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Globalization and Interdependence

Speech to the Second
Committee of the UN
General Assembly

New York
October 9, 2006

Overview

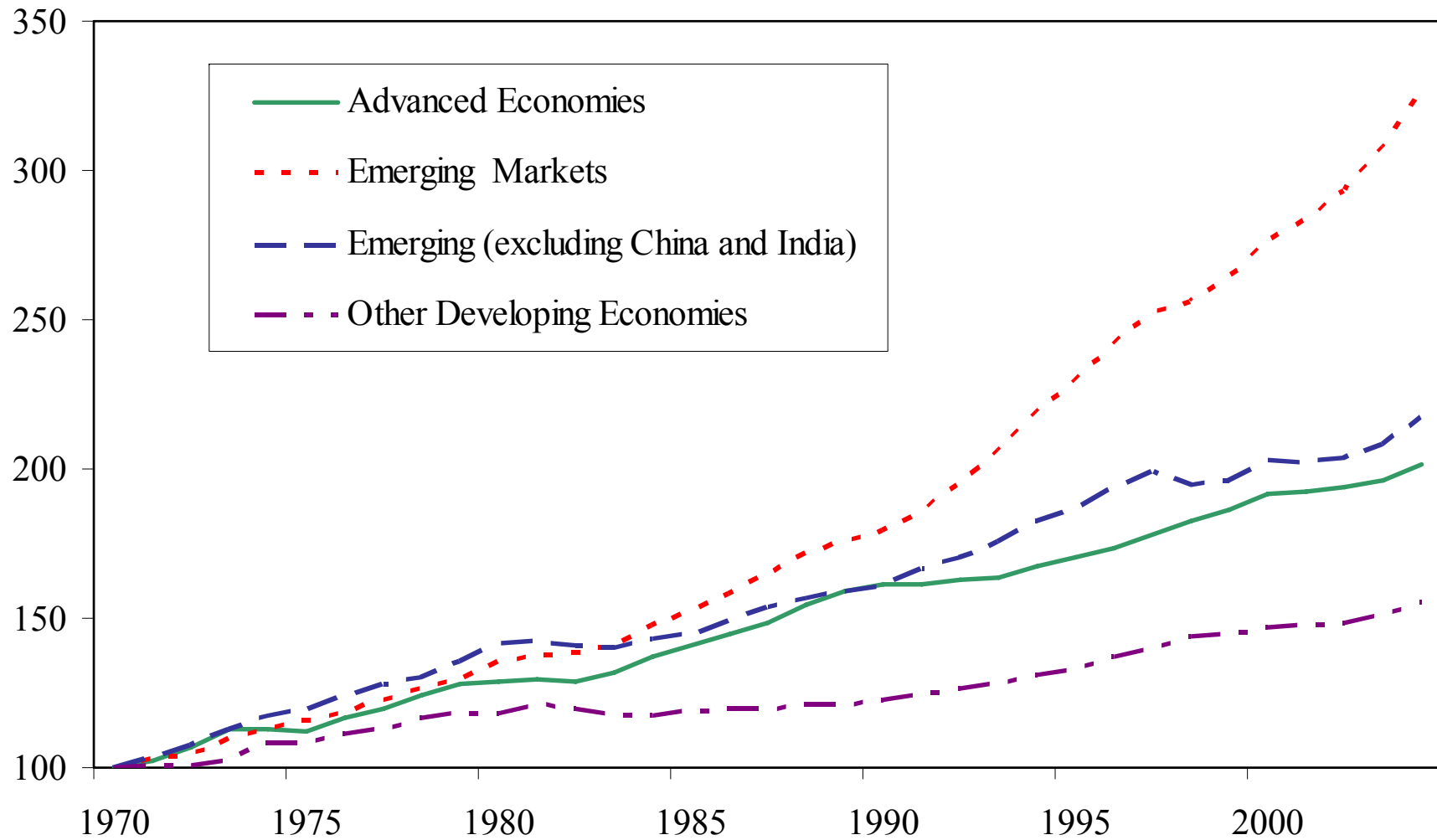
- Introduction to major economic themes on economic globalization and interdependence that the Second Committee of the UN General Assembly may wish to consider
- In conclusions, some areas where the UN has been particularly effective (including especially its emphasis on broader measures of well being), and other areas (including advocacy of unconditional aid) where more nuance may be helpful.

