UWTSD MBA HKBM7009
(UWMBA-30013-2023-1-SS

Global Business Challenges (6-2)

Paradoxes of Globalization

Che Cheong POON
18 February 2024; Sunday 3:30pm to 6:00pm

The great paradox of globalization

Is globalization good, bad, or in-between?

Are we moving towards the state of hyper globalization?

Has globalization reached its end?

Lecture Agenda：

- Introduction
- The Upside and Downside of Globalization
- Global Imbalances
- Trade, Growth and Inequality
- A laundry List of Puzzles and Paradoxes
- International Organizations Responsible for Monitoring Global Business Activities

Introduction

Globalization is the increased integration of national economies in terms of input, factor, and final product markets.

Globalization is a process that promises to unite the world under prosperity and success.

- Globalization (global integration) has brought macroeconomic prosperity and growth to every country that has embraced it.
- It has also brought puzzles and paradoxes. Many of these paradoxes arise because within the macro-economy, some benefit more than others.
- Other paradoxes arise because a society that abruptly elevates material greed to the top of its moral sentiments begins to fear it will lose its religion, or its culture or its identity.
- In other words, although globalization has brought many benefits, it has also caused systemic problems such as increasing socio-cultural-economic unrest and friction between nations.

Globalization is a contested subject

- It refers both to the compression of the world and the intensification of consciousness about the world as a whole.
- It is a set of technology-and economic-driven processes: facilitated by global capitalism, consumerism, transnational migration, online communications, and identity politics.
- It is a set of contradictory and contingent processes.

Features

- Dis-embedding: distance is becoming irrelevant, relative, or at the very least less important (de-localization)
- Acceleration: speed an important feature of globalization
- Interconnectedness: transnational connections and information era of global symbols, events, solidarities
- Re-embedding: concerns with local power and community integration, national and sub-national identity politics.

Globalization and Global Problems

- Globalization means different things to different people: Globalization alarms people, reassures others, confuses most people.
- Globalization as economic prosperity, market fundamentalism, globalization as a connector instrument, globalization as democracy.
- Three conundrums of globalization:
  1. How does economic integration not lead to social disintegration?
  2. How to maintain/ create social cohesiveness on shared values, on mutual commitment. and on trust; but also, through the distribution of benefits?
  3. How to balance an intrusive government intervention and unregulated market forces?

- Haves vs. Have-Nots: The economic balkanization of the haves and have-nots are often the byproducts of fate. The "lucky" ones are born in the right time and right place, while the unlucky ones (majority of the world) are born in the wrong place and time. Often time, the policies that is supporting capitalism, and perpetuating the economic destitution and hopelessness of the "have-nots" resort to violence to try to rip the capitalistic system down.

- Integration, or Division? Globalization is producing lots of contradictions. Perhaps its biggest paradox is why does globalization - a process that promises to unite the world under prosperity and success - fostering such a huge division? The coming-togetherness of globalization is a hard logic to stomach, when there are many conflicts emerge, like the open vs. tradition bound societies, a conflict between rule of law state and lawless territories, and also between modest cultures and excessive consumerism.

The Upside and Downside of Globalization

The upside of Globalization

1. It encourages free trade
   - In theory, free world trade encourages greater economic specialization, more productivity, and greater wealth.
2. Businesses can move where they make more profits.
3. More trade means the potential for more jobs
4. It eliminates currency manipulation
5. Open borders means tariffs are eliminated
6. More opportunities to develop poor areas of the world
7. Business tax havens go away in globalization
8. It allows for open lines of communication
9. It could stop the issue of labor exploitation
10. Each country can concentrate on what it does best.

The downside of Globalization

1. It generally makes the rich become richer and the poor to become mired in poverty.
2. Jobs get transferred to lower-cost areas.
   - Outsourcing is increasing
3. Globalism creates a culture of fear.
4. It creates a political system where the biggest and the richest have influence.
5. Richer regions will always consume more resources.
6. Diseases travel faster in a world that is globalized (COVID-19 in 2019/22).

7. Social programs that act as safety nets could be removed.
8. Cheating could become a lot easier to do.
9. It could lead to greater worker exploitation.
10. It won’t be a level playing field for everyone when it happens.
    - Some big multinational corporations have more wealth than many nations.
11. It could have a negative impact on the environment.
    - The speed of globalization results in more pollution and global warming caused by over-cutting forests, burning fossil fuels, and producing more industrial and consumer waste.
12. Losing borders could mean losing an identity.

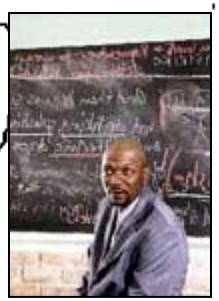
Lots of people question globalization

Free trade is destroying us farmers

Globalization is forcing my child to work

Hollywood is ruining our children

Development is destroying our rain forest.

