

# **LECTURE 3**

## **AN OVERVIEW OF THE GLOBAL ECONOMY**

**Richard Smith**

GLOBALISATION AND HEALTH  
STUDY UNIT

1503



# OBJECTIVE OF LECTURE

- Brief introduction to one – if not the defining – element of globalization: economic globalization
  - understanding of key parameters of the emerging global economy
  - why it is emerging
  - what key issues arise in relation to health

# OUTLINE OF LECTURE

- Defining economic globalization
- Review existing trends and evidence
- Review key debates on  $\pm$  effects
- Preview key debates on health effects

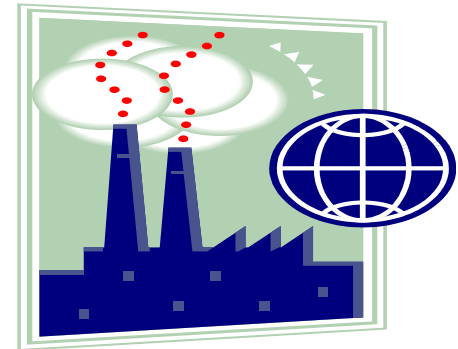
# COMPONENTS OF ECONOMIC GLOBALIZATION

## 1. Global trade

- Changes in way goods & services produced and exchanged worldwide

## 2. Global finance

- Changes in valuation and trade of money (currencies), process of banking (savings and credit) and investment



*In both cases: intensification of flows across countries and de-territorialization (national borders becoming less important)*



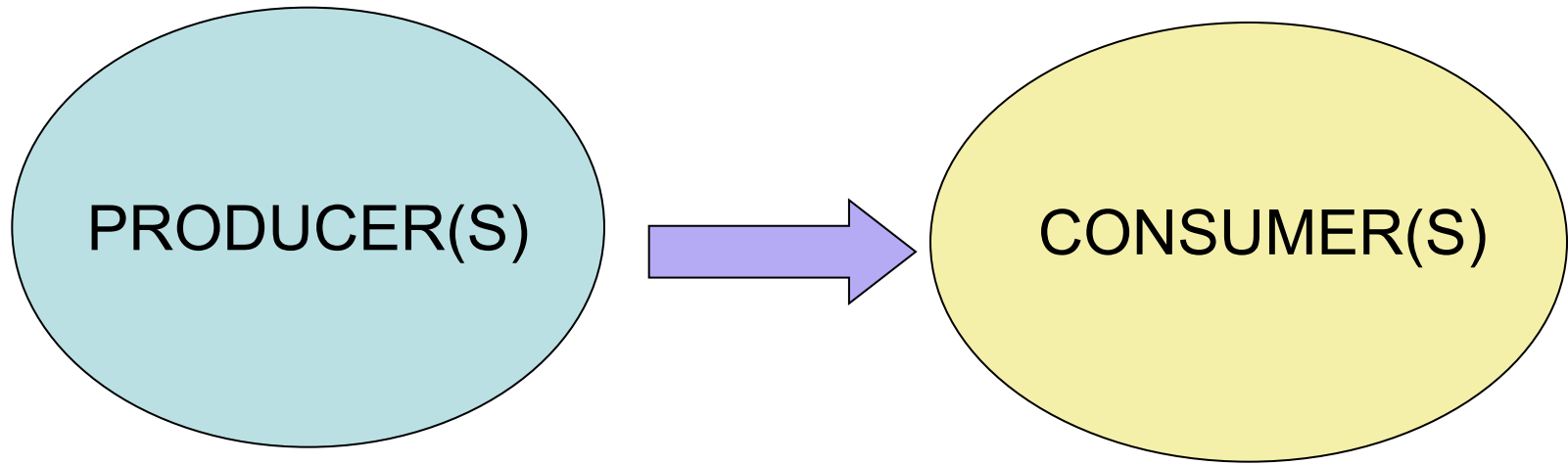
# DEFINING ECONOMIC GLOBALIZATION

<b>1. Internationalization: crossing borders</b>	“increased cross border movements between countries of people, goods, money, investments and ideas”
<b>2. Liberalization: opening borders</b>	“progressive removal of border controls”
<b>3. Globalization: <i>transcendence</i> of borders</b>	“patterns of production, exchange & consumption become increasingly uncoupled from geography of distances and borders”

# 1. INTERNATIONALIZATION (CROSSING BORDERS)

COUNTRY A

COUNTRY B (C, D ...)

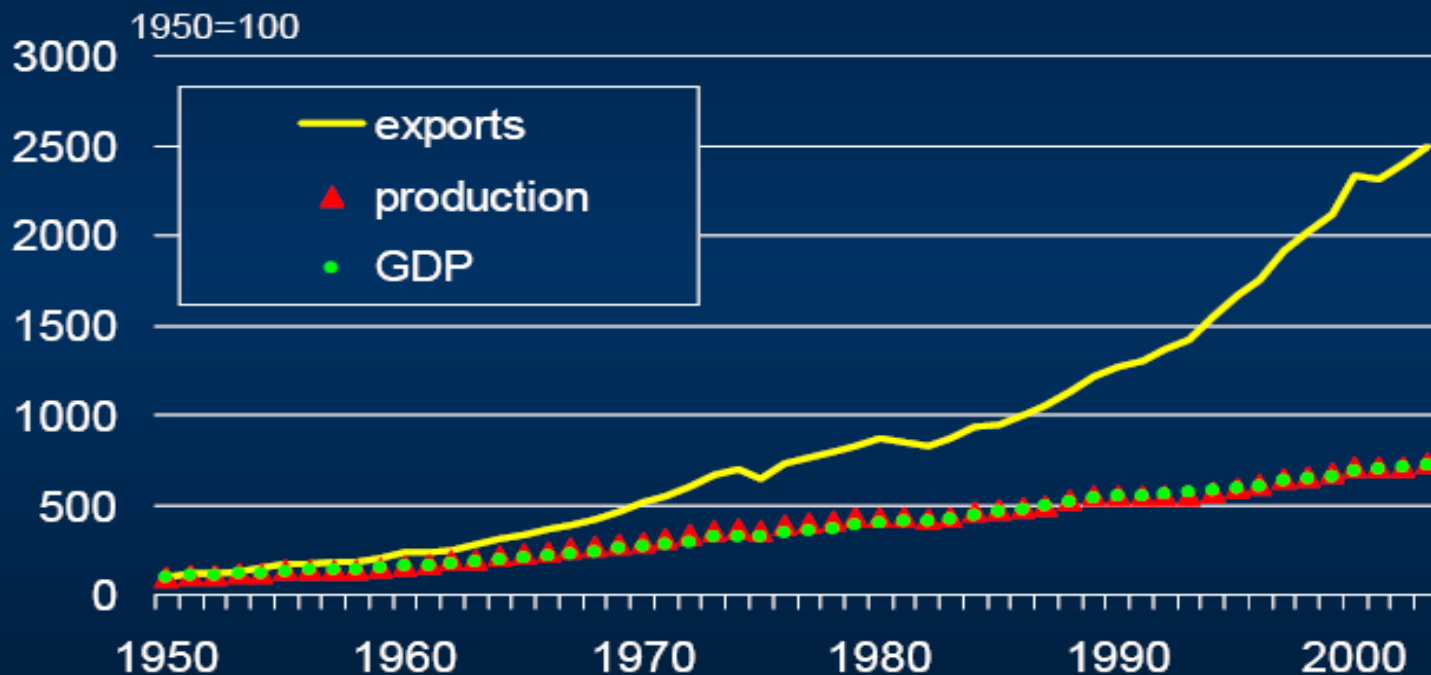


GOODS AND SERVICES  
TECHNOLOGIES  
FINANCE  
KNOWLEDGE  
LABOUR

# INTERNATIONALIZATION

## Global Trade Grows Faster than Output

World Exports, Production\* and GDP, Indexed



Source: World Trade Organization

\* Note: world merchandise production differs from world GDP in that it excludes services and construction.

## 2. LIBERALIZATION: OPENING BORDERS

- Pre-1940 world characterized by protectionist policies (leading to decline world trade, political instability etc)
- 1945 to 1970 trade increased 14 times while world production increased 5 times
- 1970-97 percentage of countries with free-market liberal economies rose from 8% to 28%
- Increase in bilateral and regional trade agreements to liberalize trade (reduce tariff and non-tariff barriers)
  - Canada-US Free Trade Agreement
  - North American Free Trade Agreement (NAFTA)
  - ASEAN (Association of Southeast Asian Nations)
  - ANCOM (Andean Common Market)
  - EU (European Union)



# BARRIERS TO TRADE

- Tariffs
  - Duties (tax) imposed by government on imports/exports
- Quotas
  - Restrictions on overall volume of imports/exports
- Local content requirements
  - Requirement for all goods/services to have % local inputs
- Technical requirements (technical barriers to trade)
  - Trade restrictive effect arising from the application of technical regulations or standards such as testing requirements, labeling requirements, packaging requirements, marketing standards, certification requirements, origin marking requirements, health and safety regulations, and sanitary and phytosanitary regulations
- Administrative barriers
- Subsidies