Today's globalization has much in common with previous eras

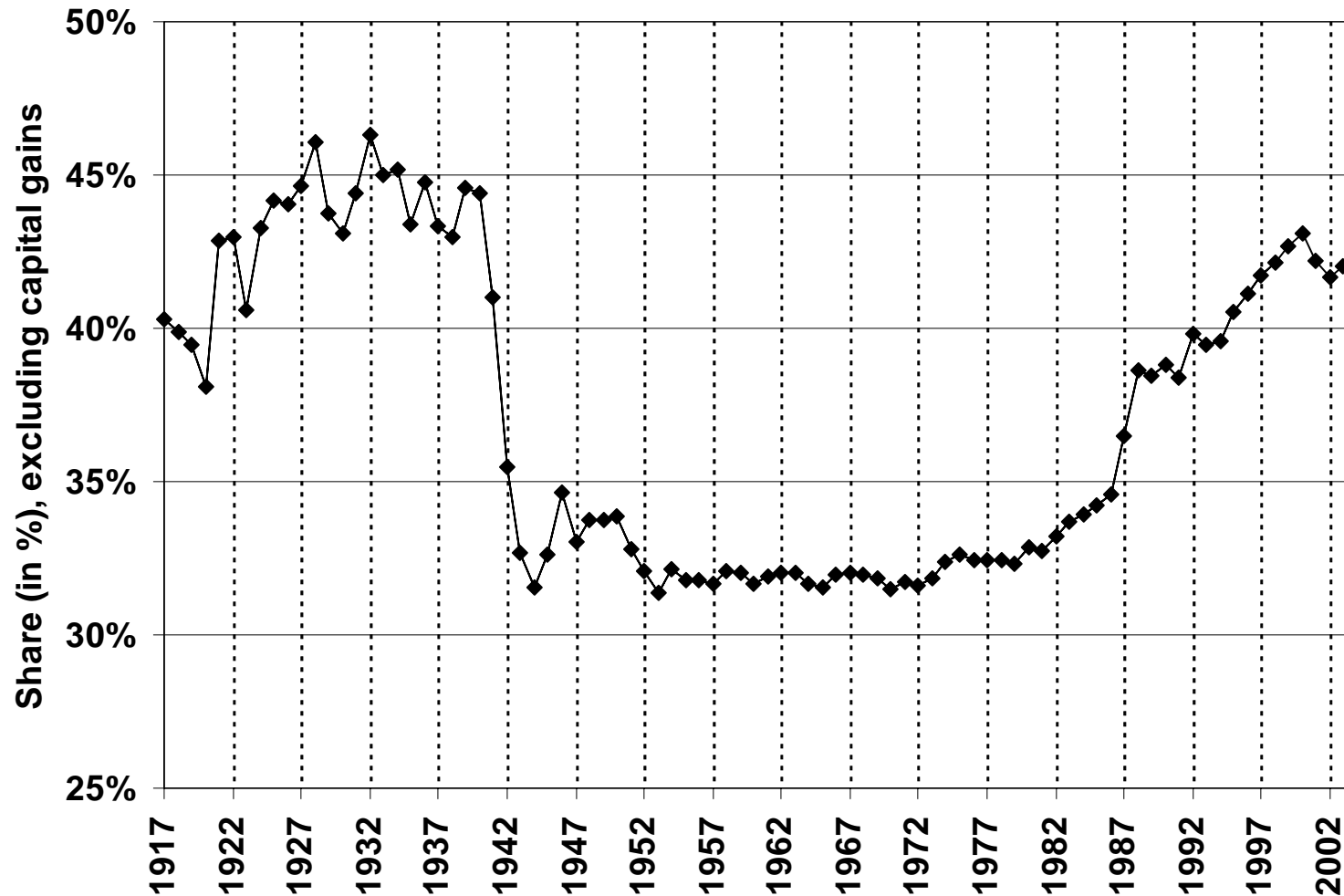
- Technological change
 - Laying of first transatlantic cable in 1858
 - Development of railroads
 - Improvements in shipping
 - More broadly, industrial revolution
- Mass migration of people and ideas
- Inequality deepens
 - Across countries
 - Within countries