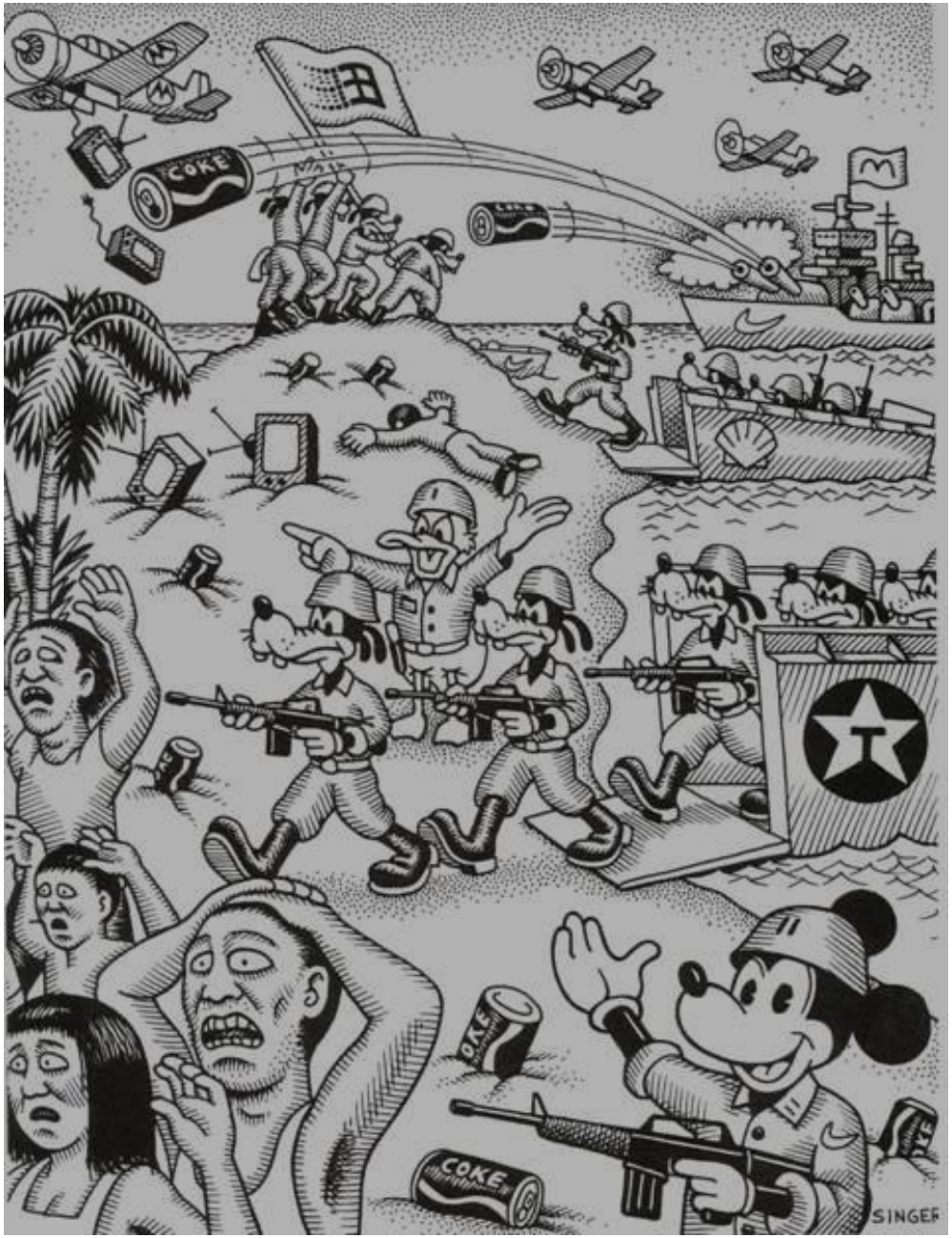


Industrial countries are leaving us out of globalization.

We have 50 million people living in poverty.

Some people believe that globalization is "cultural imperialism".

Can you interpret how this cartoon depicts the idea of "cultural imperialism?"



People respond to globalization differently

- Some wholeheartedly embrace it.
- Some seek to maintain their traditions in the face of perceived threats.
- Some fight for more economic fairness.
- Some turn to religion.
- Some try to manage it for the greater human good.
- Some violently oppose it (Terrorism has ushered in a new global threat)
  - Modern military strategies and weapons are often ineffective against suicide attacks.
  - Terrorists communicate and spread their ideologies using cell phones and the Internet.
  - Terrorist groups may have cells in many nations.