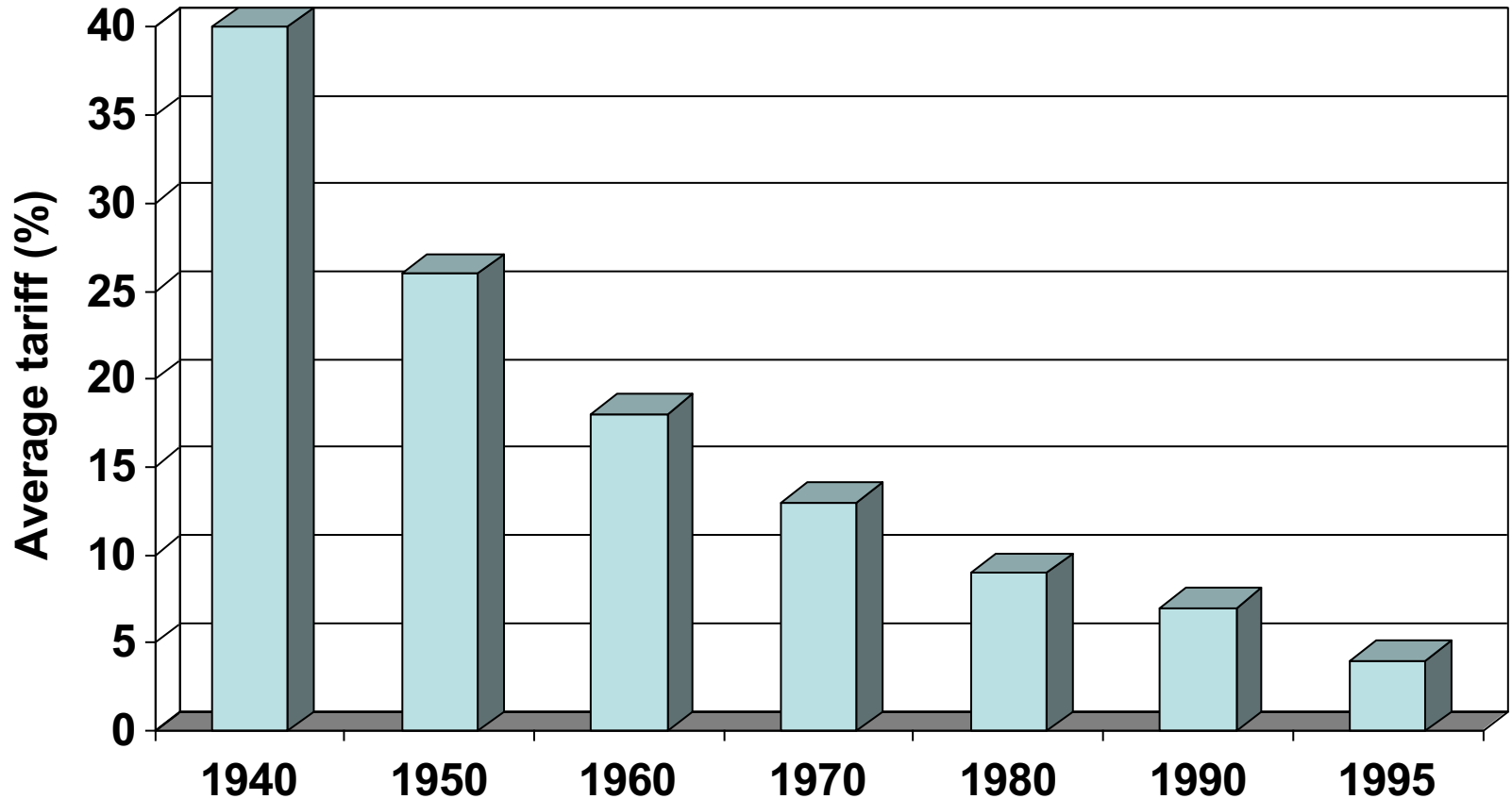
# MULTILATERAL TRADE AGREEMENTS

- Belief that protectionism during 1930s contributed significantly to international conflict (WWII)
- Bretton Woods conference 1944 to create international trade organisation agreed in Havana in 1948 but US refused to ratify and instead GATT (General Agreement on Tariffs & Trade) to negotiate reductions in trade tariffs in series of “rounds”
- Accelerated complex process of reducing trade barriers
- Notable is growing number of countries involved in negotiations, the broadening scope of the subjects under negotiation, and length of time that the rounds have taken to conclude (following from this!)
- Uruguay round (lasting 8 years) significant because led to creation of WTO

# GATT NEGOTIATIONS (1946-1995)

Geneva Round (1947)	23 countries	Concessions on 43 tariff lines
Annecy Round (1949)	29 countries	Modest reductions
Torquay Round (1950-51)	32 countries	8700 concessions
Geneva Round (1955-56)	33 countries	Modest reductions
Dillon Round (1960-61)	39 countries	Formation of EEC 4400 concessions
Kennedy Round (1963-67)	74 countries	Anti-dumping, customs valuation, preferential treatment to LDCs
Toyko Round (1973-79)	102 countries	1/3 tariff reduction by DCs, codes of conduct on NTBs
Uruguay Round (1986-94)	125 countries	1/3 tariff reduction by DCs, agriculture, clothing, GATS, TRIPS, WTO created

# REDUCTION OF TARIFFS (1940-95)



Source: Dicken P. (1996), *Global Shift* (London: Paul Chapman).

# WORLD TRADE ORGANISATION

Creation of WTO following Uruguay Round (1995)	128 member states	Permanent international organisation to administer multilateral trade agreements (GATS, TRIPS)
Seattle Round (1999)		Ministerial meeting fails to launch new round of negotiations due to mass protests
Doha Development Agenda Round (2001-present)	151 (incl. China) plus 28 countries in ongoing accession negotiations	Cases brought to Dispute Settlement Body (207 cases 1995-2000, $\frac{3}{4}$ by DC  Separate negotiation of GATS

# WORLD TRADE ORGANIZATION

- See lectures 4 and 5 by Nick Drager for more detail
- 26,000 page agreement establishing WTO (1994)
- 90% of international trade carried out within its normative framework
- 151 member states (28 pending accessions)
- Legally binding agreements, ratified by states, on how trade should be governed among member states
- Each Multilateral Trade Agreement (MTA) specifies 'rules' governing different aspects of trade relations
- Committees to monitor implementation of agreements, and agreed procedures to settle disputes (Dispute Settlement Body)

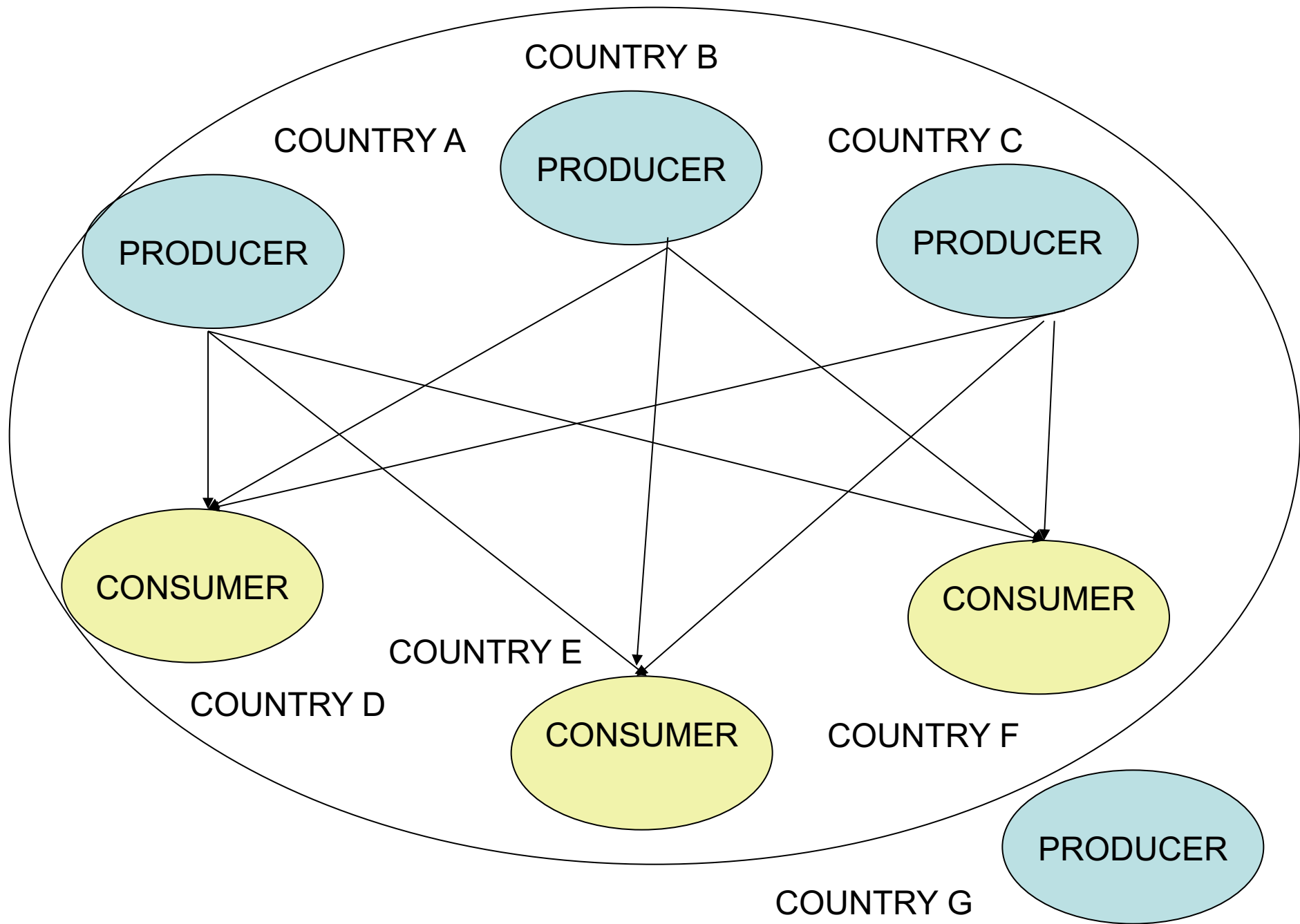




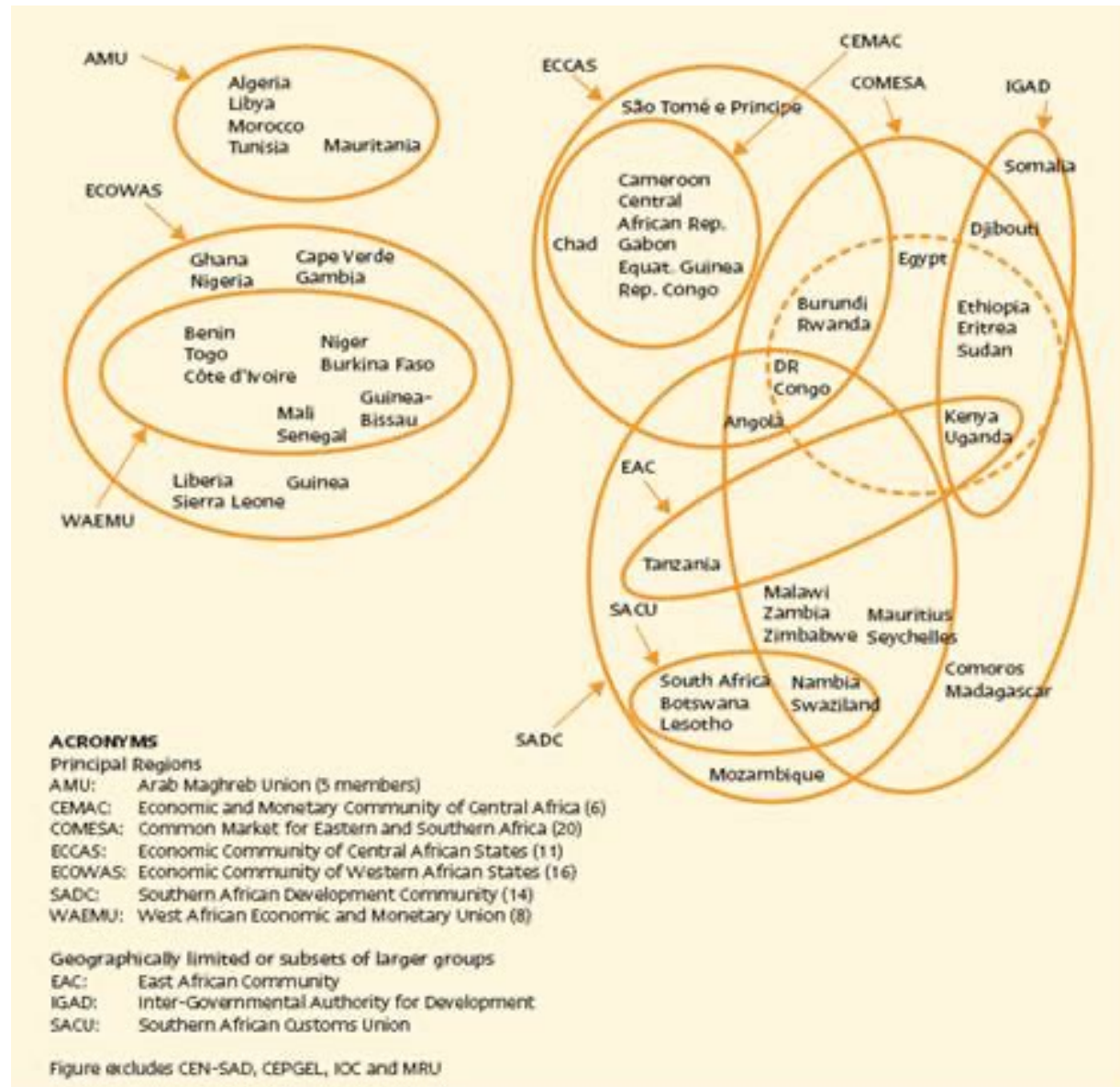
# WTO AGREEMENTS AND HEALTH

	<u>WTO AGREEMENTS</u>			
<u>HEALTH ISSUES</u>	SPS	TBT	TRIPS	GATS
• Infectious Disease Control	*	*		
• Food Safety	*			
• Tobacco Control		*	*	*
• Environment	*	*		
• Access to Drugs			*	
• Health Services				*
• Food Security	*			
<i>Emerging Issues</i>				
• Biotechnology	*	*	*	
• Information Technology			*	
• Traditional Knowledge			*	



