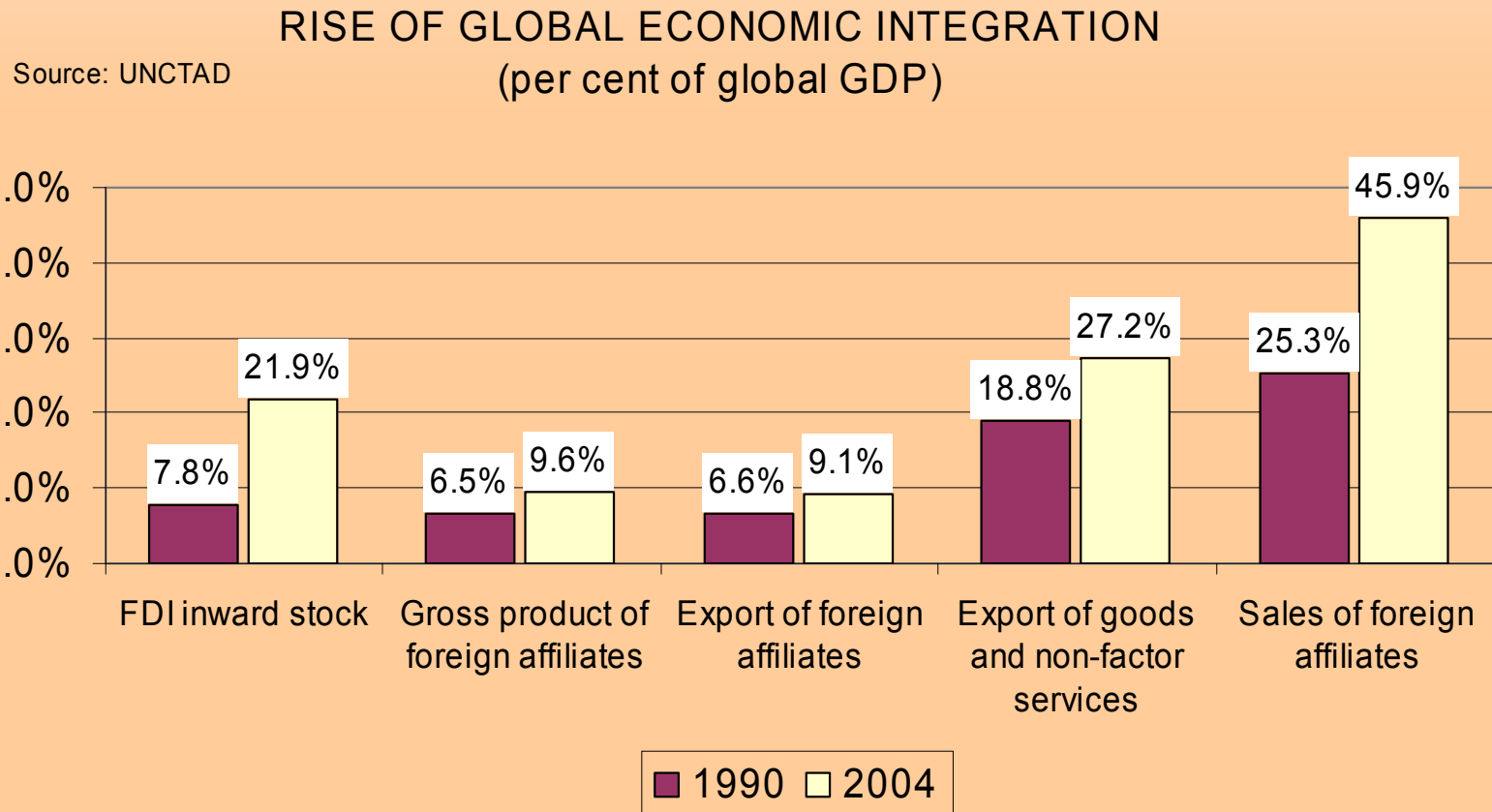
3. Consequences

- What is the impact of these changes?
- Here are a few of the most important:
 - Rising reliance on trade and unbundling of the production structure across frontiers
 - Rising foreign direct investment, as economies rely on foreign know-how and organisational skills and production is integrated across frontiers
 - Rising tradability of parts of services: those parts of services that can be turned into “bits” are now more tradable than manufactures