Divergent global income trends

Figure 4. GDP (per capita, PPP weighted): 1970-2004



Top 10% Getting Rising Share of Income in US and elsewhere



Source: Rogoff, 2006, from Piketty and Saez data set

Parallels go back much earlier

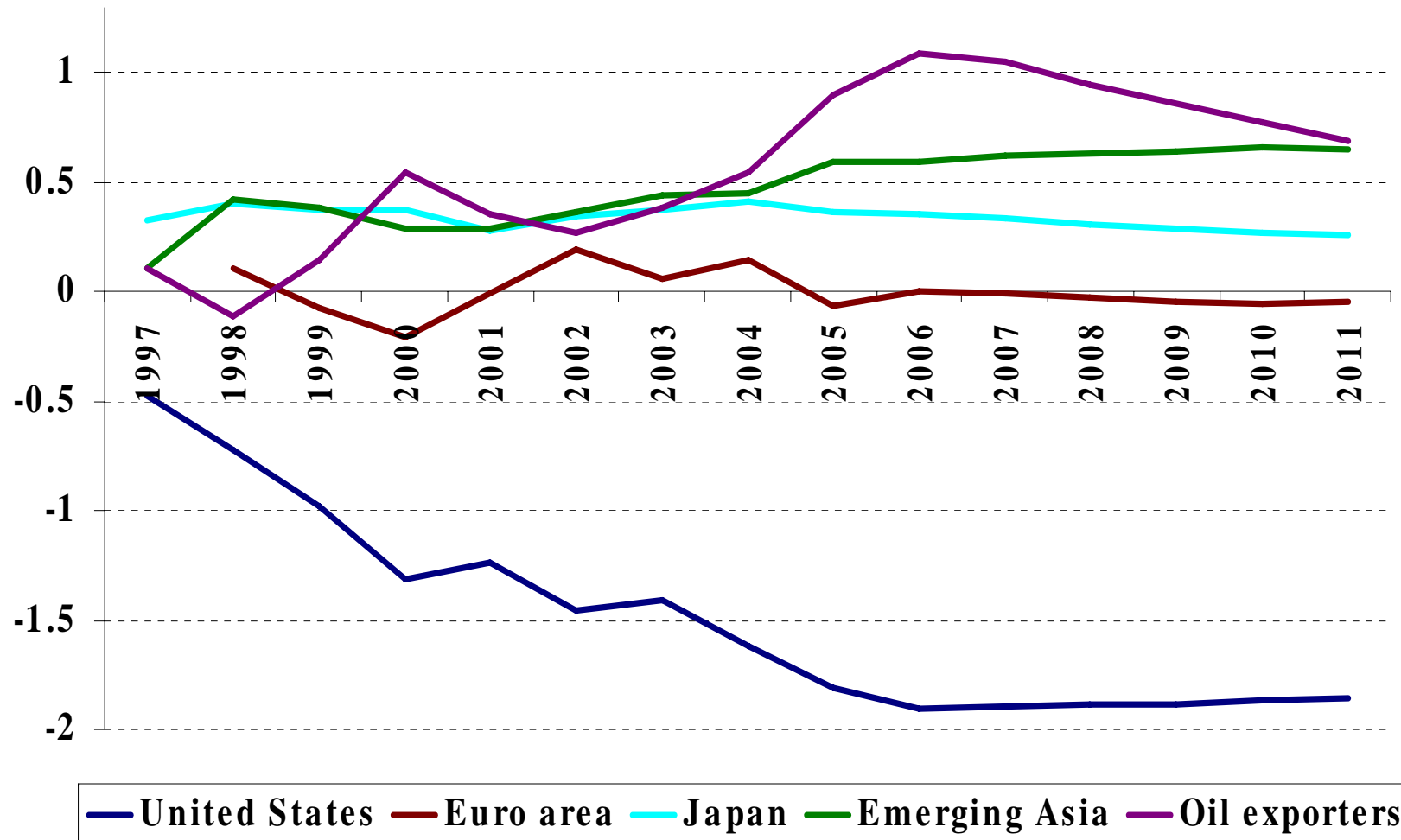
- Roman empire (Bernanke)
- Discovery of the New World
- Rapid integration after Napoleonic Wars

How is modern era different?

- PACE of globalization unprecedented (global merchandise trade now over 20% of income vs. 15% in 1990)
- The integration of India and China
- Developing countries have been lending to the rich (Is US borrowing from China the world's largest foreign aid program?)

