Indicators of Globalization and Poverty

Overview
Questions for Globalization

- What is economic globalization?
- Factors deriving globalization?
- How do we measure globalization?
What is economic globalization?

- Increasing international integration of:
  - Markets for goods, services and factors of production (labor, capital)
  - Production processes across borders
    - Factories, call centers, etc.
- Globalization of business
  - Multinational firms (transnational production, sales, distribution, design, governance)
- Technological convergence
Factors driving globalization (to be continued…)

- Communications technology makes international business easier and lower cost
- Reduction in transportation costs (e.g. container shipping)
- Liberalization of economies...
  - lower tariffs (GATT, WTO) and non-tariff barriers (e.g. Japan)
  - less restrictions on FDI (e.g. China since 1970s)
- Business efforts to lower costs
  - Production outsourcing
  - Services outsourcing
- Rise of East Asia as major international producers and exports, model for many other countries to follow “outward-looking” development strategies
- Other factors
How do we measure globalization?

- Export volumes or Gross Trade, relative to production
- Tariffs
- Capital flows
- Other indicators
Two Eras of “Worldwide” Globalization

- Mid-1800s -1914
- Post WW2: ~1950 – 2008
- Some academics argue that first era was even greater integration than today’s economy
- World Wars and Interwar Periods
  - Collapse of globalization
  - Obvious for war periods
  - Interwar period marked by Great Depression of 1930s– rise of tariffs, collapse of trade, “insularity” of countries
Pre-WW1 growth in export volume: first boom in globalization

Collapse in trade with WW1, Great Depression and WW2

Boom in post-WW2 era: Second Wave of Globalization

First Wave of Globalization: Low and declining tariffs (Corn Laws repealed in 1848)

Interwar period: rising tariffs (first agriculture)

Second Wave of Globalization: Low and declining tariffs

Declining tariffs associated with successive GATT rounds

*Gaps are due to WWI and WWII.
Manufacturing tariffs lowest in high income countries…

Highest tariffs and little progress on agricultural products…high- and low-income countries

Figure 7. Trade Protection in Industrial Countries

Note: The figure shows tariffs on merchandise imported by high-income countries (as percentages) in 1995.
Source: Global Economic Prospects 2003 (Ch. 6).
“Static” and “Dynamic” Estimates of Income Growth due to Full Trade Liberalization are significant...esp. for low-income countries...standard trade result...overall gain, but also net losers

Figure 8. Long-Term Impact of Full Trade Liberalization

Notes: The figure shows that developing countries could reap income gains of more than $500 billion from full trade liberalization, which implies up to a 5-percent boost in incomes. The left-hand panel shows additional income in 2015, in terms of 1997 dollars, compared with the baseline. The right-hand panel shows the income boost as a percentage of baseline income in 2015. Static gains refer to the results holding productivity constant. Dynamic gains allow productivity to respond to sector-specific export-to-output ratios.

Labor mobility?

By some indicators, most world-wide labor mobility was during First Wave of Globalization…

Era of Mass Migration from Europe 1850-1914

Rising Gross Immigration in Second Wave of Globalization
By some measures, capital flows were larger during First wave of Globalization than today…but mainly equity or bonds in r.r. and governments..

...today’s financial markets are highly integrated across markets, institutions and financial instruments.
How has income growth fared over the past 300 years?

Rise of USA-Europe since mid-1800s (Industrialization + Globalization)...

Followed by Japan since 1960s...

Followed by China since 1980s...followed by India?

Questions on Poverty

- How do we define poverty?
- How do we measure poverty?
- What are world trends in changes in poverty?
- Is there a link between globalization and poverty?
Sharp decline in aggregate poverty rates in post-war period...

Probably largest and fastest reduction in human history...