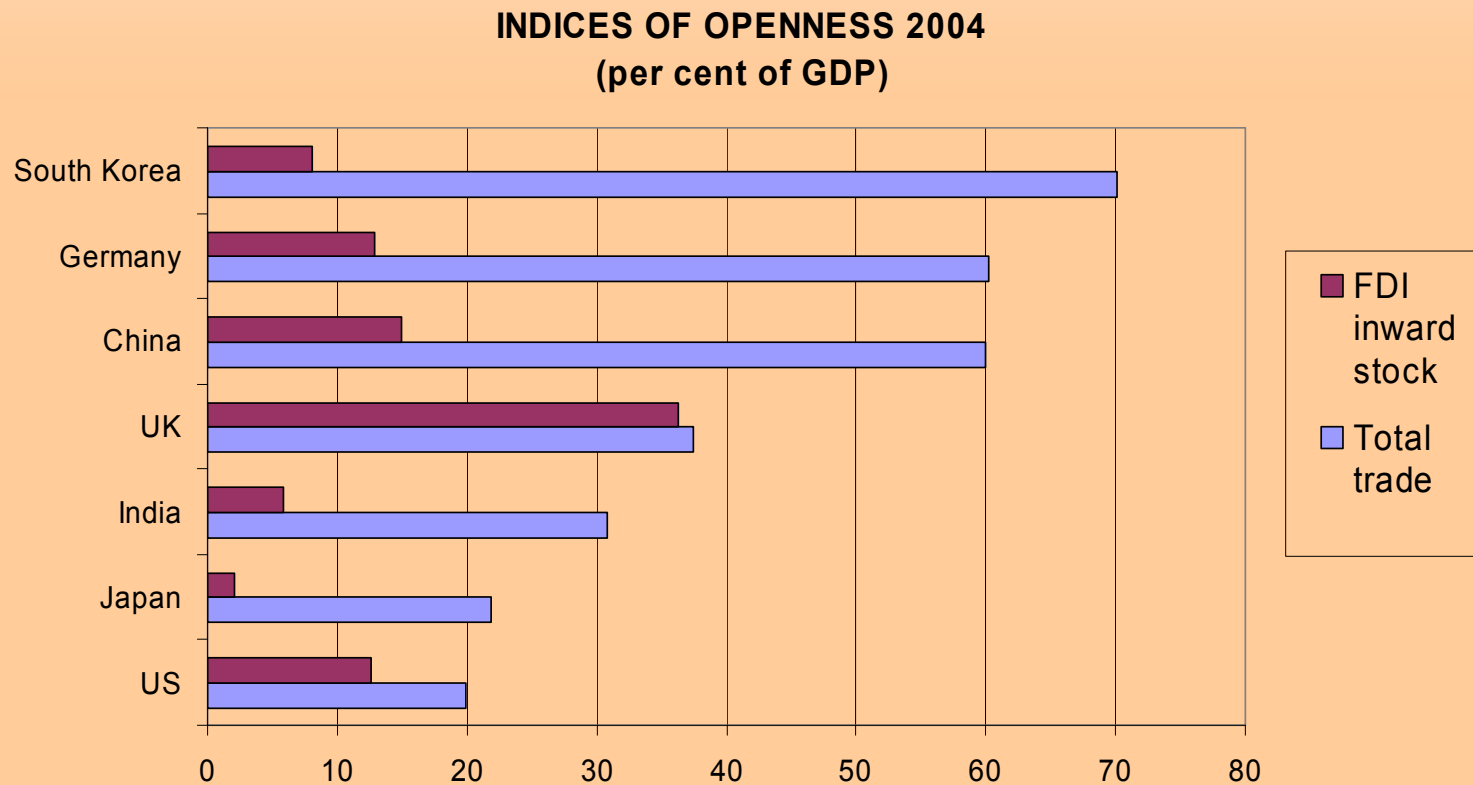
3. Consequences

- Prices of labour-intensive manufactures and tradeable services falling, collapsing prices of information-processing, and rising prices of industrial raw materials, particularly energy, relative to goods and services consumed in advanced countries
- Falling relative wages (or rising unemployment) of the unskilled in advanced countries
- Capital and some highly-skilled labour are becoming more mobile and payments “imbalances” are growing
- Increasing trade in “bads”, as well as goods (drugs, trafficking in people, piracy, etc)
- Shifting relative power

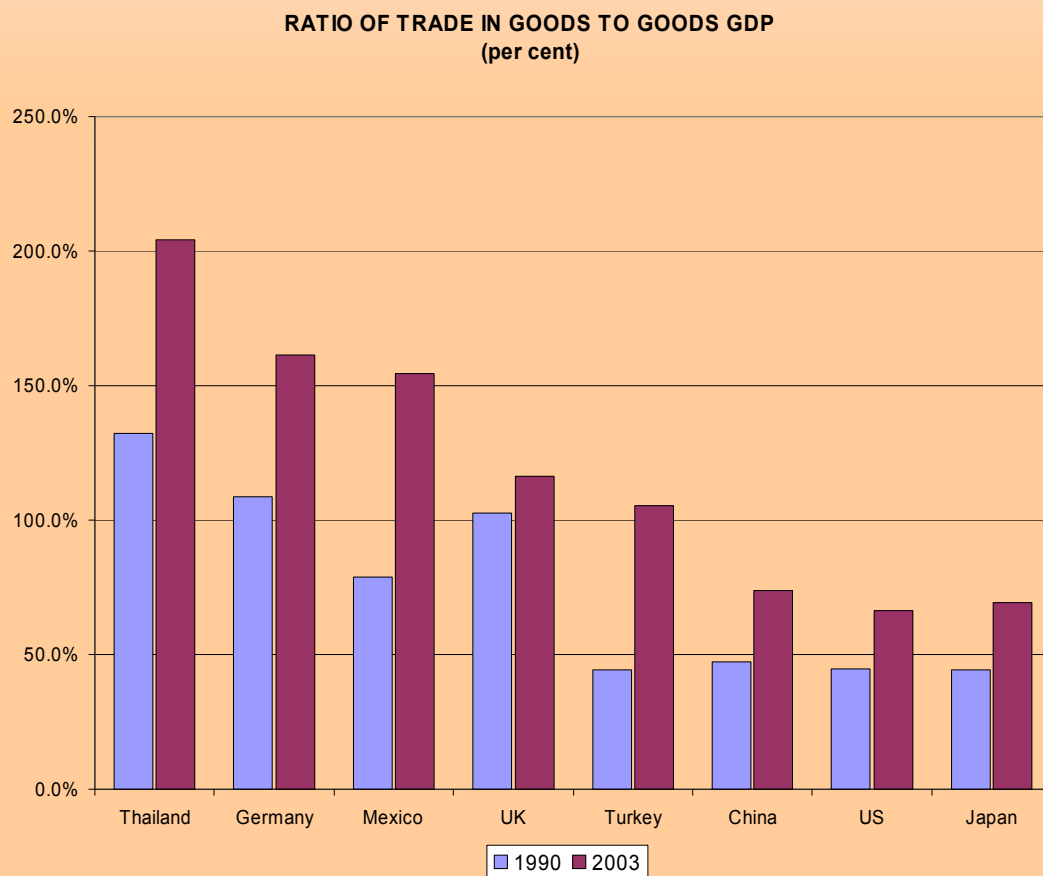
3. Consequences – opening and upgrading



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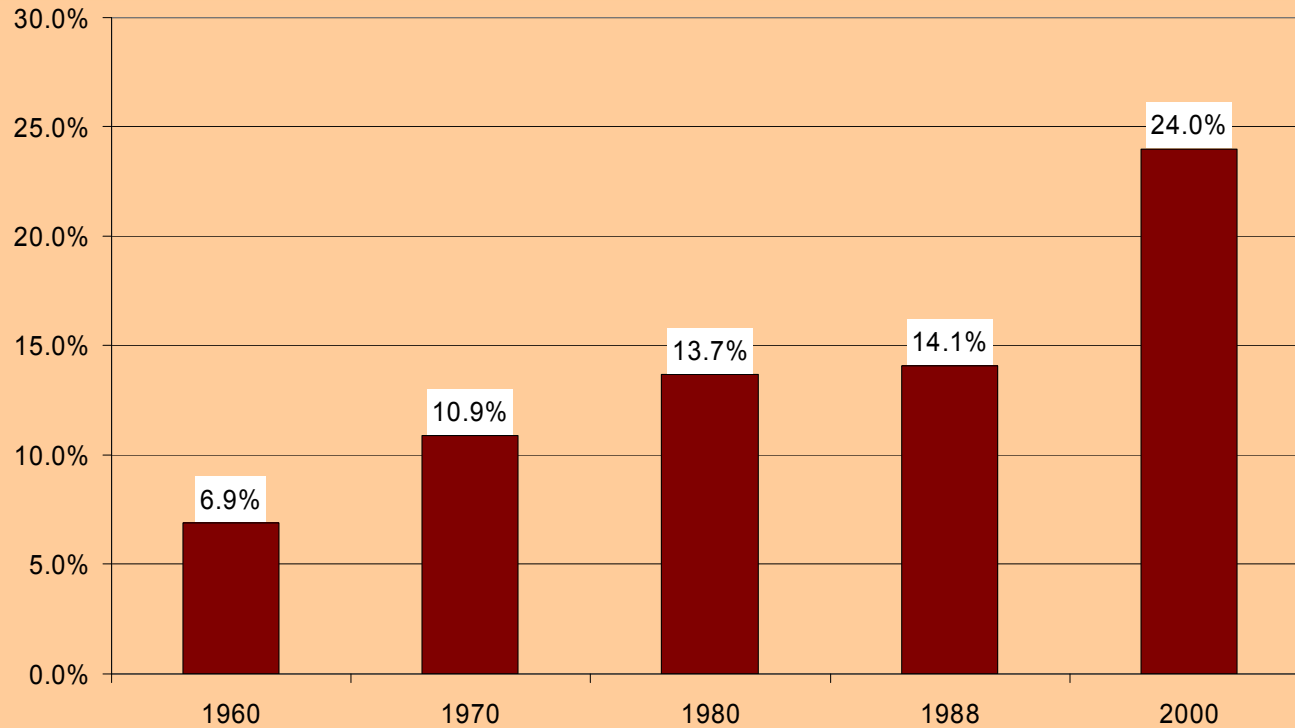
3. Consequences – opening and upgrading