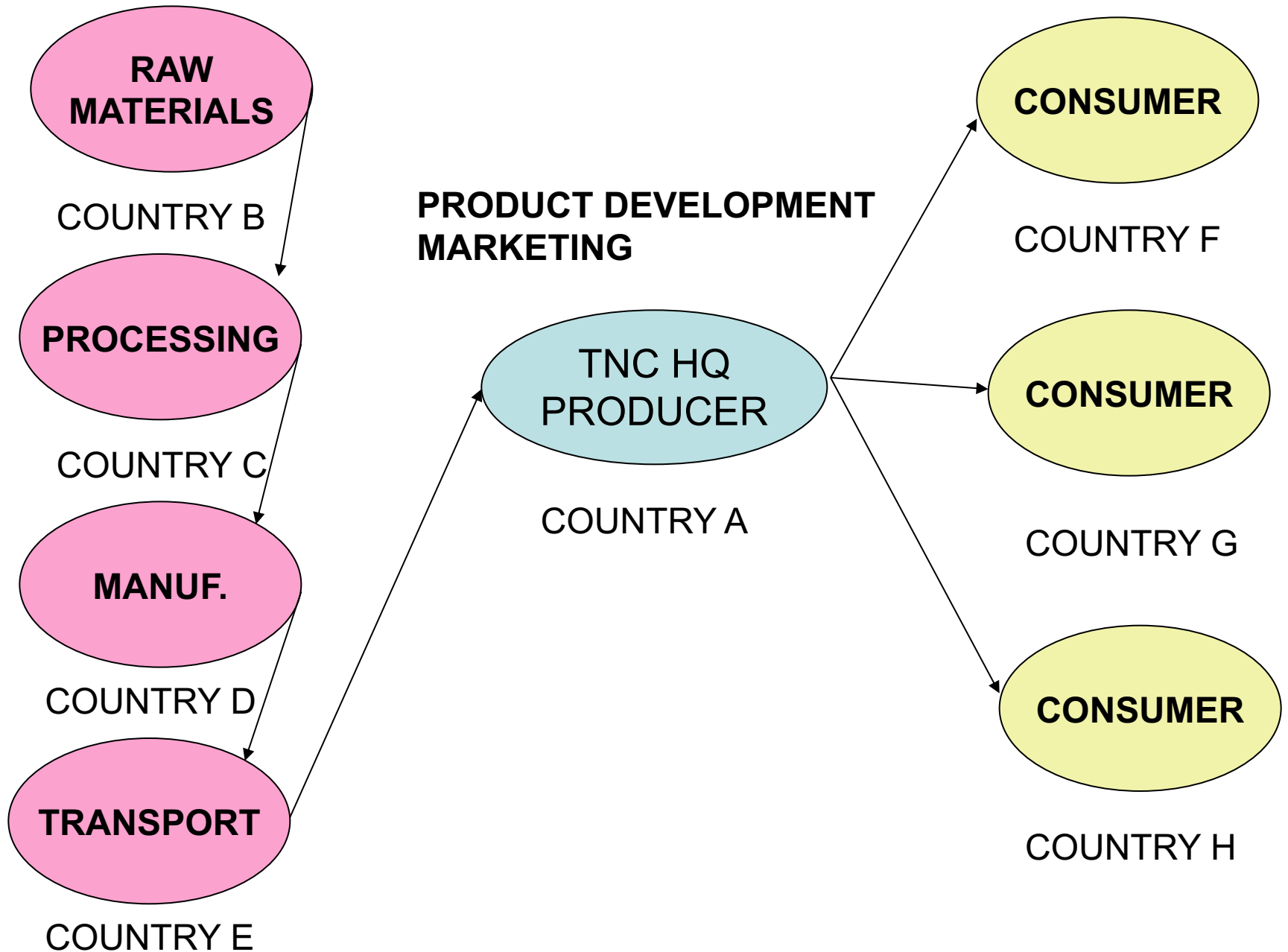


# AFRICAN REGIONAL AND SUB-REGIONAL COMMUNITIES



### 3. GLOBALIZATION: TRANSCENDANCE OF BORDERS

- Some flows of trade and finance now ignore territorial space (including national borders) taking on a new economic logic with the world as the scale of operation
  - Fragmentation of production processes and geographical relocation that slices through national boundaries
    - Slicing up the value-added chain of production
  - Sectors undergoing this include textiles/clothing, automobiles, electronics and, increasingly, services
- Variable rate across sectors means world economy is “globalizing” rather than “globalized”
  - some sectors lend themselves to being globalized because don’t require being fixed in one place or they benefit from being fragmented in the production processes (eg manufacturing)
  - others remain heavily regulated by national authorities (eg defence) and/or are not, and may never be, fully untied from geography (eg mining)

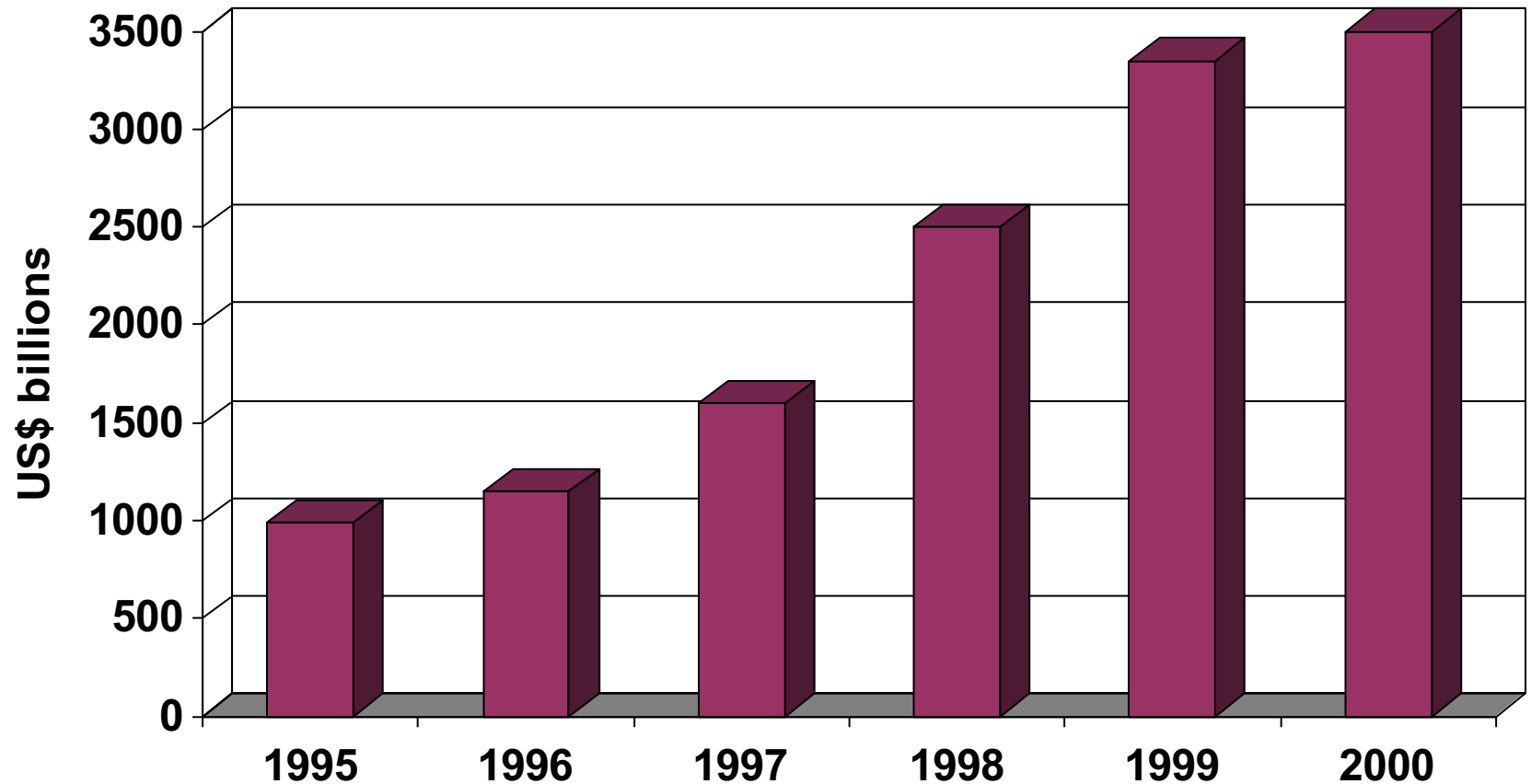


# RESTRUCTURING WORLD ECONOMY: FIRMS WITHOUT BORDERS

- MNC – company based in one country, subsidiaries in others (may replicate)
- TNC – fragmented structure of production (eg Ford Ka, parts from 10 countries, assembled in Spain)
- 1970-2000 TNCs grew from 7,000 to 53,600
- Revenues of top 200 TNC > 182 states (80% world pop.)
- Trend towards rationalisation of major sectors where a few large firms dominate