WORLD HISTORY FOR US ALL

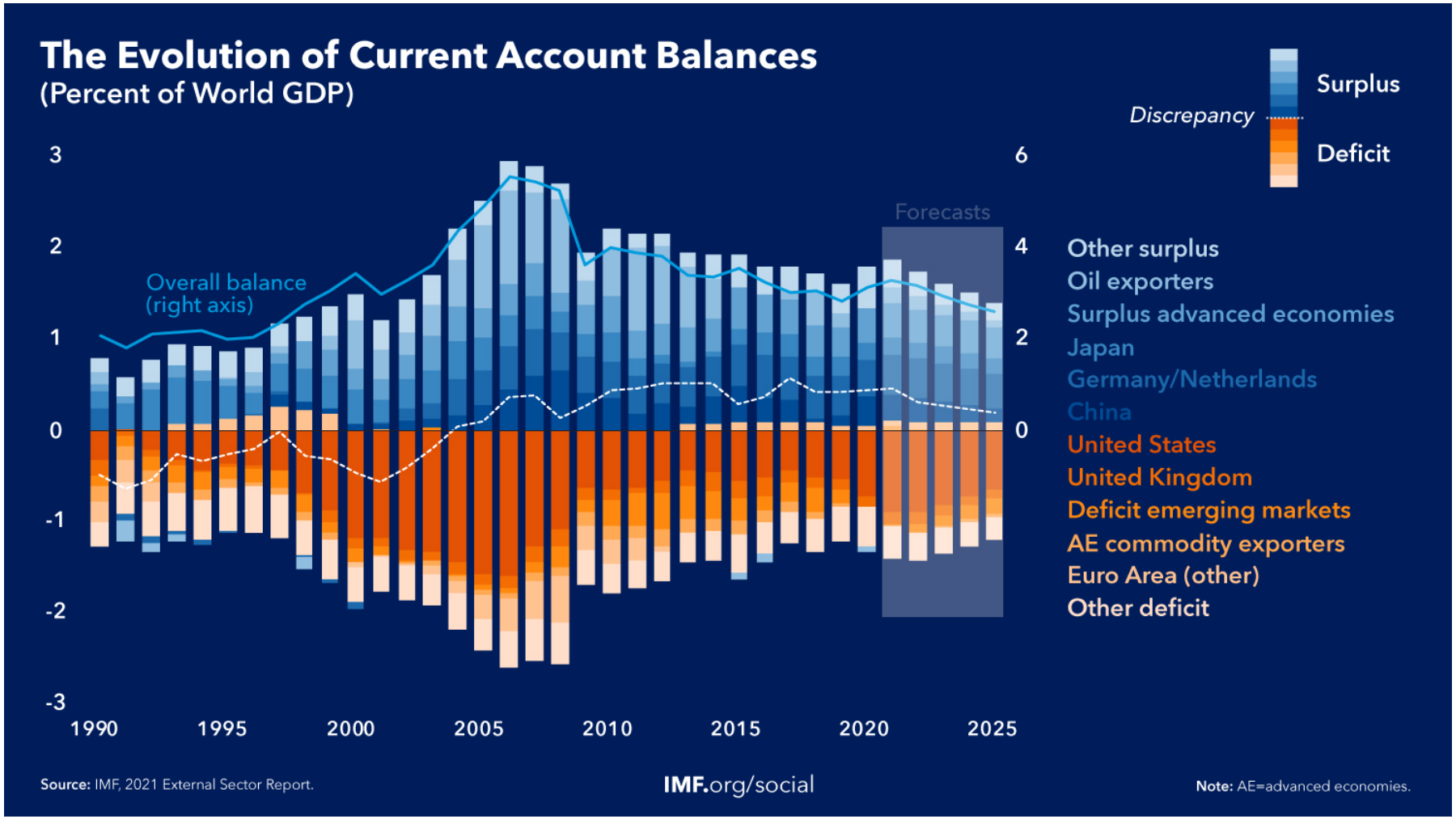
Global Imbalances

Global imbalances → Global current account imbalances

- It is measured as the sum (in absolute value) of the world's current account surpluses and deficits.
- The extent of imbalance is expressed as per cent to the world's GDP in the respective year.

Countries running a current account surplus must by necessity either experience net private capital outflows or accumulate international reserves (i.e., official outflows). Similarly, countries running a current account deficit must by necessity either experience net financial inflows or run down its international reserve holdings.

The United States provides a special case because the United States dollar serves as the world's key reserve currency. The large and persistent United States current account deficits since the 1990s did not involve any run-down of the country's international reserves. Rather, the equally large net capital inflows into the United States were partly net private inflows and partly official inflows, the latter being other countries' accumulation of international reserves held in United States dollar assets.