3. Consequences – opening and upgrading

**DEVELOPING COUNTRY SHARES IN GLOBAL
MANUFACTURING VALUE-ADDED**

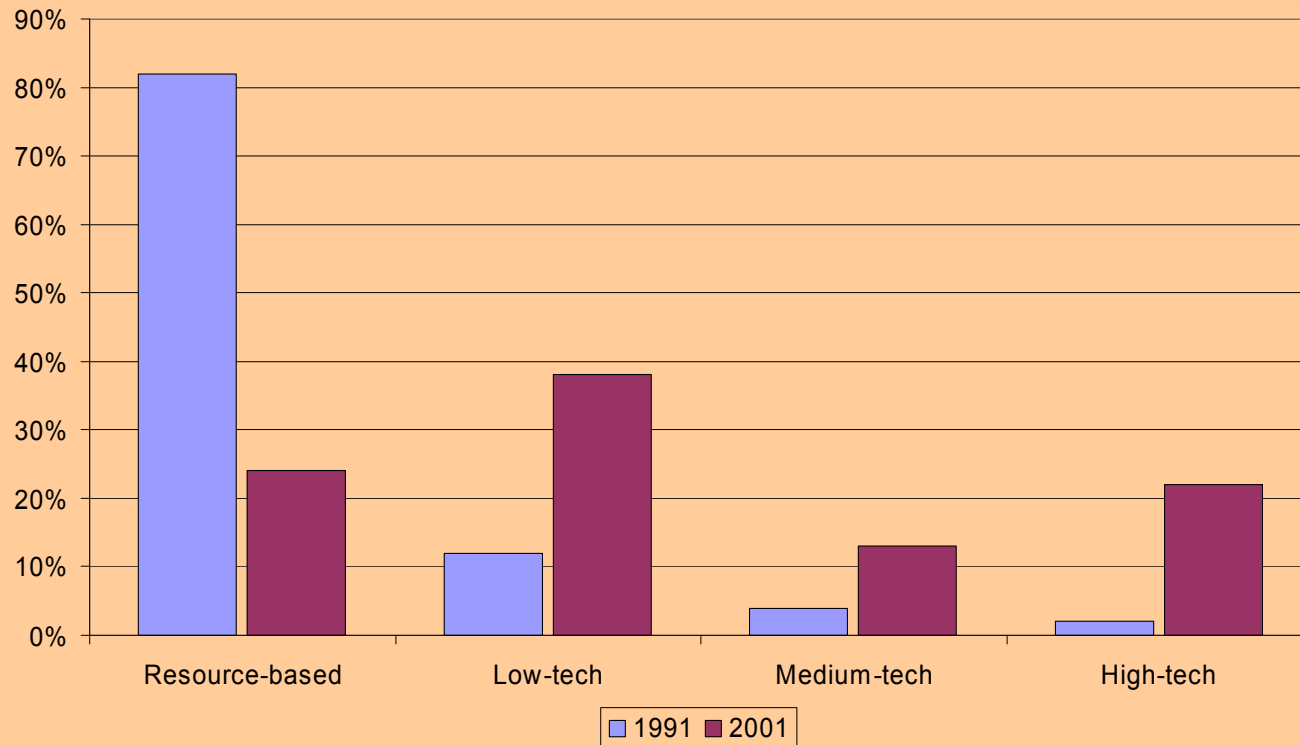
SOURCE: UNIDO



3. Consequences – opening and upgrading

STRUCTURE OF DEVELOPING-COUNTRY EXPORTS, 1991 and 2000
(per cent)

Source: World Bank



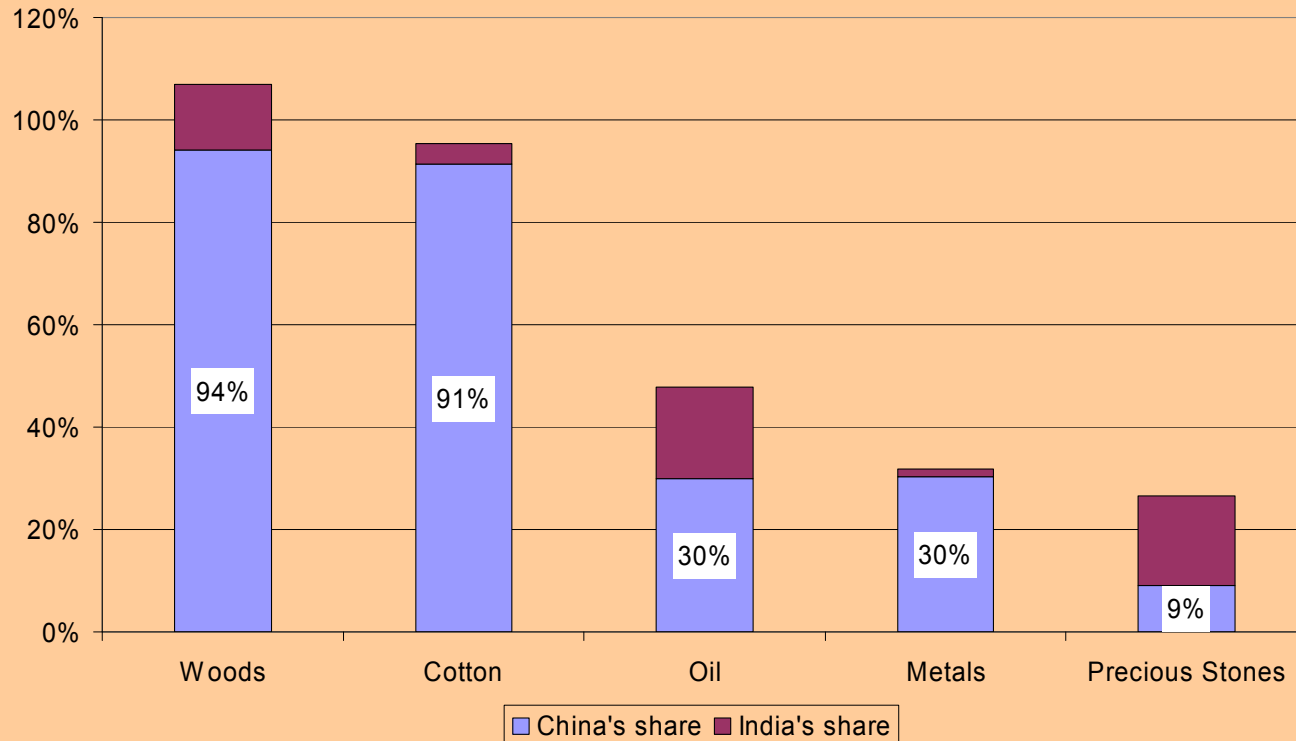
3. Consequences – demand for resources

- Another consequence is pressure on resources, particularly energy resources
 - Half of global incremental demand for oil is now from Asia
 - High oil prices have not damaged the world economy . . . yet
 - Will conservation now kick in? Or will prices explode?
 - What will happen in the longer term?