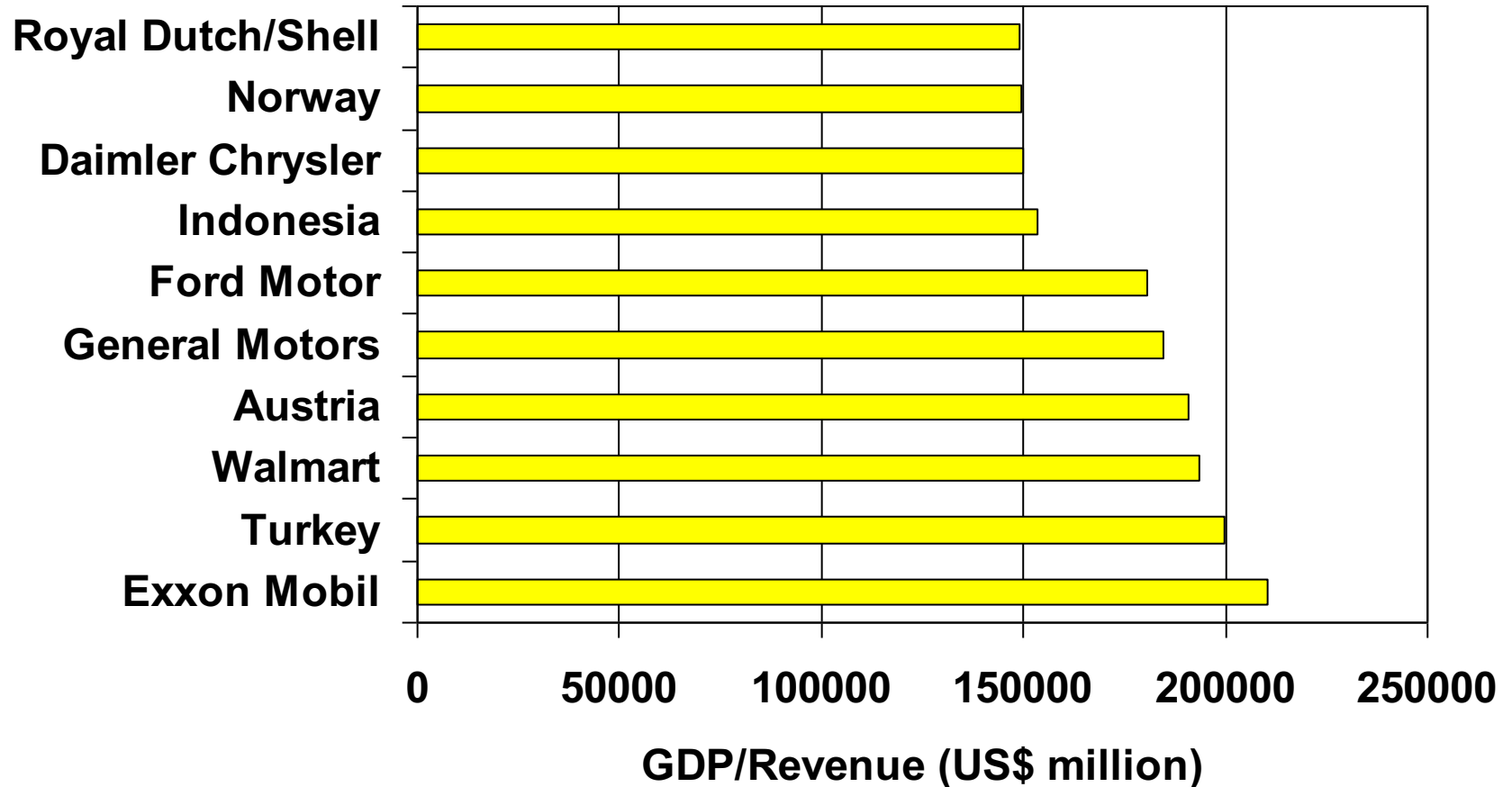


# GLOBAL MERGERS AND ACQUISITIONS



Source: Singh K. (2001), "Global Corporate Power, Emerging Trends and Issues, Briefing Paper, Asia-Europe Dialogue Project, Public Interest Research Centre.

# WORLD'S LARGEST COMPANIES BY REVENUE



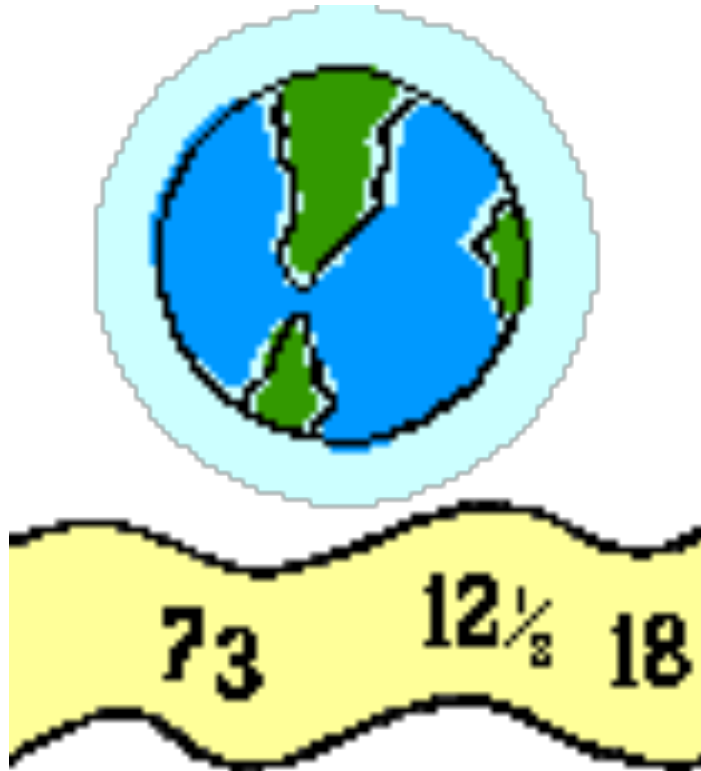
Note: Walmart is the world's 30<sup>th</sup> largest economy!

# WORLD'S LARGEST COMPANIES BY PROFIT

CORPORATION	PROFITS (2005) US\$ millions	% change in profits from 2004
Exxon Mobil	36 130	42.6
Citigroup	24 589	44.3
Royal Dutch/Shell	25 311	39.2
BP	22 341	45.3
Bank of America	16 465	16.4
General Electric	16 353	-2.8
HSBC Holdings	15 873	34.1
Total	15 250	27.6
Chevron	14 099	5.8
Microsoft	12 254	50

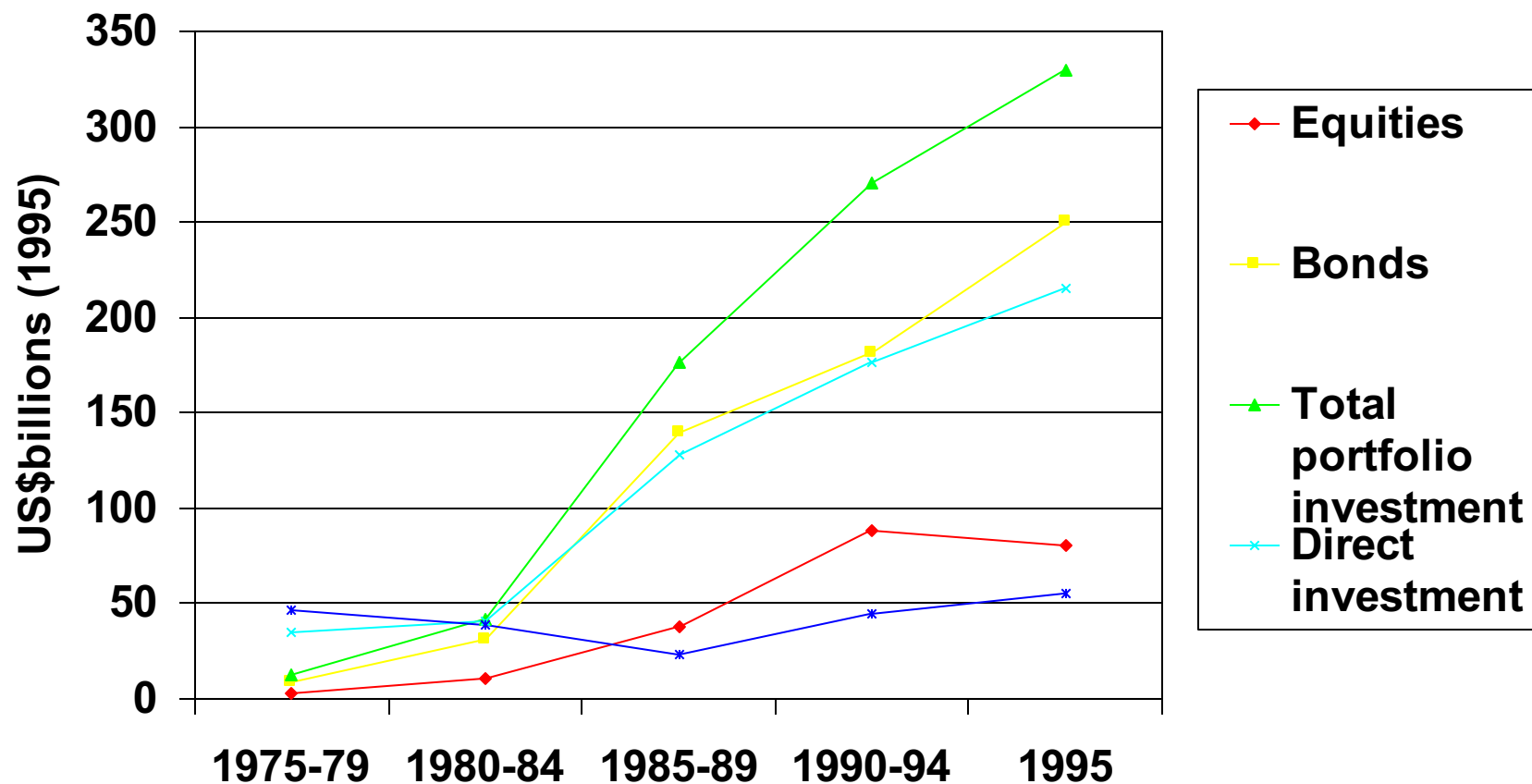


# GLOBAL FINANCE



- Financial markets evolved to support global economy and are themselves 'globalizing'
  - 2003-2006 number of financial institutions having offshore operations increased from 10% to 75%, with 1,800% increase in number of staff employed in these operations
- 1980s deregulation of the financial sector fundamental to the emerging global economy
  - enabled currency, investment & credit to flow across world
- 1970-2000
  - Foreign exchange trading increased \$17-300 trillion trillion
  - Capital flows to LMICs grew 11-fold

# PRIVATE SECTOR CAPITAL OUTFLOWS FROM MAJOR INDUSTRIALISED COUNTRIES, ANNUAL AVERAGE (1975-95)



**Note:** equities are stocks and shares, bonds are contractual obligations by company, government or association to make payments of interest and principle at agreed fixed rate

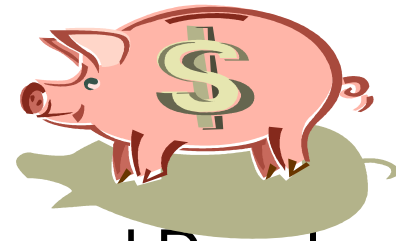
# GLOBALIZATION: NATURE OR NUTURE?