Global current account Balances

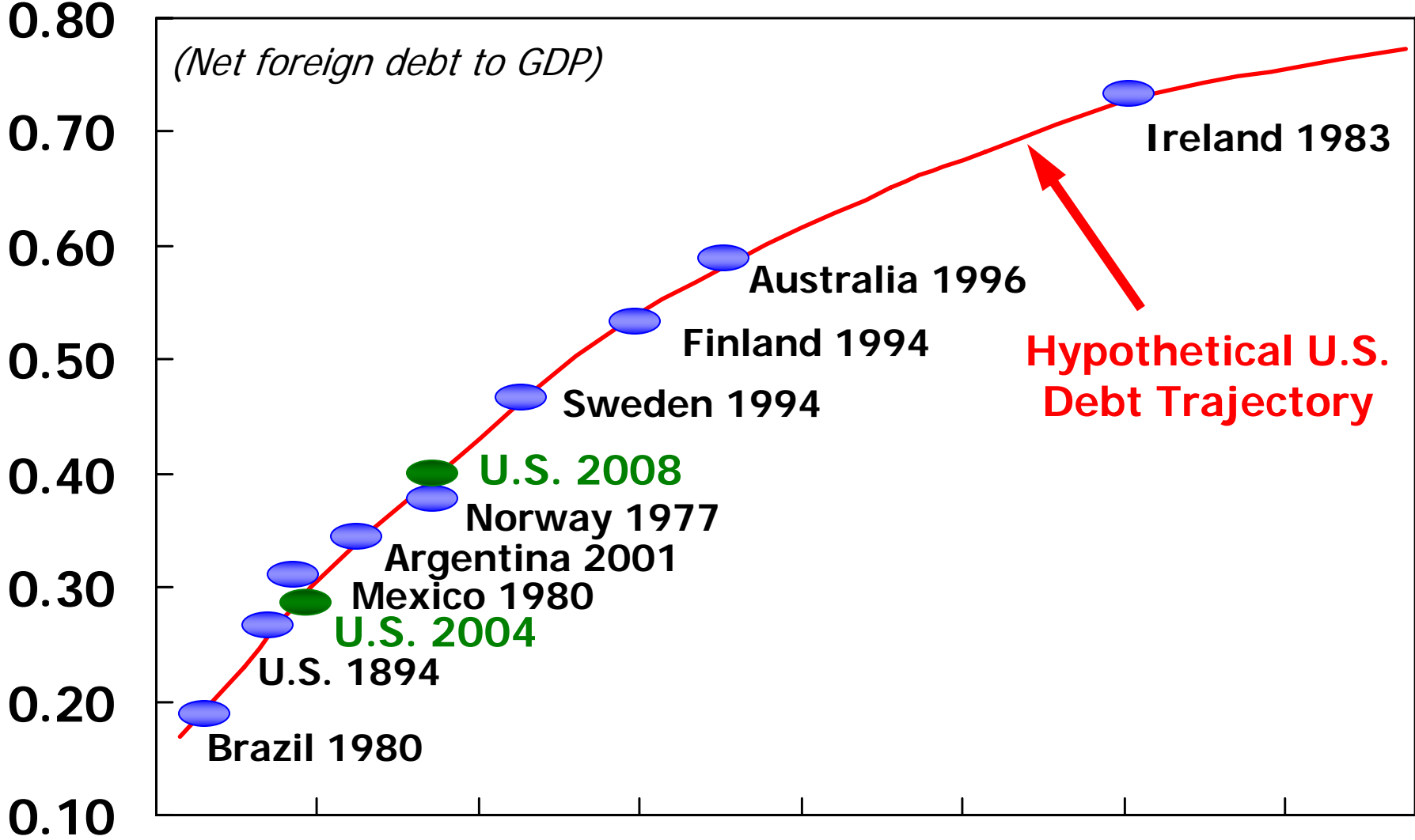
US is borrowing 70% of world net savings



Sources: Lane and Milesi-Ferretti (2006); and IMF staff estimates.