3. Consequences – demand for resources

CONTRIBUTION TO GROWTH OF WORLD IMPORTS OF SELECTED COMMODITIES 1998-2003 (per cent)

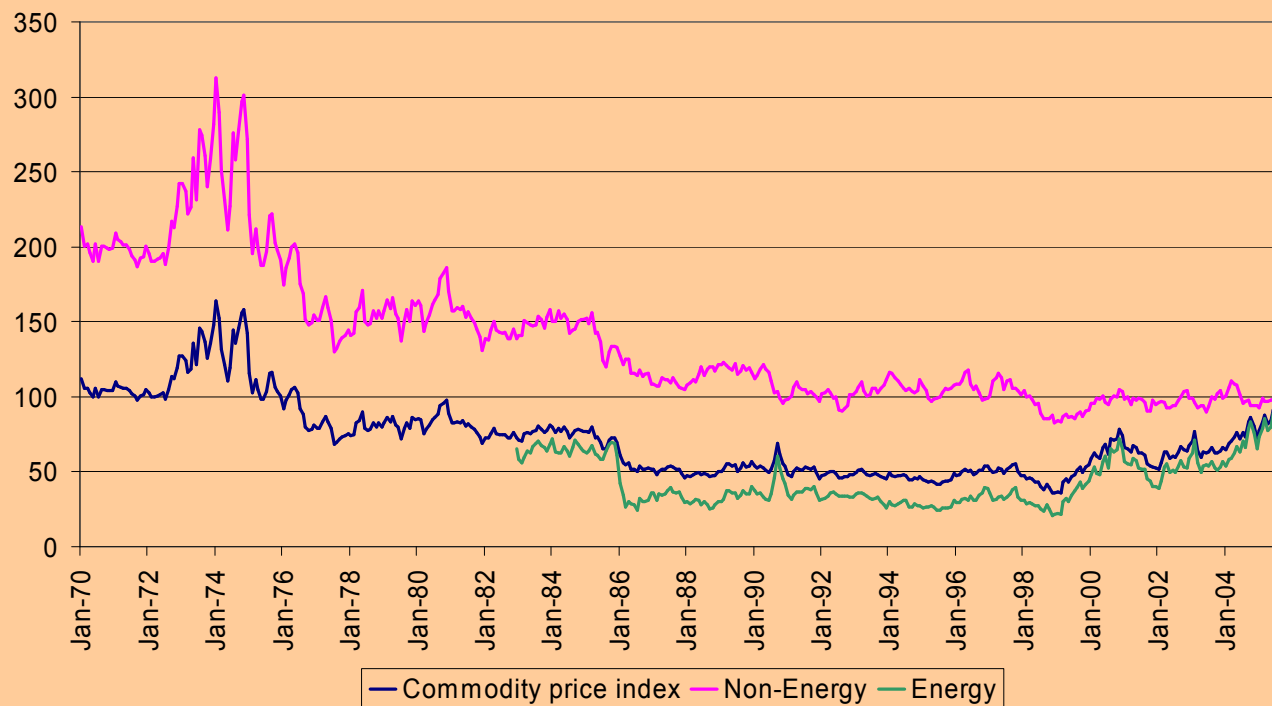
Source: Helmut Reisen



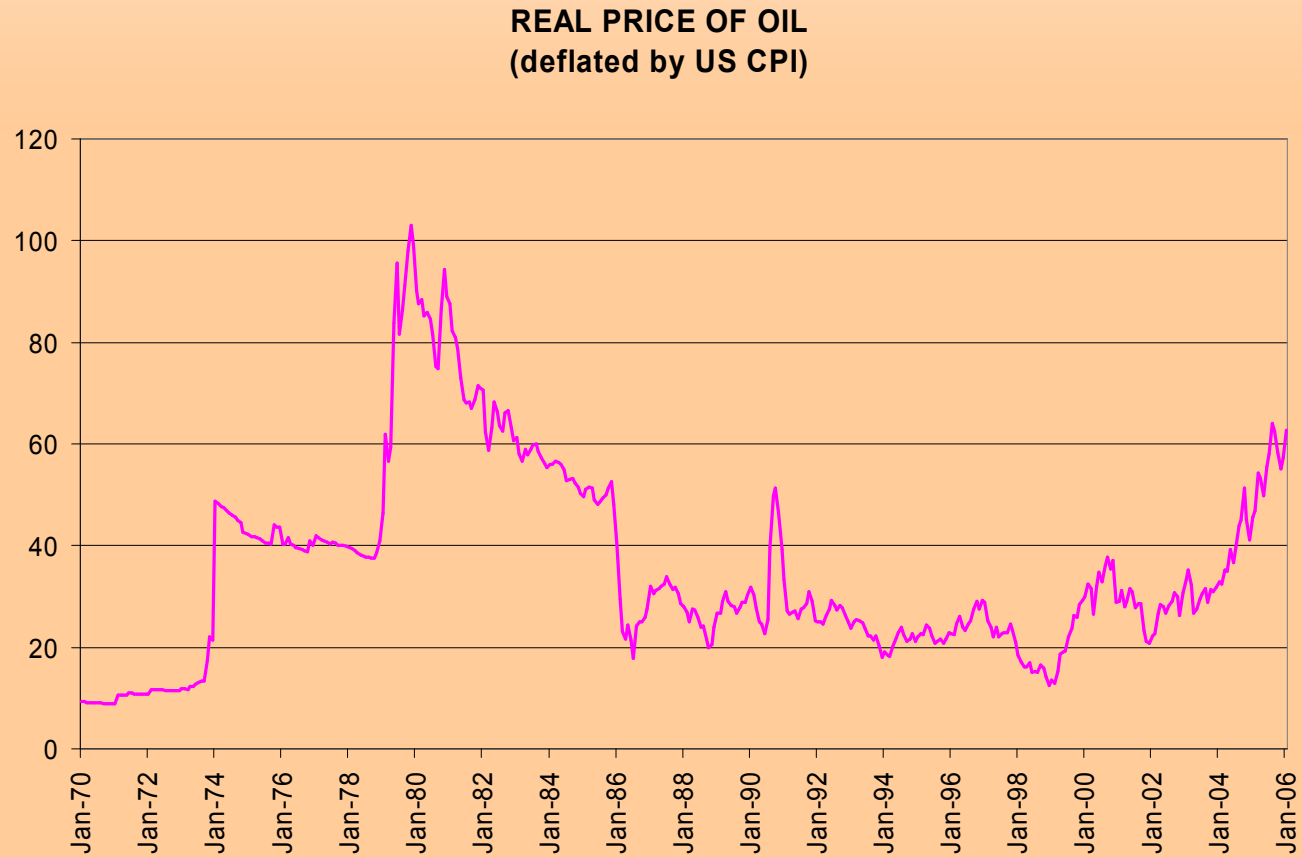
3. Consequences – demand for resources

COMMODITY TERMS OF TRADE
(commodity prices, deflated by unit value index of exports of manufactures from advanced countries)