- Liberal theorists – natural process of allowing market forces to find efficiencies through greater economies of scale within and across countries
  - growth of larger corporations result of economic “survival of the fittest” in a competitive world market
  - positive trend that should be encouraged
- Non-liberal theorists – process of policy decisions, institutional structures and rules, international agreements and practices
  - economic globalization embedded within certain vested interests, driven by ideological principles, creating certain pattern of winners and losers
- Bretton Woods system established institutions that lie behind (govern) economic globalization

# BRETTON WOODS INSTITUTIONS

- Bretton Woods conference (1944) – 44 countries met to create framework for post-war world economy
  - Desire for a stable and cooperative international monetary system to prevent future financial crises (and war) following protectionist policies and worldwide depression of 1930s
  - Core debates about role of state in management of markets (Keynes)
- Creation of World Bank, IMF and GATT (WTO)

# WORLD BANK



- International Bank for Reconstruction and Development (IBRD) was established to support rebuilding of economies devastated by WWII
- Special agency of United Nations, governed by Members
- To provide loans for 'economic infrastructure' (roads, airports, power plants etc) at competitive rates of interest
- Five parts of 'World Bank Group' whose roles are:
  1. IBRD as above
  2. IFC (International Finance Corporation) supports private sector investment in Bank-approved projects
  3. MIGC (Multilateral Insurance Guarantee Agency) provides risk insurance to foreign companies seeking to invest in member state
  4. ICSID (International Centre for Settlement of Investment Disputes) settles financial disputes among member states
  5. IDA (International Development Association) provides 'soft loans' at low or no interest to poorest countries

# WHAT DOES WORLD BANK 'DO'?

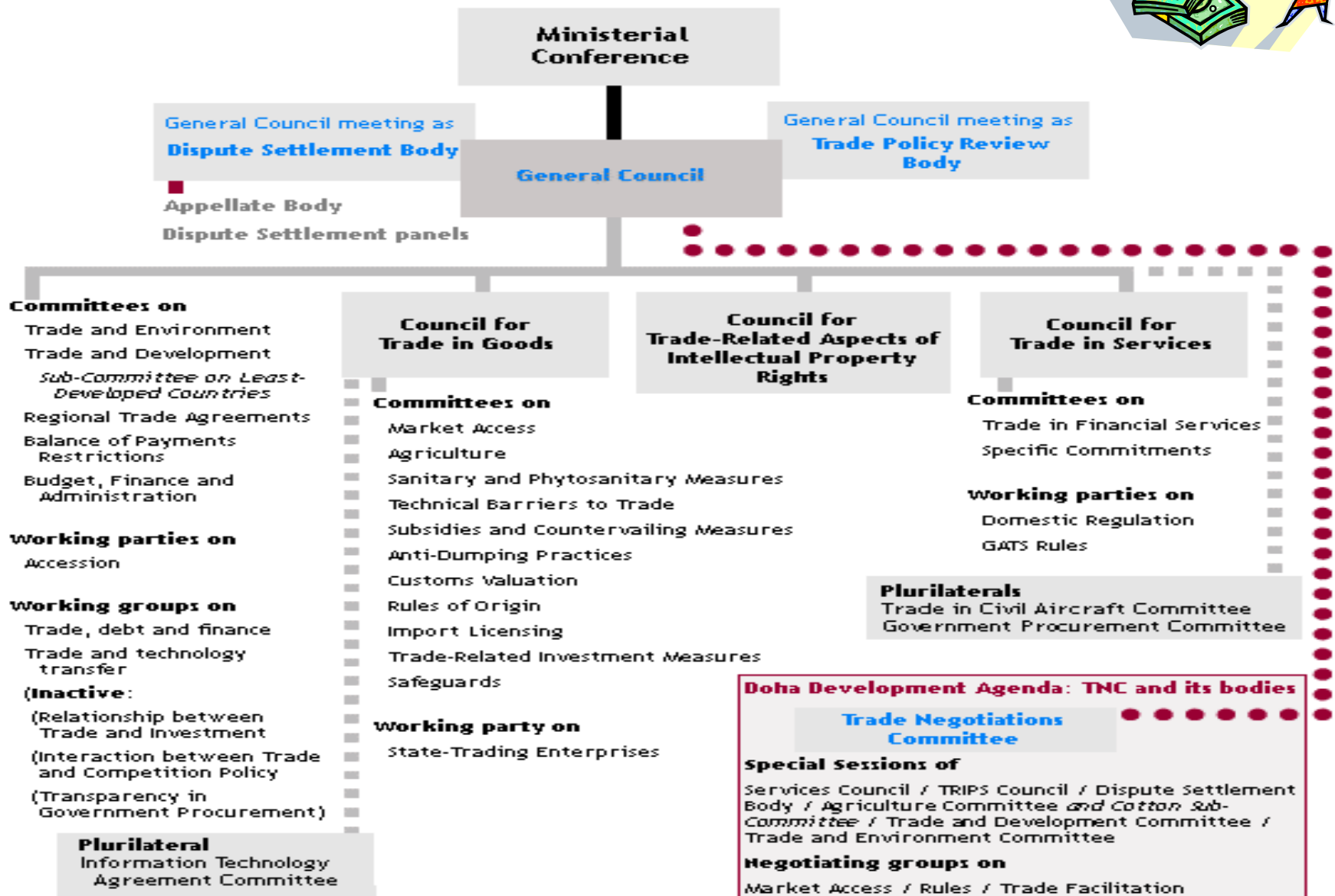
- Uniquely among UN institutions, makes a profit!
- Main purpose is to provide loans (with interest) to governments (ministries of finance) to assist in reconstruction and (mainly) development
  - Exception is the IDA which provides “very soft” loans, usually with a grace period of 5-years (no interest) and then very low rates of interest repayable over long periods of time (eg 40yrs)
- Funded by duties from Member States and money borrowed on international capital markets (for which it pays interest of course) – AAA credit rating
- Repackages funds & lends to Members at higher interest
- 2004 \$30bn turnover, \$200bn total portfolio makes it very powerful and able to set conditions to borrowers
  - Since 1980s *conditional* on integrating into international economy
    - Lending for export sectors
    - Structural Adjustment Programmes

# INTERNATIONAL MONETARY FUND



- To “facilitate the expansion and balanced growth of international trade” and “contribute to the promotion and maintenance of high levels of employment and real income”
- To oversee system of fixed exchange rates (prevent countries from devaluing national currencies to gain advantage in trade)
- To promote currency convertibility
- To act as lender of last resort through emergency loans to resolve short term cash flow problems
- Member States receive quota of Special Drawing Rights (SDRs) according to position in world economy
- Size of SDR quota determines votes in decision making
- IMF can assign *conditions* on loans to debtor countries

# WORLD TRADE ORGANIZATION





# TRADE VS HEALTH GOVERNANCE



- centralised structure
- extensive and expanding membership
- comprehensive scope
- detailed, complex and legally binding agreements
- dispute settlement mechanisms



- fragmented, unstructured, lack of lead institution
- WHO influence from technical expertise and nonbinding recommendations
- lack of broad, deep or binding legal commitments
- lack of dispute or enforcement mechanisms

# IMPACT OF ECONOMIC GLOBALIZATION



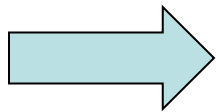
- Highly polarized and polemical debate which divides economics, scholarly disciplines, political parties, government departments, international organizations in to, broadly, “globalists” and “anti-globalists”
  - “anyone who cares about the poor should favor the growth-enhancing policies of good rule of law, fiscal discipline, and openness to international trade” (Dollar and Kraay, 2000)

VS

- “the new feature of market economics in present day capitalism...[is] turbo-capitalism....Whoever thinks that the stability of families and communities is important cannot at the same time speak in favour of deregulation and globalization of the economy” (Luttwak, 1995)

# “GLOBALISTS”

- Liberalisation increases trade flows
- Trade increases GDP growth, especially in poor countries, due to specialization (comparative advantage)
  - differences between countries in technology, labour skills, climate, institutions etc result in different production functions across different commodities. Each country engages in production of goods that best suits their endowments
  - trade thus increases incomes, increases global production (& product variety) and reduces unit costs, increasing income providing more resources for (health-related) goods and services



“globalisation improves health”





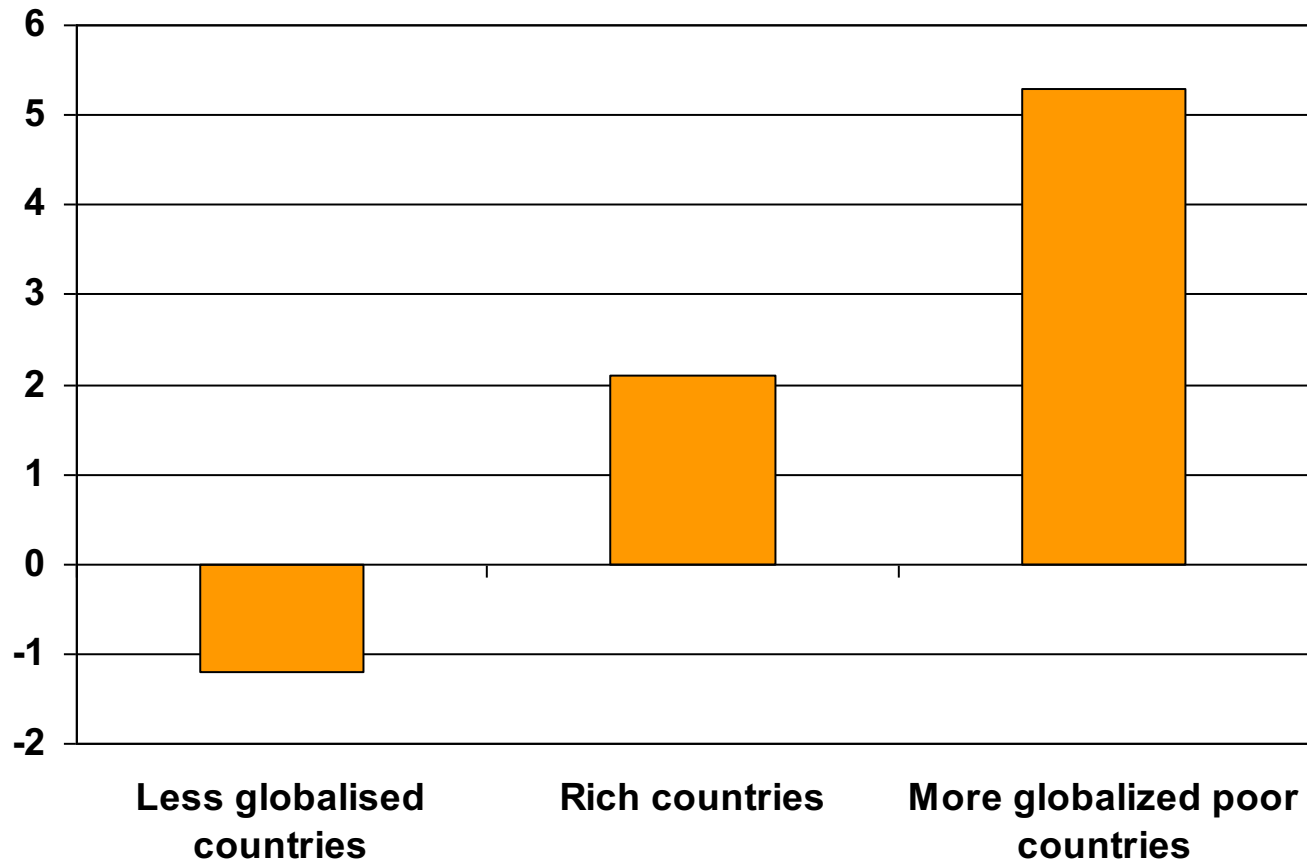
# WASHINGTON CONSENSUS

Ten policy ideas supported by major Washington-based institutions (WB, IMF, USAID, US government ... & can add OECD, WTO and other 'non-Washington' based)

1. Fiscal discipline (balanced budget, no deficit)
2. Redirection of public expenditure
3. Tax reform
4. Financial liberalization
5. Single competitive exchange rate
6. Trade liberalization
7. Elimination of barriers to FDI
8. Privatisation of state-owned enterprises
9. Deregulation of market entry and competition
10. Assurance of secure property rights