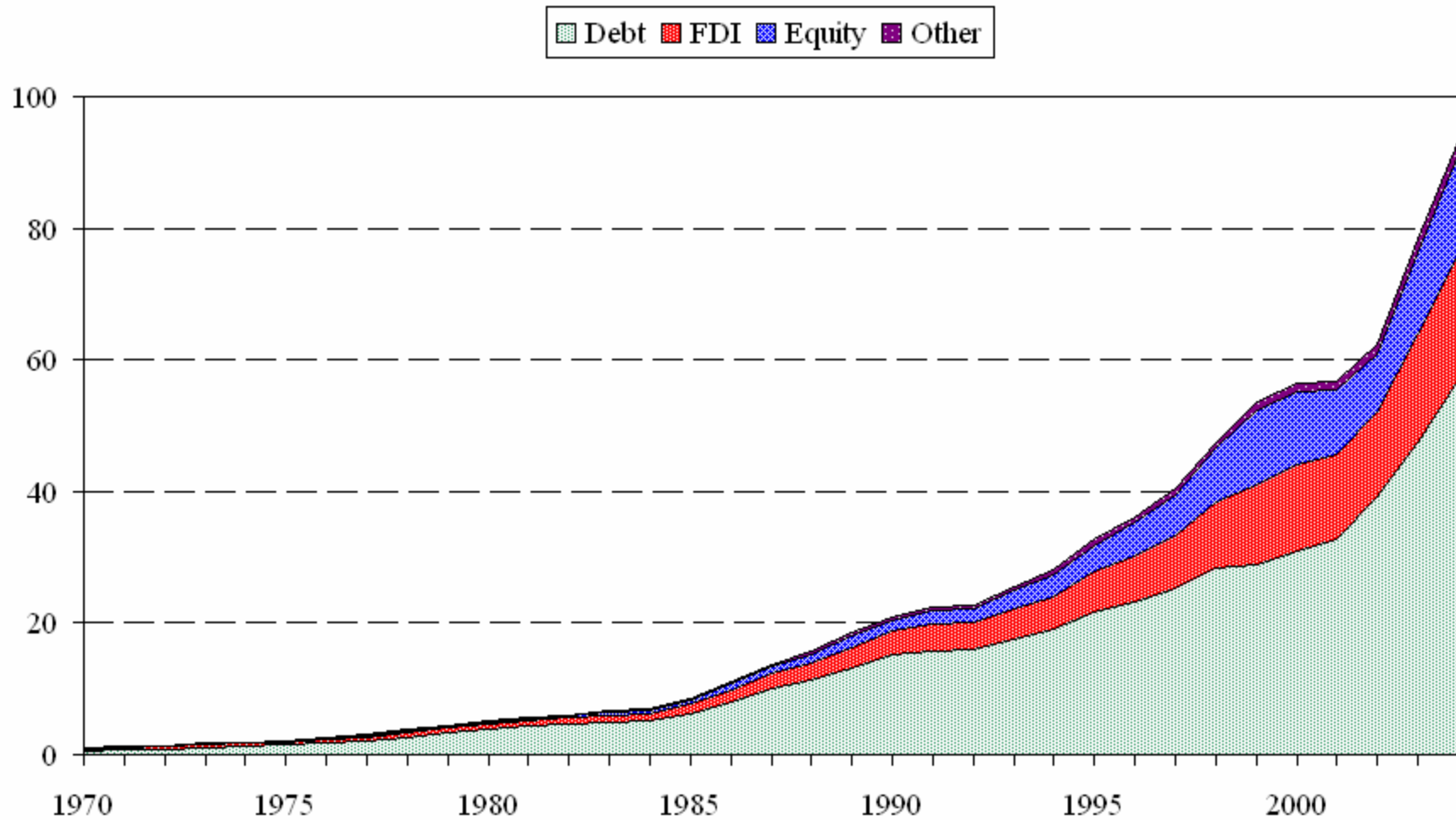
Will US fall off the Debt Ladder?

Projected U.S. Net Foreign Debt



Globalization has proceeded at an accelerated pace the last two decades, especially post 1995, and especially financial globalization

Figure 1. Gross International Financial Assets and Liabilities: 1970-2004
(trillions of U.S. dollars)
Advanced Economies