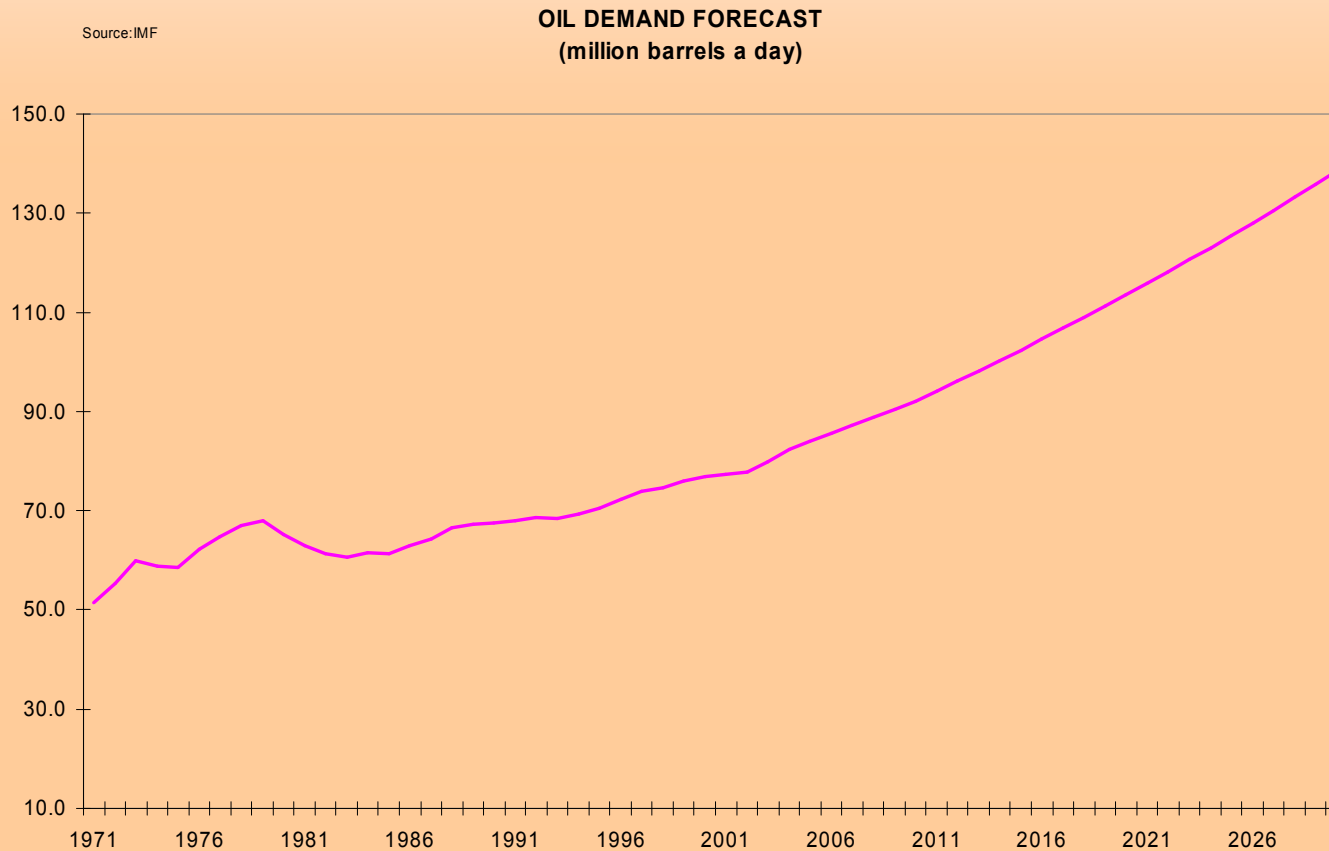
Source: Goldman Sachs



3. Consequences – demand for resources



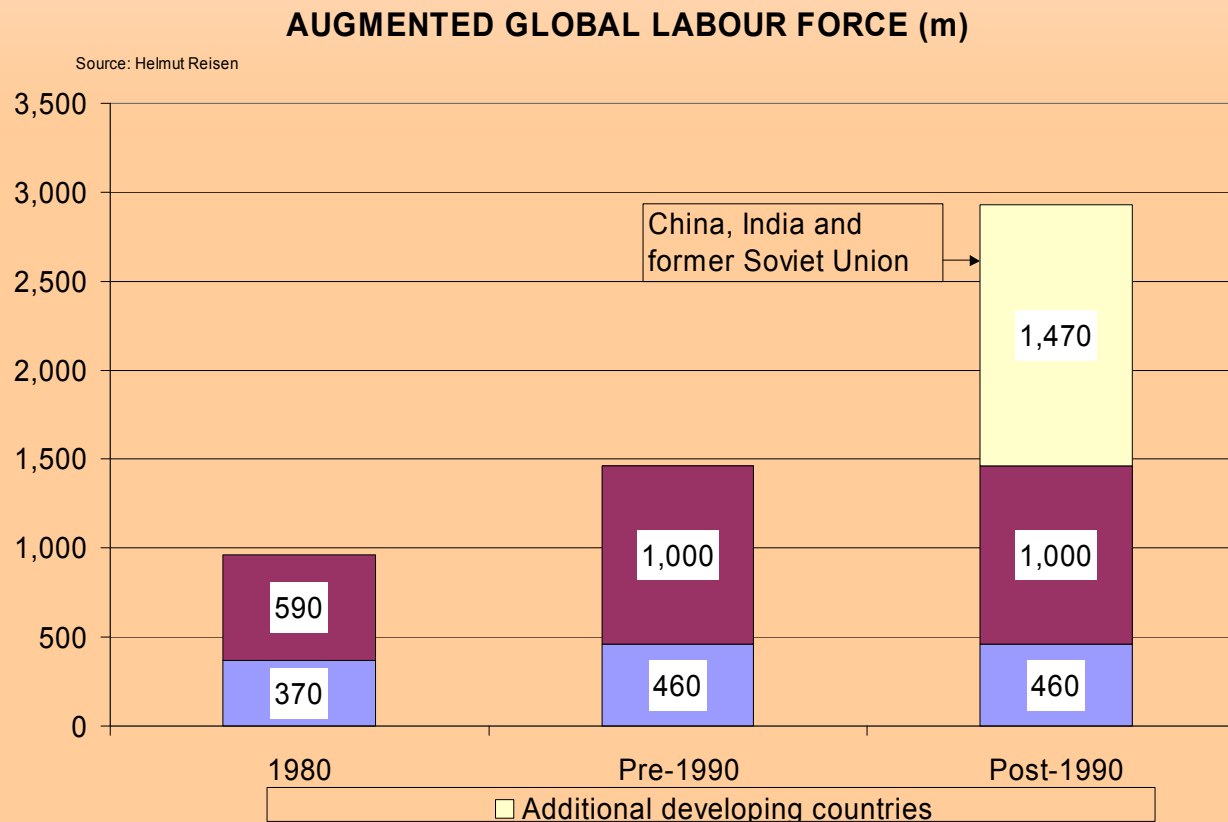
3. Consequences – demand for resources



3. Consequences – profits and wages

- A big increase in the global labour supply should shift income in favour of capital and against unskilled labour in advanced countries – and it has
- It will take 30 years to reach the capital-labour ratio that existed in the economies that were engaged in the world economy before 1990