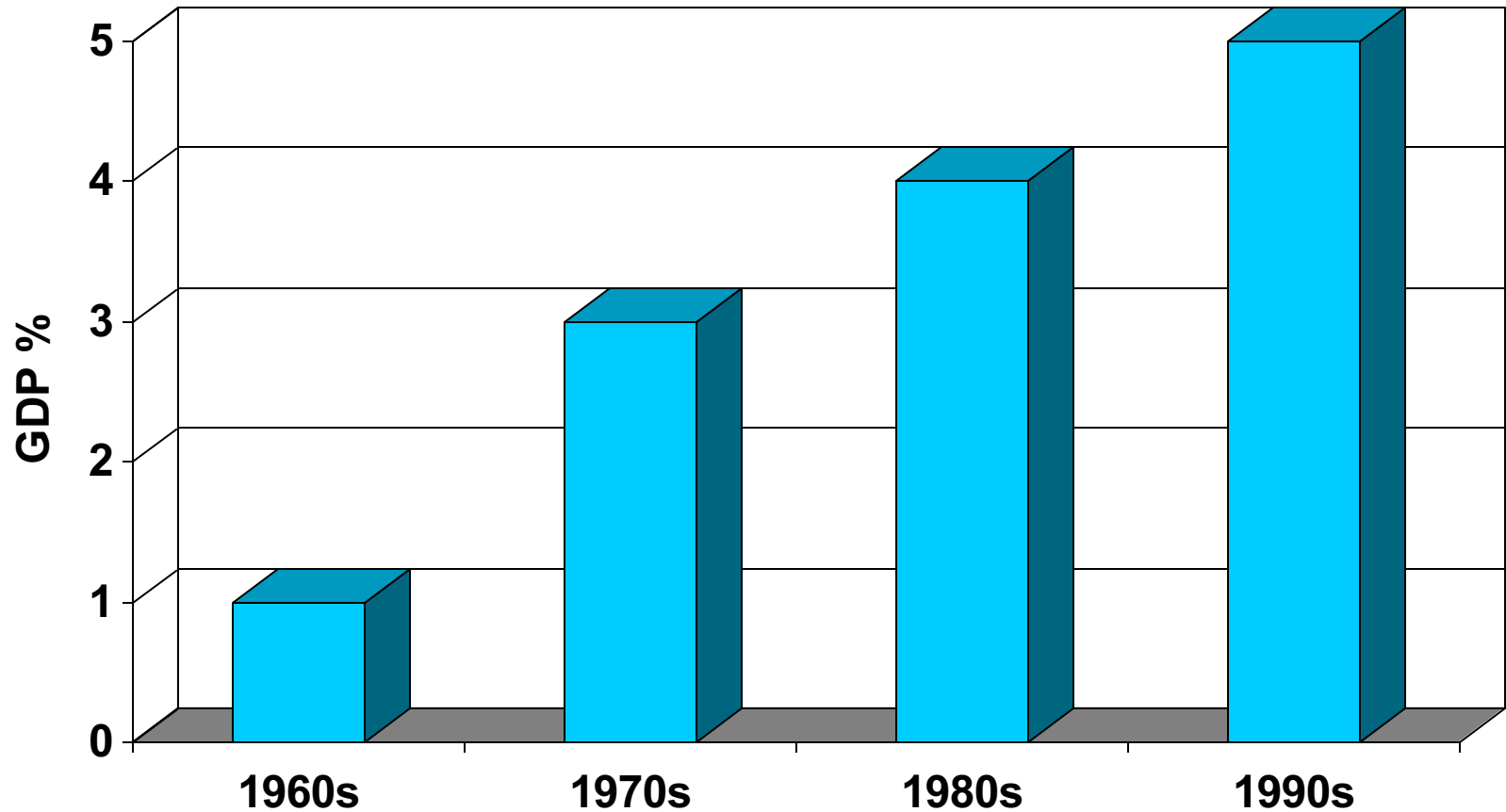
Source: Williamson J. ed. (1990), *Latin American Adjustment: How much has happened?* (Washington DC: Institute for International Economics).

# % GROWTH OF GDP AND GLOBALIZATION



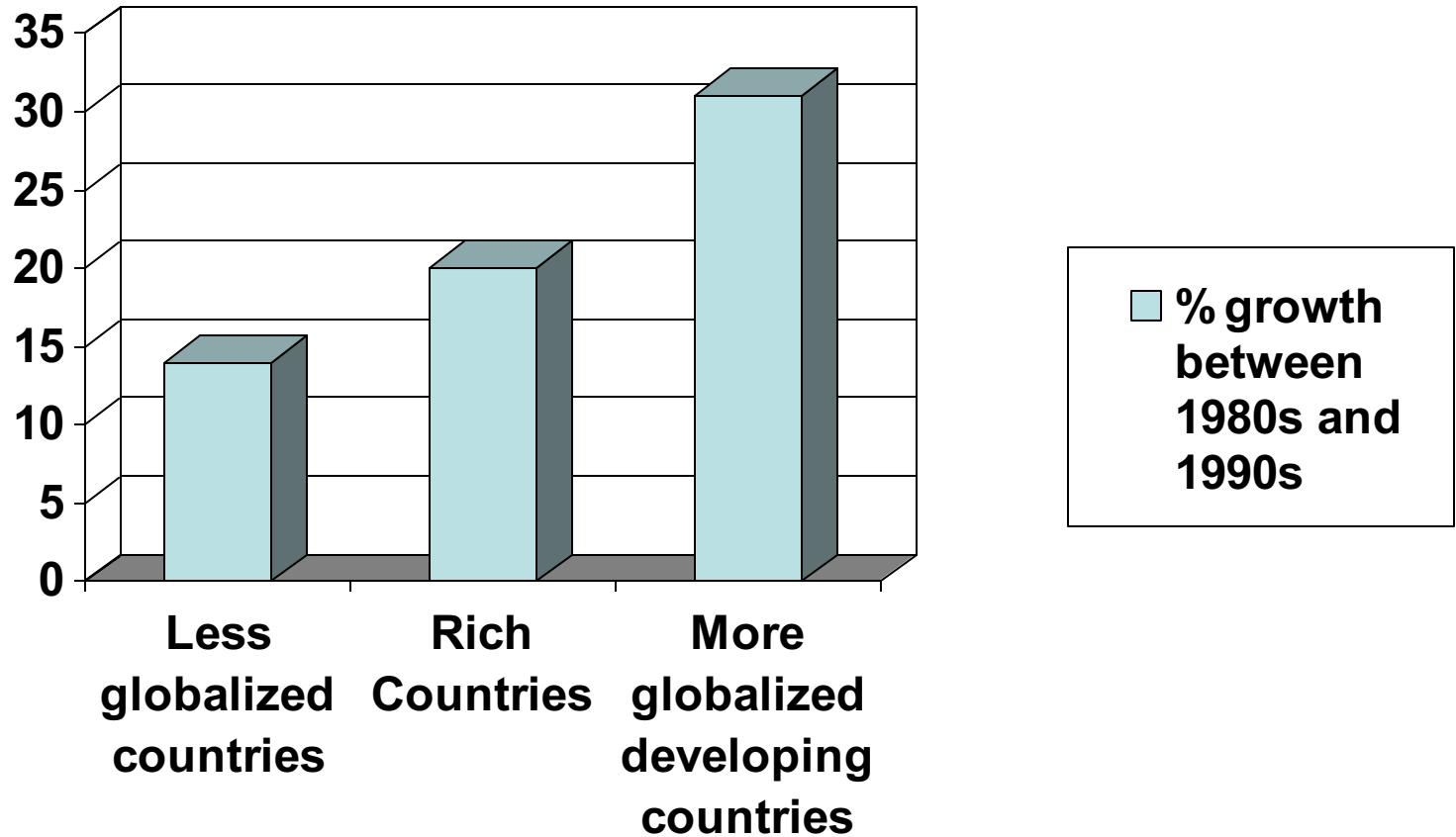
Source: Dollar and Kraay (2001) (World Bank economists)

# PER CAPITA GROWTH FOR MORE GLOBALIZED COUNTRIES



Source: Dollar and Kraay (2001)

# WAGE GROWTH BY COUNTRY GROUP\*



Source: World Bank (2002)

\*Mostly due to relocation of manufacturing and other labour-intensive jobs from HIC to LMIC (eg clothing, toys, electronics, automobiles)

# “ANTI-GLOBALISTS”

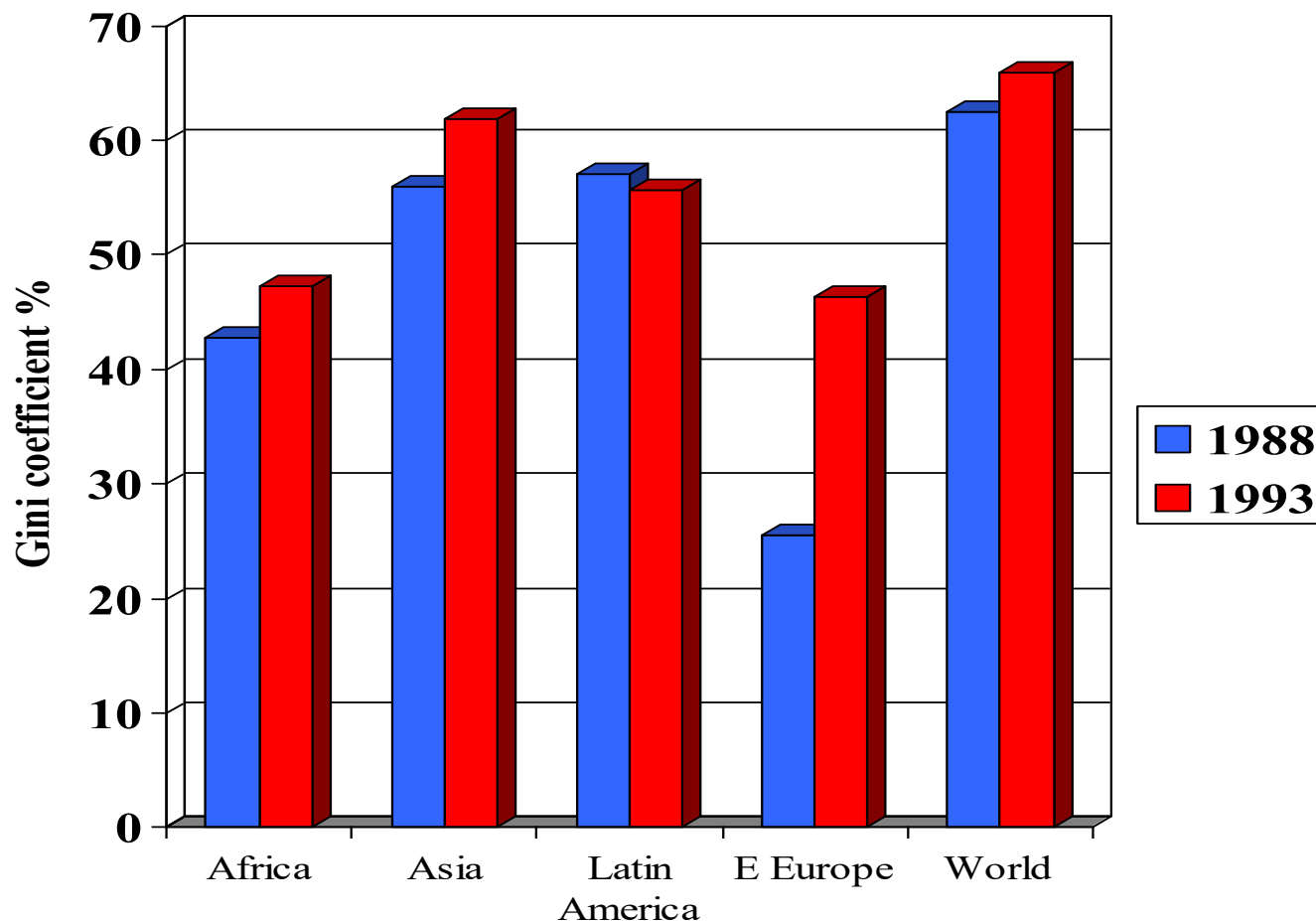


Barry Wong © The Seattle Times

- Disparate group who are more “anti-Washington consensus forms of economic globalisation” rather than globalization *per se*
- Argue that this form of globalization is:
  - widening inequalities within and between countries
  - increasing employment insecurity
  - weakening workers’ rights
  - undermining social welfare and environmental protection
  - increasing global ruling class
  - characterized by lack of transparency and accountability by global economic institutions