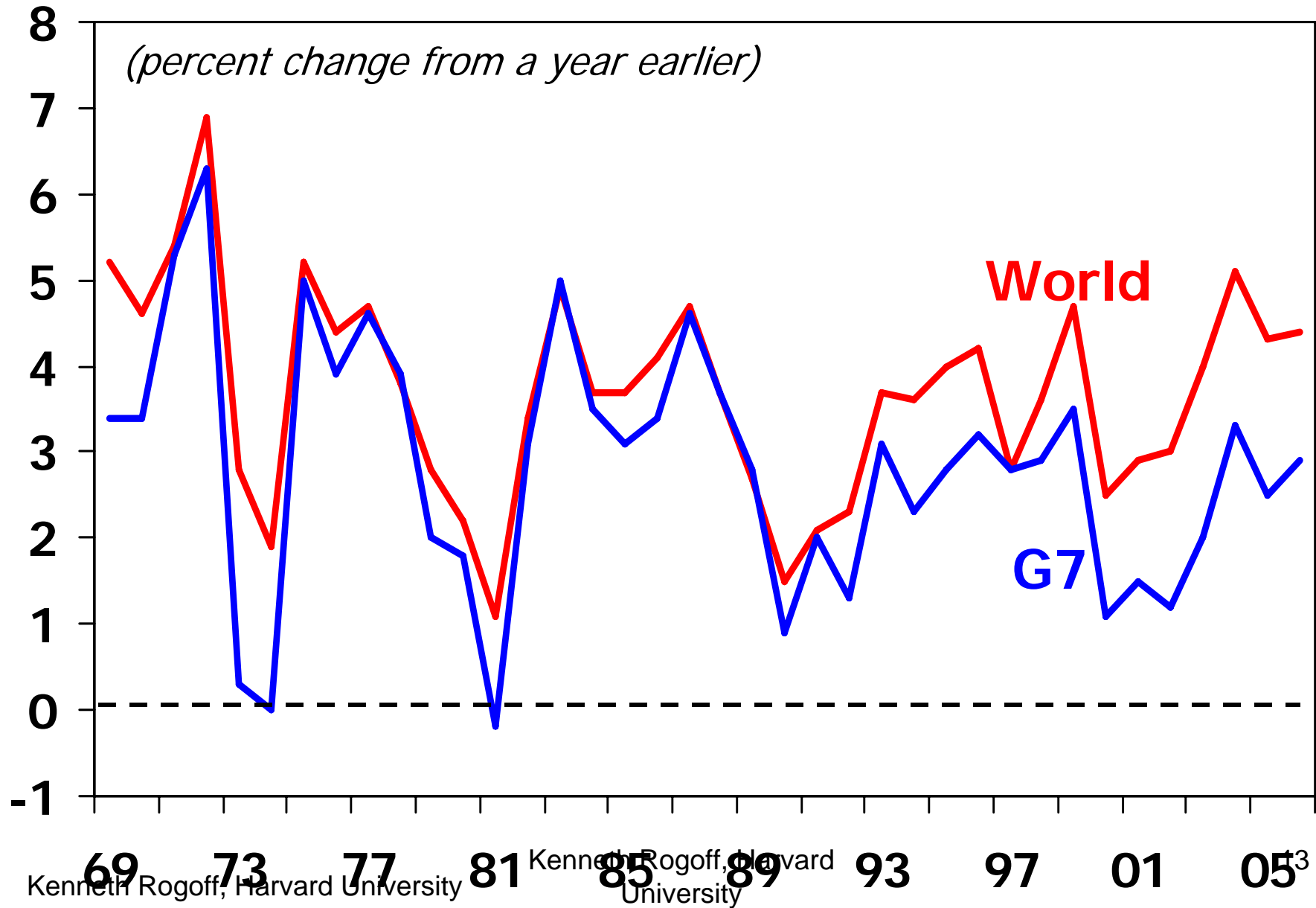


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Source: Kose, Prasad, Rogoff and Wei, 2006

Extraordinarily stable period
parallel to gold standard era
1860-1913, but better