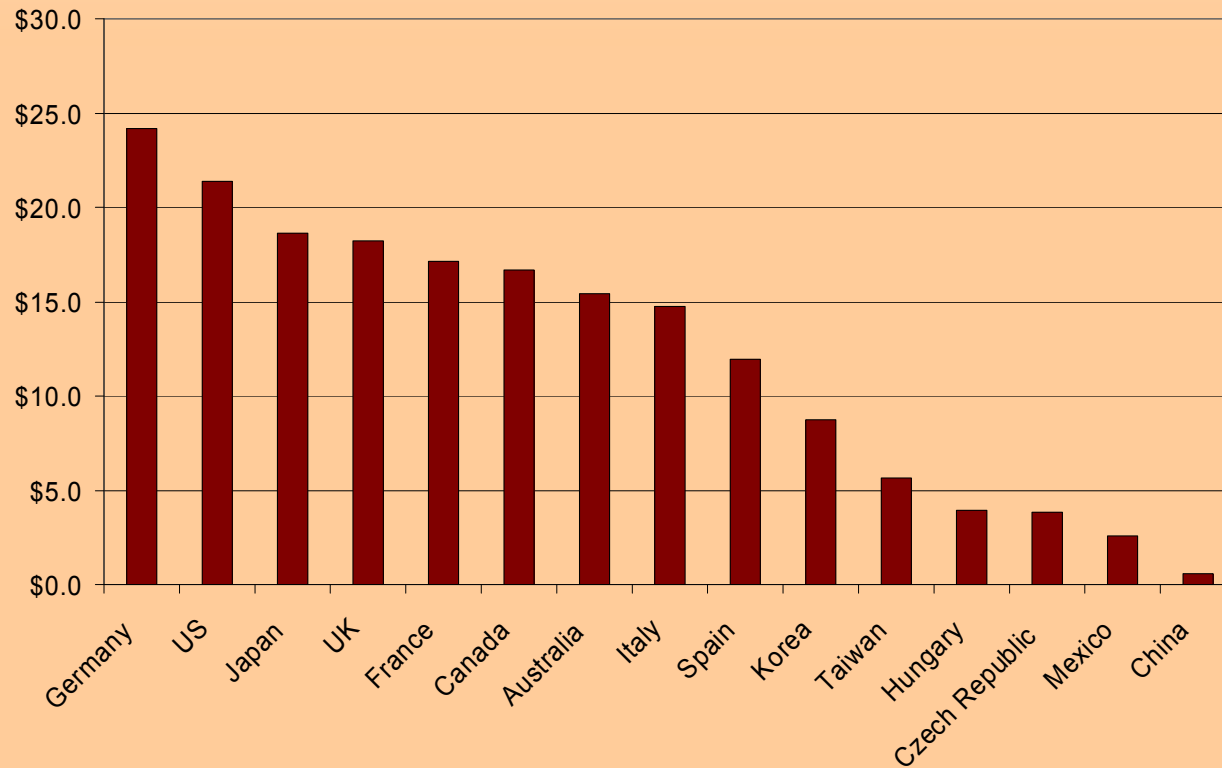
3. Consequences – wages



3. Consequences – wages

HOURLY LABOUR COSTS IN MANUFACTURING 2002

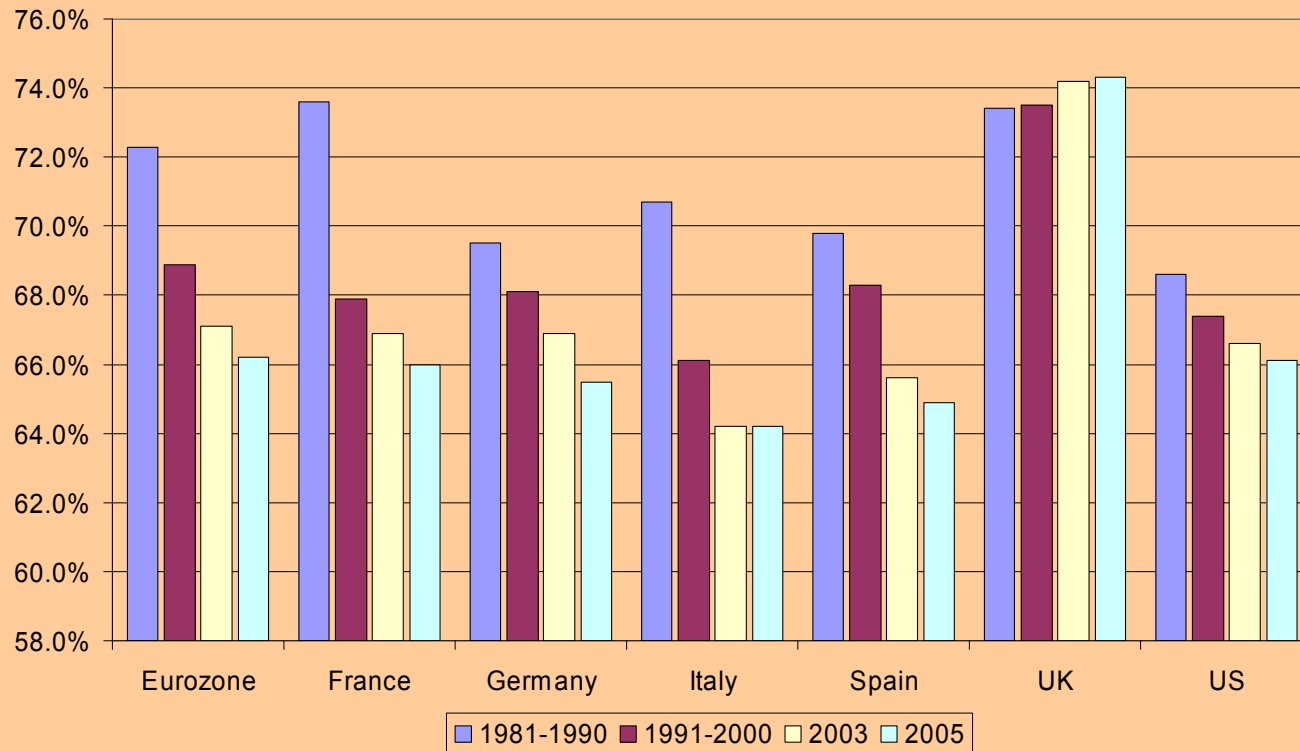
Source: US Bureau of Labour Statistics



3. Consequences – wages

**SHARES OF LABOUR INCOME IN BUSINESS SECTOR VALUE ADDED
(per cent)**