# REGIONAL AND GLOBAL INEQUALITY (1988-93)



Global inequality increased between 1988-93 as shown by three-point rise in Gini coefficient \*

Source: Milanovic (1999)

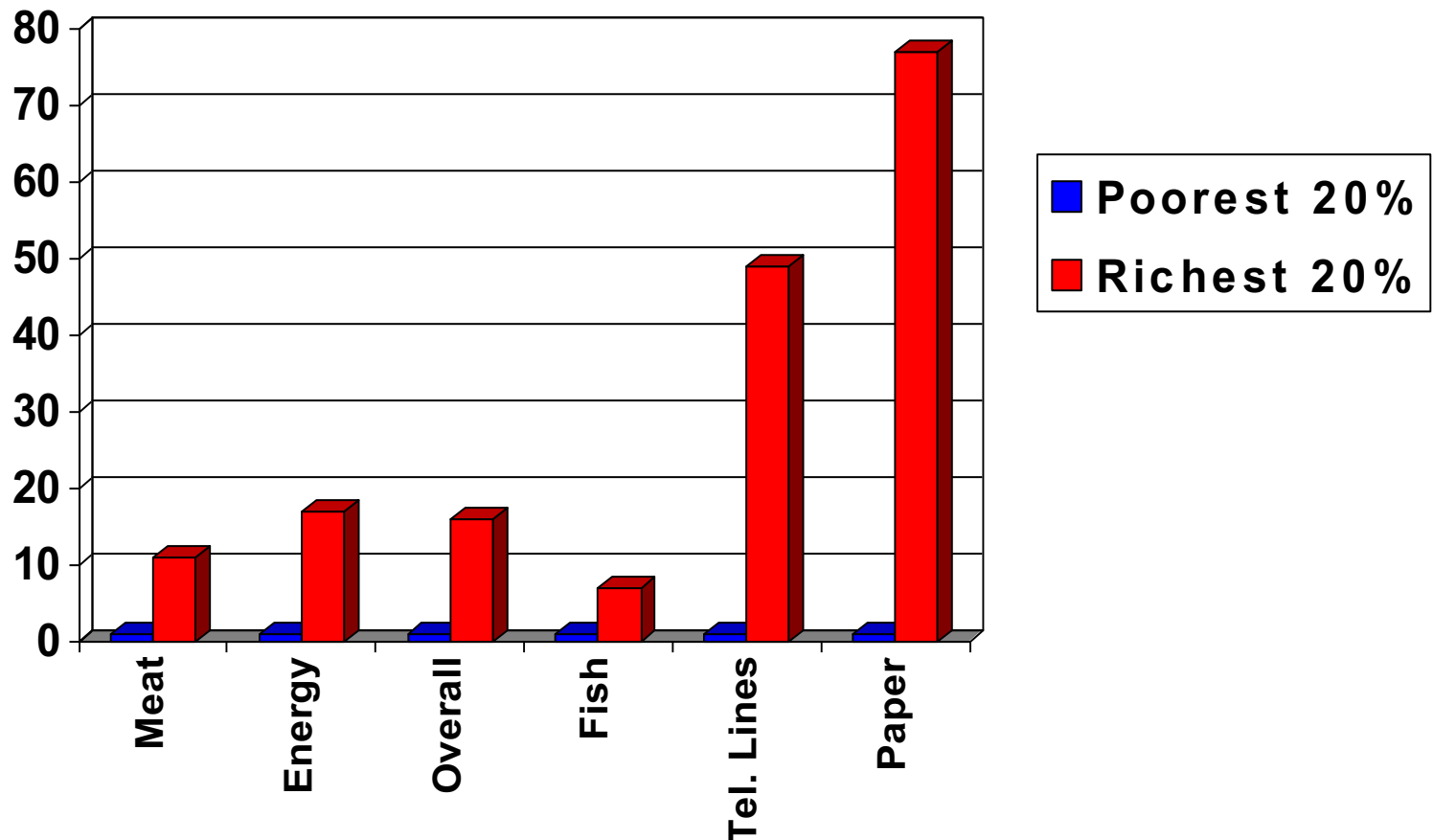
\*Gini coefficient relatively insensitive – small change represents substantial increase in inequality

## TRENDS IN INEQUALITY (1950s-1990s)

	<b>countries</b>	<b>% of world population</b>
<b>rising</b>	48	47
<b>falling</b>	9	4
<b>no trend</b>	16	29

Source: Cornia G.A. (2001), "Globalization and Health: Results and Options," *Bulletin of the World Health Organization*, 79(9):834-41.

# CONSUMPTION RATIOS OF THOSE LIVING IN THE RICHEST 20% AND POOREST 20% COUNTRIES



Source: UNDP (1999), *Human Development Report 1999* (New York).

# “RACE TO THE BOTTOM”

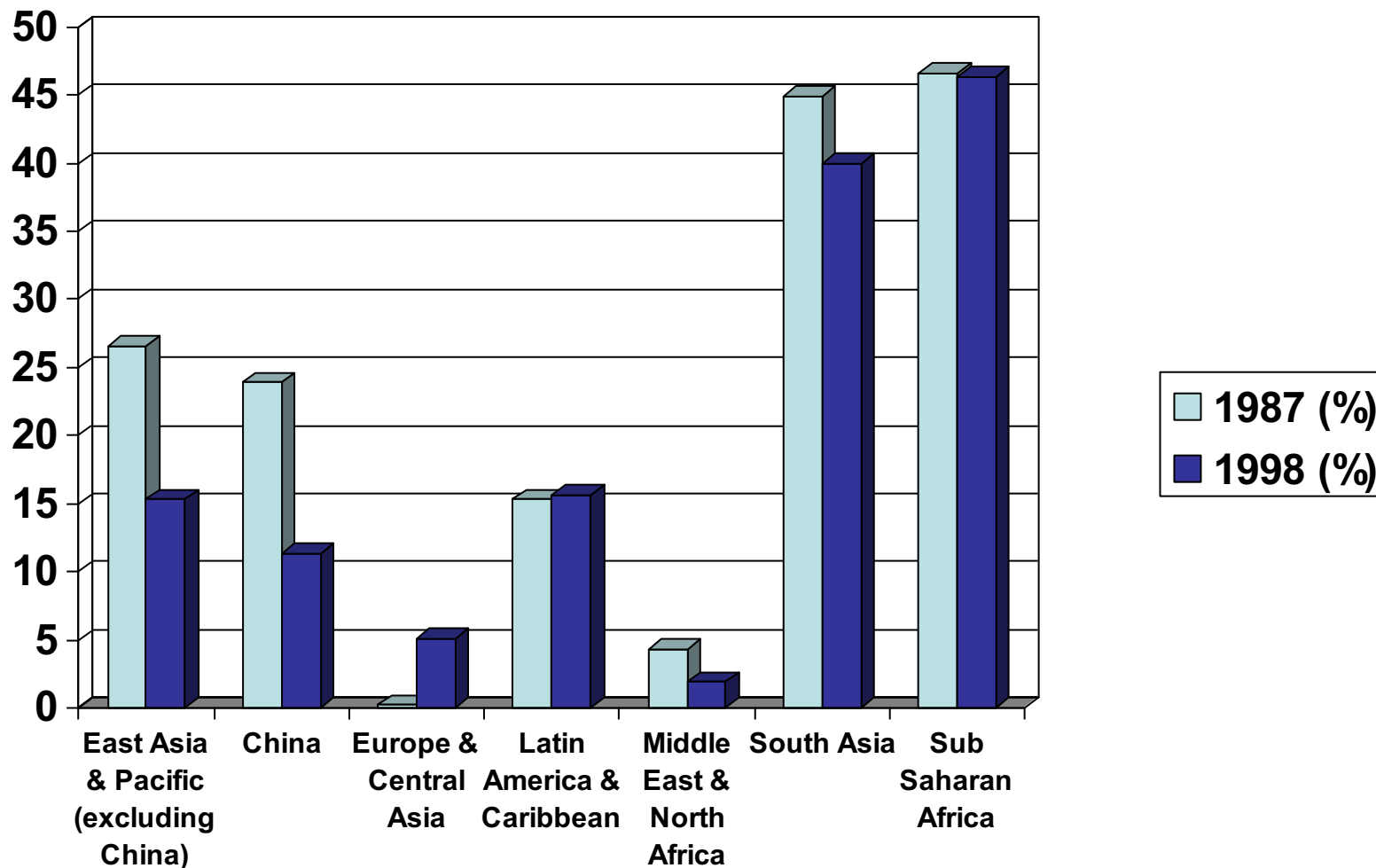
- TNCs search for lowest costs (labour, taxation) and least regulation (social, environmental)
- Countries compete to attract globally mobile FDI



“Globalization of the economy is a new kind of colonialism visited upon poor countries and the poor in rich countries”  
(Shiva 2000)