The Great Moderation

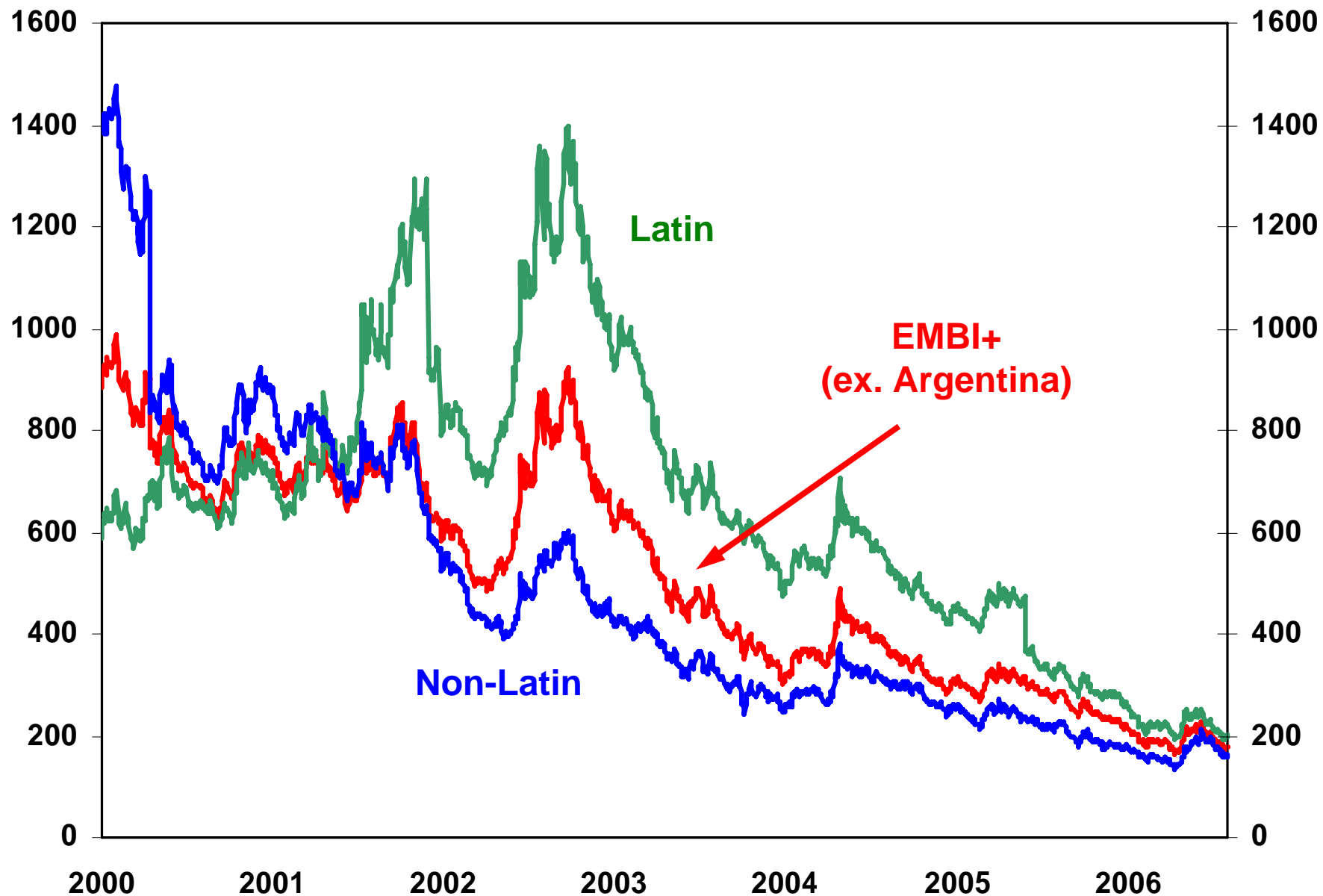


Volatility decline is worldwide (percentage std. dev.; medians for each group)

	1980s	1990s
Income (σ_y)		
Industrial	2.54	1.91
Emerging	5.45	4.78
Other Developing	7.56	4.59

Consumption (σ_c)		
Industrial	1.58	1.38
Emerging	3.43	4.10
Other Developing	6.34	4.79

Global Compression: Emerging Market Bond Spreads



The globalization era, especially the last fifteen years, has coincided with spectacular outturns for inflation (well known) and output stabilization (less well known)

Global Fall in Inflation

	80-84	85-89	90-94	95-99	00-04	2005-06
World	14.5	16.2	29.2	7.9	3.8	3.8
Advanced economies	8.8	4.0	3.8	2.0	1.9	2.4
Developing countries	24.2	37.4	79.1	16.8	6.2	5.2
Africa	16.7	17.4	36.5	19.4	11.0	9.2
Asia	9.0	11.2	10.2	7.3	2.6	3.6
Central/E. Europe	21.1	33.7	86.0	36.9	14.4	5.0
CIS and Mongolia	2.9	1.4	675.8	80.4	16.2	11.0
Latin America	88.3	213.1	264.2	17.1	7.9	6.0
Middle East	10.9	13.9	12.5	9.9	5.5	7.4

Globalization is a topic rich with misleading clichés

- “The World is Flat” (Thomas Friedman) great popular book, but
 - Is it? Inequality is increasing, not decreasing
 - Most of output is still very local. Services are still mostly nontraded and account for 75% of income in rich countries

Globalization as a polemic

- “Globalization” tends to be a Rorschach test for what ever one thinks about the world.

No credible evidence to support polemic claims that capital account openness causes deeper and more frequent crises

- E.g., Rodrik, 1998, Bhagwati, 1998, Stiglitz, 2002.
- Virtually all crises in 1990s, early 2000s could be attributed to fixed exchange rates (due to the risks emphasized by Obstfeld and Rogoff, 1995)

Countries cannot hide from economic globalization

- “Energy independence” a dangerous fallacy
- In today’s globalized world, diversity of supply is a better concept
 - Winston Churchill and decision to use oil for Royal Navy in WW I (Yergin)

Value of Unilateral Trade Liberalization

- Farm subsidies and agricultural tariffs in rich countries are a huge problem, costing developing countries billions of dollars each year
- But if one reads the fine print in IMF, WTO, and World Bank studies, one sees that most developing countries lose far more from the barriers they erect to foreign goods.