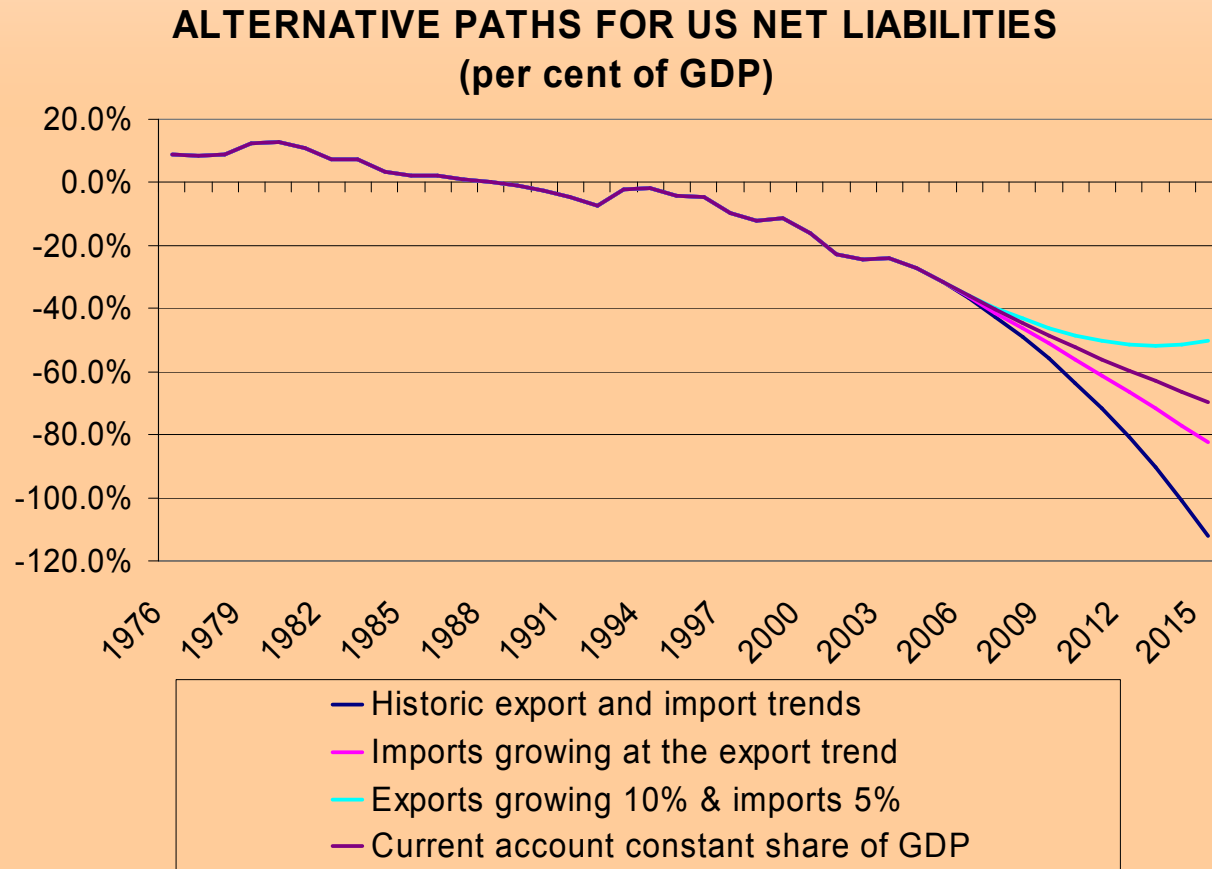
Source: Olivier Blanchard



3. Consequences – imbalances

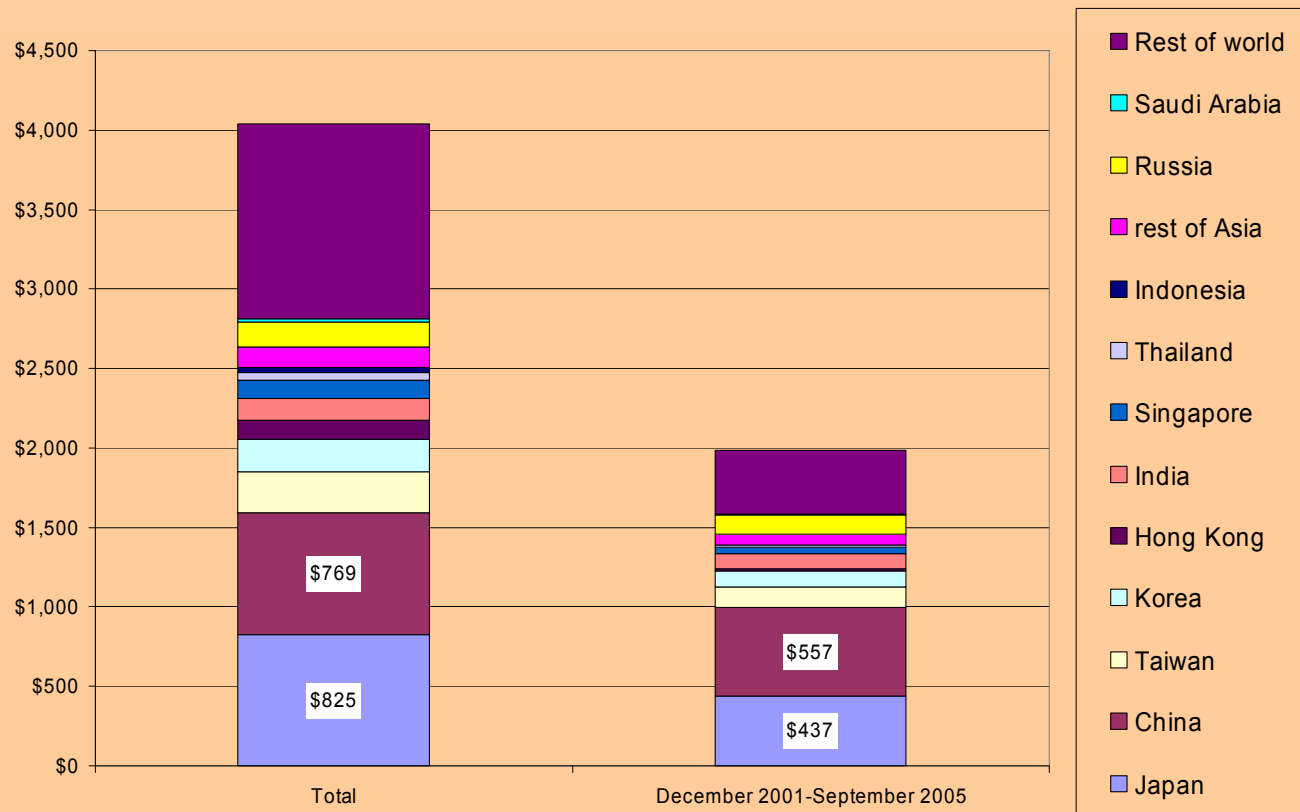
- More mobile capital means more net capital flows
- The big flow now is to the US
- Is it sustainable?
- How will it end?