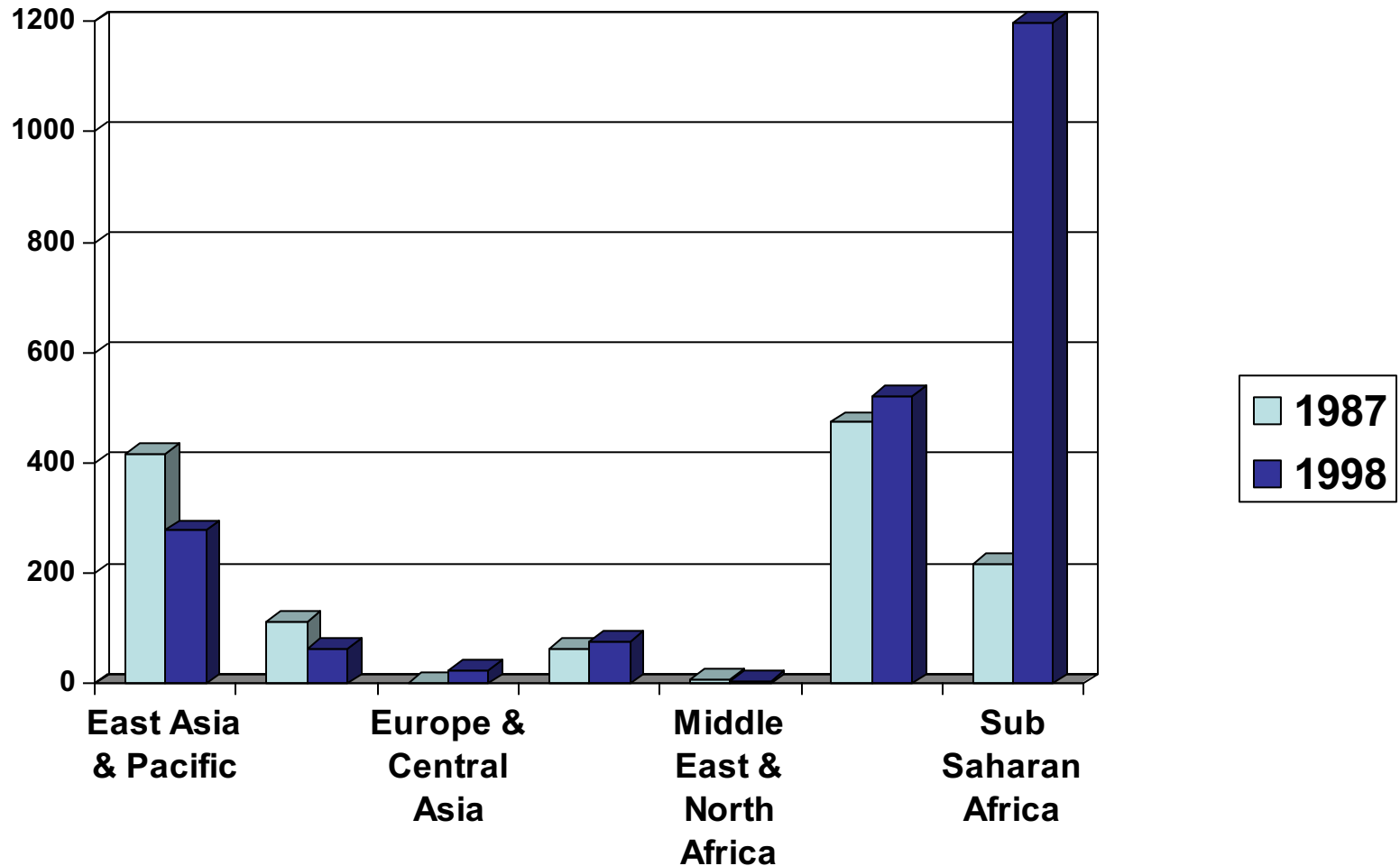


# SHARE OF POPULATION IN EXTREME POVERTY (LIVING ON LESS THAN US\$1 PER DAY)



Source: World Bank, *World Development Report: Attacking Poverty* (2000)

# TRENDS IN INCOME POVERTY BY REGION (MILLIONS LIVING ON LESS THAN US\$1 PER DAY)



Source: World Bank, *World Development Report: Attacking Poverty* (2000).

# HOW CAN WE UNDERSTAND THIS BATTLE OF STATISTICS?



- Apart from hardened globalists and anti-globalists, efforts to understand data and find who wins and loses from economic globalisation focus on:
  - Each country different in starting point (wealth, resources, human capital, infrastructure)
  - One size does NOT fit all
  - Need to understand impacts of globalization on specific population groups within and across countries
  - Need to protect certain sectors, vulnerable populations, social welfare, environment

# BRANKO MILANOVIC (2002)

- World Bank economist
- In contrast to his colleagues, Dollar and Kraay, study of effects of liberalization on income distribution *within* rich and poor countries (not rich versus poor countries)
- Used household surveys to analyse impact of openness and FDI as share of country's GDP on relative income of low and high deciles (10%) of population
  - For countries at low income level, rich benefit from globalisation (defined as openness)
  - As income rises (eg Colombia, Chile, Czech Republic), income of poor and middle-class rises relative to rich
  - “Only when at least basic education becomes the norm, can even the poor deciles share benefits of increased labour demand; then inequality falls”
- Need for policies to help poor attain education and health?
  - Result of Asian crisis in 1990s was expansion of social programs



# ECONOMIC ‘CONSENSUS’

- Higher GDP = higher health (mainly through improved nutrition, sanitation, water and education)
- Open economies grow more rapidly than restricted ones
- Higher health = higher GDP – ‘virtuous circle’
  - 30% of OECD economic growth in 20th C. due to better health
- However:
  - ‘outliers’ (openness not necessarily correlated with growth)
  - enables consumption of goods detrimental to health (tobacco, alcohol, arms, toxic products etc) (c.f. ‘double burden’)
  - liberalisation entails adjustment – raise income on average in long-run, but major caveat is the *distribution* of these benefits. Eg
    - lower tariffs may benefit consumers of imported goods, but create losses in competing domestic firms
    - those working in previously protected sectors may lose jobs/wages
    - high value trade is in goods produced in urban/industrialised areas. Rural areas less likely to trade or trade low value primary resources. Much of gain in trade for LIC/MIC skewed, whereas more evenly distributed for HIC

# POST WASHINGTON CONSENSUS?

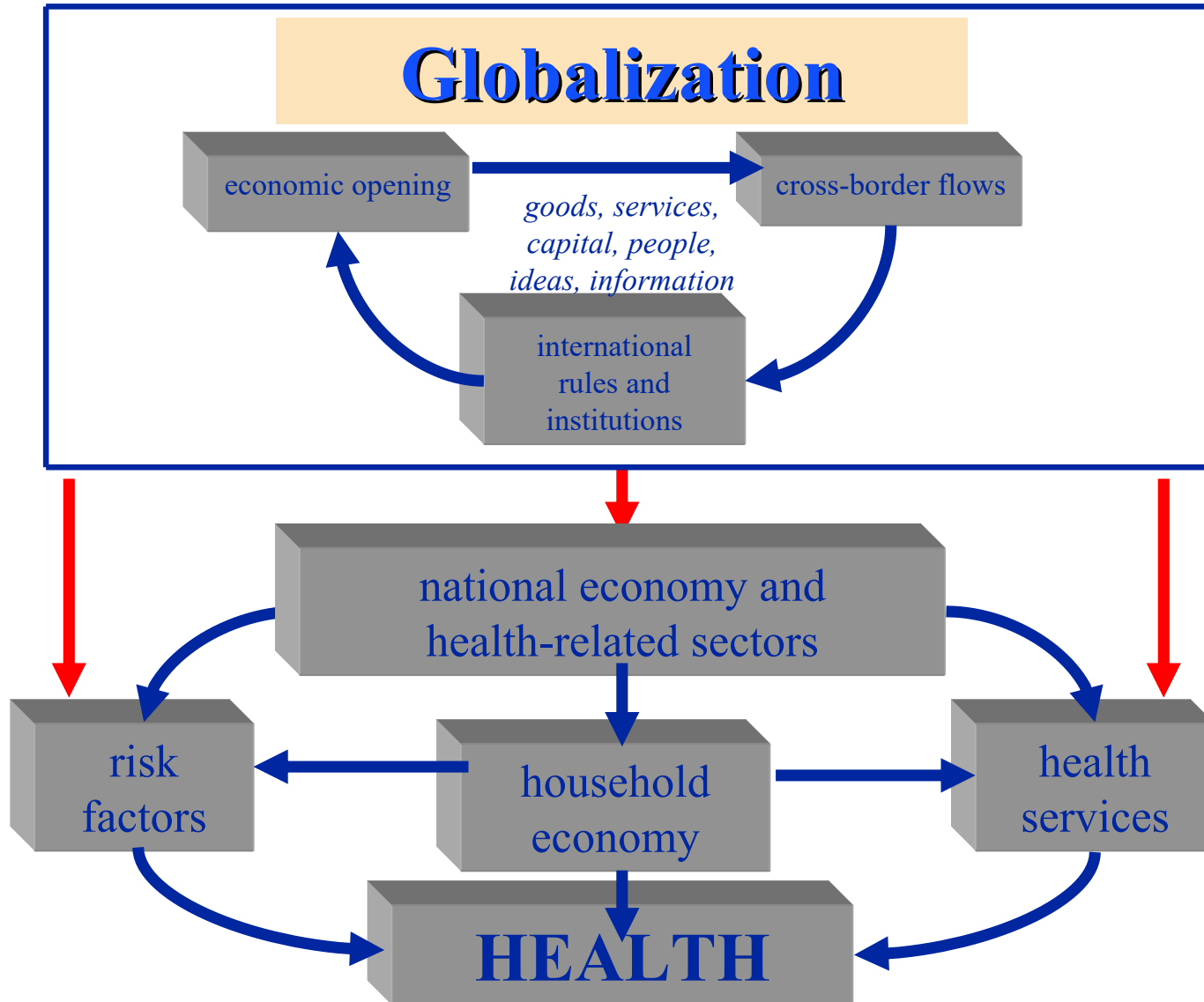
- Even amongst political right, accelerating Washington consensus policies is minority view
- Rather, talk of 'post- Washington consensus', recognising that something inherently wrong
- “Economic globalisation with a human face”
  - Recognize social and environmental consequences of unregulated economic globalisation
  - Need for greater social justice and equity to ensure sustainability/security of economic globalization
  - Need for better governance of world economy
    - transparency
    - accountability
    - democracy

# MAKING GLOBALISATION WORK FOR ALL

*We must act, not only because it is morally right, but because it is now essential for stability and security. Many of us grew up thinking there were two worlds – the haves and the have-nots – and that they were quite separate. That was wrong then. It is even more wrong now. We are linked now in so many ways: by economics and trade, migration, environment, disease, drugs, conflict and – yes – terrorism.*

Gordon Brown (then UK Chancellor) and James Wolfensohn (then World Bank President) (2004),  
“A new deal for the world’s poor,” *The Guardian*,  
16 February.

# HEALTH IMPACTS OF ECONOMIC GLOBALIZATION



# HEALTH IMPACTS OF ECONOMIC GLOBALIZATION

- Increasing trade liberalization will impact *health*. Eg
  - changes in income, nutrition, environment, education, etc
  - tax policies concerning tobacco, alcohol, firearms, soap etc will influence the demand for them and thus their effect on health
  - Liberalization (esp of financial markets) is associated with increased economic instability creating difficulty in financial planning for ill-health and stress-related illness
- Increasing trade liberalization will impact *health sector*. Eg
  - exchange rate will be a factor determining the cost of imported health-care goods and services, such as vaccines and other drugs
  - public expenditure targets will determine the level of funds allocated to public sector health care service provision
    - Threatened by reduction in tariffs ('easy to collect' (cf income tax, VAT)), which are very important source of public revenues in many developing countries (<1% in OECD to ~80% in Guinea – Cameroon 28%, India 18%): MICs recover 40 to 60% of lost tariff revenue, LICs recover ~30%
  - direct trade in health-related goods (e.g. pharmaceuticals) and services (e.g. health tourism, health worker migration etc)

# KEY QUESTIONS

- How should health policy makers interpret and act upon these issues?
  - What questions should be asked?
  - What information needs to be extracted?
  - How might this information be interpreted?
  - What health policies should be adopted in light of this, and what trade policies should be lobbied for?
- How do changes in the global economy impact on household incomes and therefore health?
- Do global financial crises lead to reduced health spending?
- How are FTAs impacting on access to health care?
- What (un)healthy goods and services are being promoted through a globalizing economy?
- Are health and safety standards being undermined by a “race to the bottom”?
- And.....many more!



Even heaven is helpless to stop it.