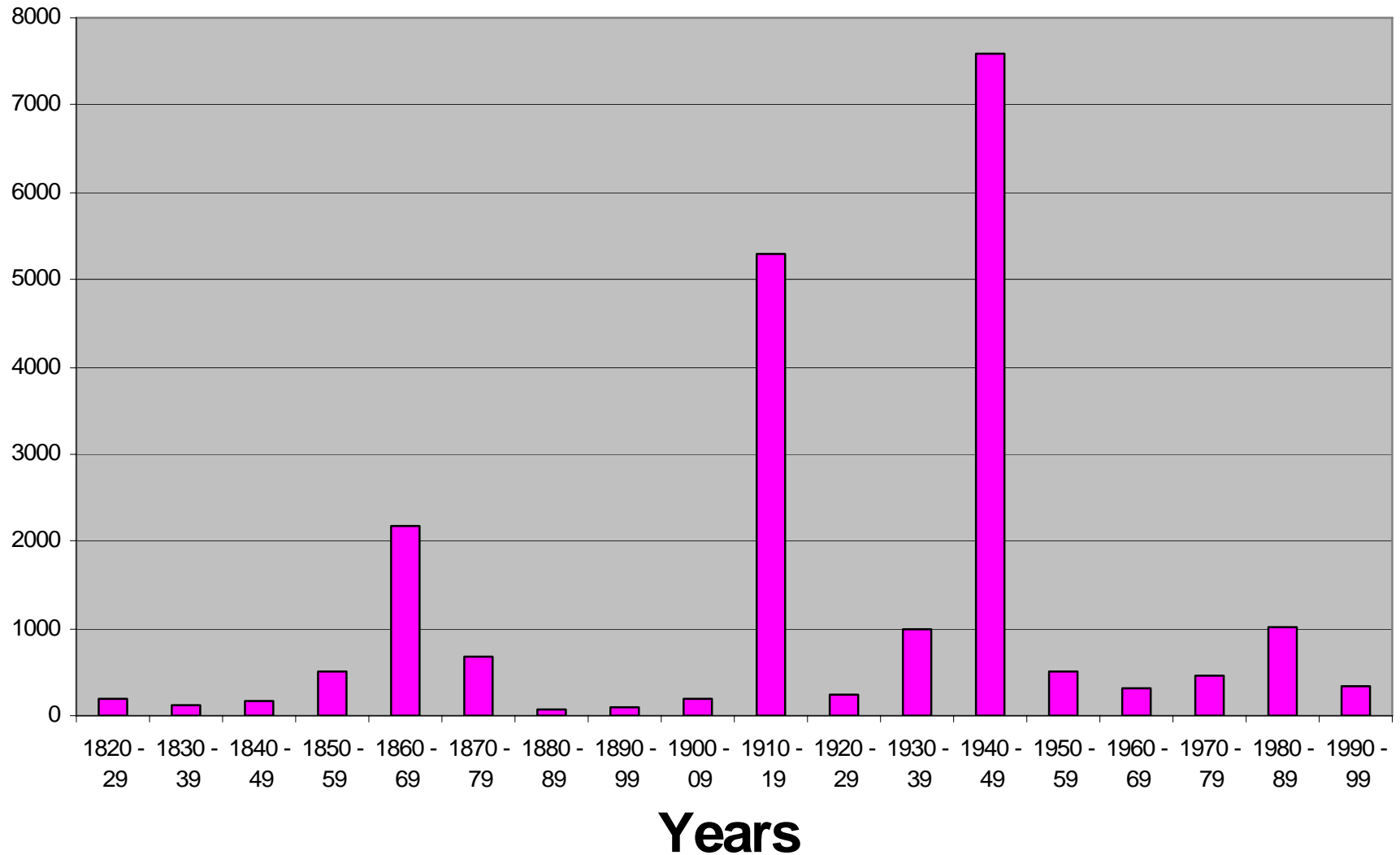
What about financial globalization?

- Overwhelming weight of evidence suggests that trade integration is beneficial (Rodrik 2002 is a contrarian view)
- More debate on financial globalization
- **New view:** *Indirect* POTENTIAL benefits of financial globalization far outweigh direct benefits (Rogoff et al, 2006)
 - Macro stability, transparency, governance

UN's growing role

- World peace is the most important foundation of economic growth, although the two are self-reinforcing
- Globalization also leads to faster spread of disease, need for coordination, transparency
- Other externalities such as climate change

War Deaths per Million Persons, 1820-2000



Notes: Bars indicate total number of deaths from intra-, inter-, and extra-state war per decade, divided by world population mid-decade. (2004) for war dates and deaths and United Nations Population Division (1999) for population.

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Data, Statistics and Analysis

- Human Development Report and related regional publications are enormously helpful, also in emphasizing importance of measures of well being other than GDP
- Transparency is central to institutional development (central banks as a canonical example)

Need to resist tempting but misleading polemics

- Trade: Most countries citizens suffer far more from the trade barriers their own governments have erected than from foreign barriers (Britain and repeal of the corn laws in the 1840s)
- Aid: Massive aid transfers are morally compelling but if they need to be intermediated by institutionally frail governments, they can be counterproductive.
 - Example of microfinance and why aid may work in the small but less well in the large.

Conclusion

- Modern globalization is similar to earlier eras but faster, and with some important differences, particularly relationships between rich and developing countries, explosion of finance
- Better global governance essential
 - Halcyon era of globalization from 1800-1913 did not end well because old security arrangements did not adjust to new economic realities.