3. Consequences – imbalances



3. Consequences – imbalances

FOREIGN CURRENCY RESERVE ACCUMULATION (\$bn)



3. Consequences – globalisation of “bads”

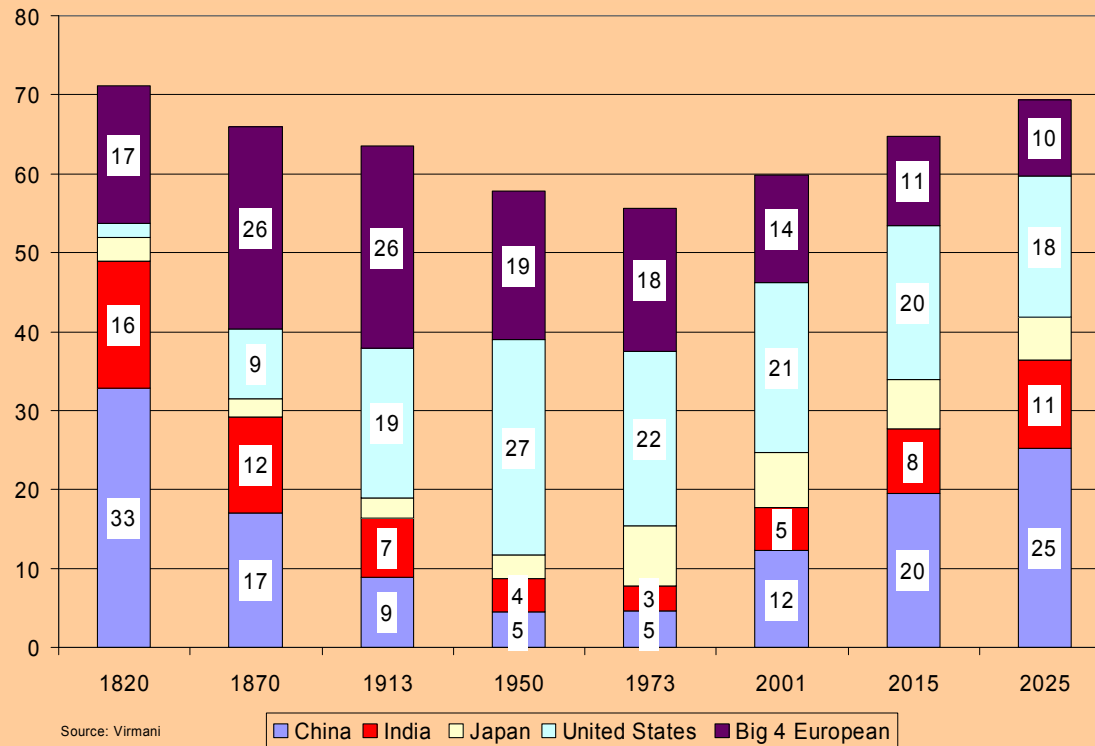
- It is easy to identify globalisation of “bads”:
 - Terrorism and mega-terrorism
 - Nuclear weapons smuggled in containers
 - Biological terrorism
 - Spread of disease
 - Crime, drugs and piracy

3. Consequences – shifting power

- The rise of the US, Germany, Japan and Russia in the late 19th century led to almost a century of conflict, before the US “won” in 1991
- Is there a similar threat from the rise of China and even India?
- Could the struggle be over resources?

3. Consequences – shifting power

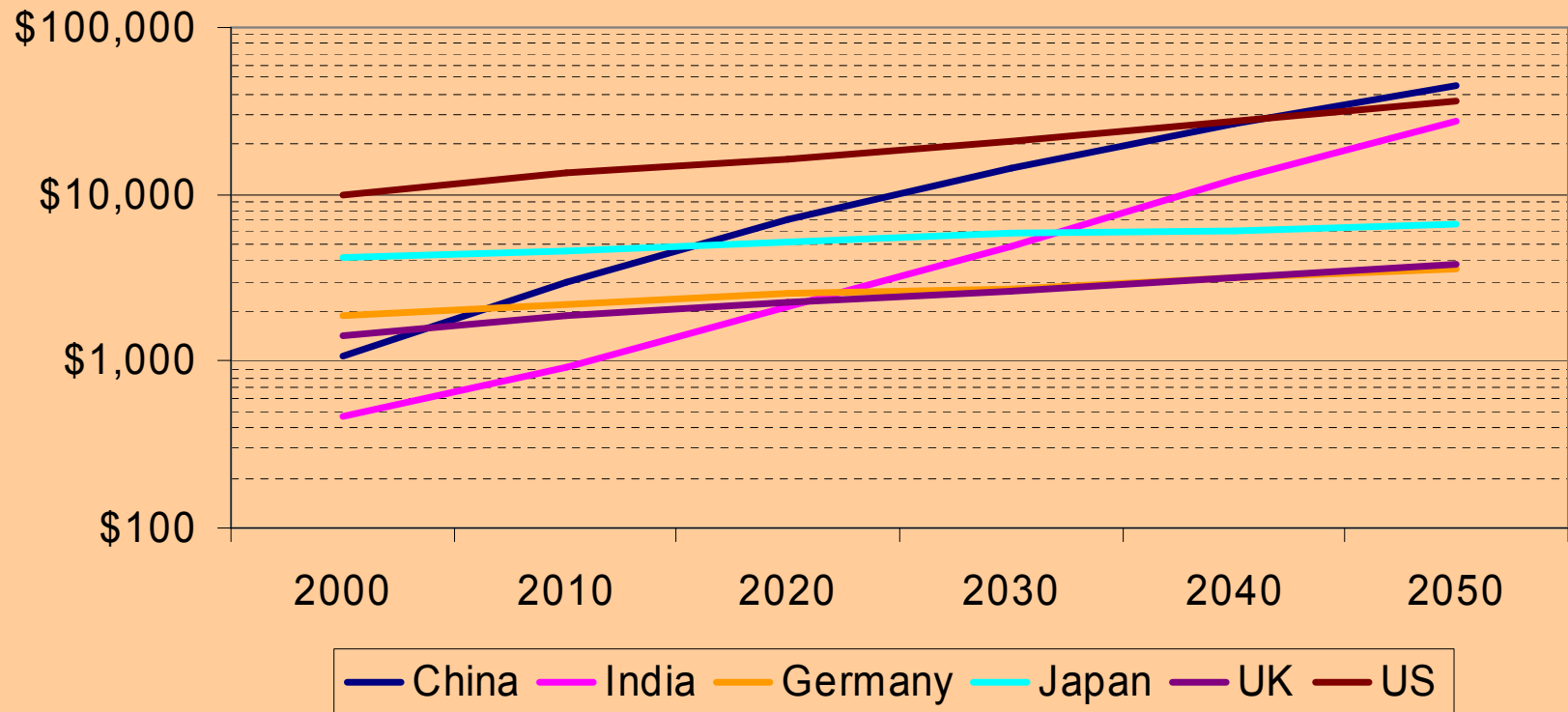
THE WORLD'S DOMINANT ECONOMIES
(GDP at PPP, per cent)



3. Consequences – shifting power

Source: Goldman Sachs

GDP AT MARKET PRICES (\$bns)



4. Challenges

- Six big challenges:
 - Managing adjustments to globalisation
 - Managing the fear of globalisation
 - Managing global macroeconomic adjustment
 - Managing resource pressure
 - Managing the globalisation of “bads
 - Managing geopolitical tensions