**Figure 1. Global Poverty Rates: Percentage of People Living on Less than $1 per Day**

*Source: Bourguignon and Morrisson (2002).*
Percentage Below Poverty Line (2005 Prices)…trends continuing in 1990-2005 period
Number of People Living in Abject Poverty is unchanged…

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of people living on less than $1 per day (millions)</th>
<th>$1 per day headcount index (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia and Pacific, excluding China</td>
<td>418</td>
<td>486</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>114</td>
<td>110</td>
</tr>
<tr>
<td>Latin American and the Caribbean</td>
<td>64</td>
<td>48</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>South Asia</td>
<td>474</td>
<td>506</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>217</td>
<td>241</td>
</tr>
<tr>
<td>Total:</td>
<td>1,183</td>
<td>1,292</td>
</tr>
<tr>
<td>Excluding China:</td>
<td>880</td>
<td>917</td>
</tr>
</tbody>
</table>


…sharp reduction in China, East Asia and Pacific…
Increase in SSA and Central Asia (both absolute AND percent)
…Central Asia rise due to Soviet collapse and since reversed…
Other indicators of poverty since 1970s…

- Literacy...sharply increasing
- Child mortality...improving
- Life expectancy...rising everywhere except Sub-Saharan African (SSA).
- Why SSA? AIDS/HIV
  - Amongst worst hit are Botswana, South Africa, Kenya and Zimbabwe
Figure 2. Alternative Indicators of Human Development

Notes: Regions are abbreviated as follows: LHD, low human development; SSA, sub-Saharan Africa; AS, Arab states; SA, South Asia; EA, east Asia and the Pacific; LA, Latin America and the Caribbean; CEE, central and eastern Europe and CIS; OECD, Organisation for Economic Co-operation and Development.
Aggregate (weighted) indicator of “Human Development Index” shows increases everywhere since 1980 to 2000

HDI is a weighted average of life expectancy, education and (log) ppp GDP

**Figure 3. Recent Trends in the Human Development Index (HDI), Showing Global Disparities**

*Notes*: Regions are abbreviated as follows: SA, South Asia; SSA, sub-Saharan Africa; AS, Arab States; DC, all developing countries; EA, east Asia and the Pacific; LA, Latin America and the Caribbean; CEE, central and eastern Europe and CIS; OECD, high-income OECD.

P.C. Growth 1980-2000 versus initial p.c. income level: **Convergence?**

**Theory:**

Poor countries should grow faster than rich...

>>Convergence, expect negative relationship

No relationship...

Growth both in North and South

**SSA was very poor and also grows slows>> rise in poverty**

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**Figure 4. Average Annual Growth (1980–2000) on Initial Level of Real GDP per Capita**

*Note:* The data are values for real GDP in U.S. dollars per equivalent adult.
*Source:* Penn World Tables, version 6.1 (available online: [http://pwt.econ.upenn.edu](http://pwt.econ.upenn.edu)).
Population weighted…

China and India are two poor countries that have grown very quickly….

>>>led to aggregate worldwide % reduction in poor

Figure 5. Average Annual Growth (1980–2000) on Initial Level of Real GDP per Capita (as in Fig. 4, but with Area Proportional to Population in 1980)

Note: The data are values for real GDP in U.S. dollars per equivalent adult.
Source: Penn World Tables, version 6.1 (available online: ⟨http://pwt.econ.upenn.edu⟩).
Does Globalization Increase Poverty?

- High growth reduces aggregate poverty, and improved living conditions for most.

- Globalization– and industrialization (e.g. China)-- increases growth

- Success of Japan, East Asian Tigers and China highly impressive...outward looking, globalized, manufacturing economies.
Rise of Inequality

- Benefits not equally distributed, internally (within countries) or across countries
- No evidence of "convergence" in national incomes due to globalization…
  - "Twin peaks" view: convergence amongst high-income group, and amongst low- and middle-income group
- Trade liberalization increases net income—esp. in long-run, but major "losers" in short-run (adjustment period)
- Internal inequality rising since 1980s...not clear if due to globalization, technology or immigration
The story will continue...