Sources: https://www.imf.org/en/Blogs/Articles/2021/08/02/blog-how-the-pandemic-widened-global-current-account-balances

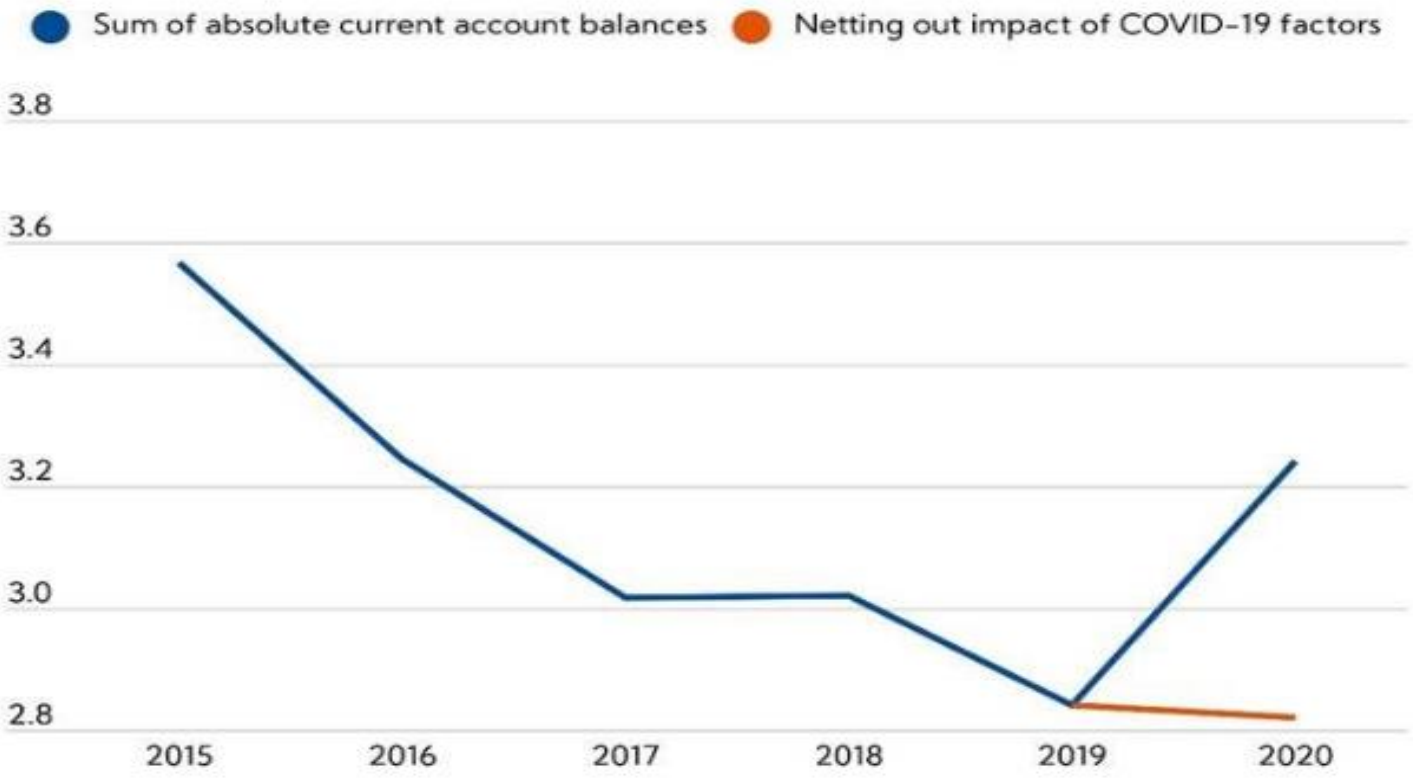
How the Pandemic Widened Global Current Account Balances?

- 2020 was a year of extremes. Travel all but ceased for a period. Oil prices wildly fluctuated. Trade in medical products reached new heights. Household spending shifted to consumer goods rather than services and savings ballooned as people stayed home amid a global shutdown.
- Exceptional policy support prevented a global economic depression, even as the pandemic took a heavy toll on lives and livelihoods. The global reaction, as seen in major shifts in travel, consumption, and trade, also made the world a more economically imbalanced place as reflected in current account balances.

Pandemic pressure

Factors related to the COVID-19 crisis changed the course of the global current account balance.

(percent of world GDP)



Sources: Census and Economic Information Center; IMF, *Information Notice System*; IMF, *International Financial Statistics*; IMF, *WEO*, and IMF staff estimates.
Note: See 2021 External Sector Report for details on the COVID-19 factors.

IMF

The dramatic fluctuations in current account deficits and surpluses in 2020 were driven by four major pandemic-fueled trends:

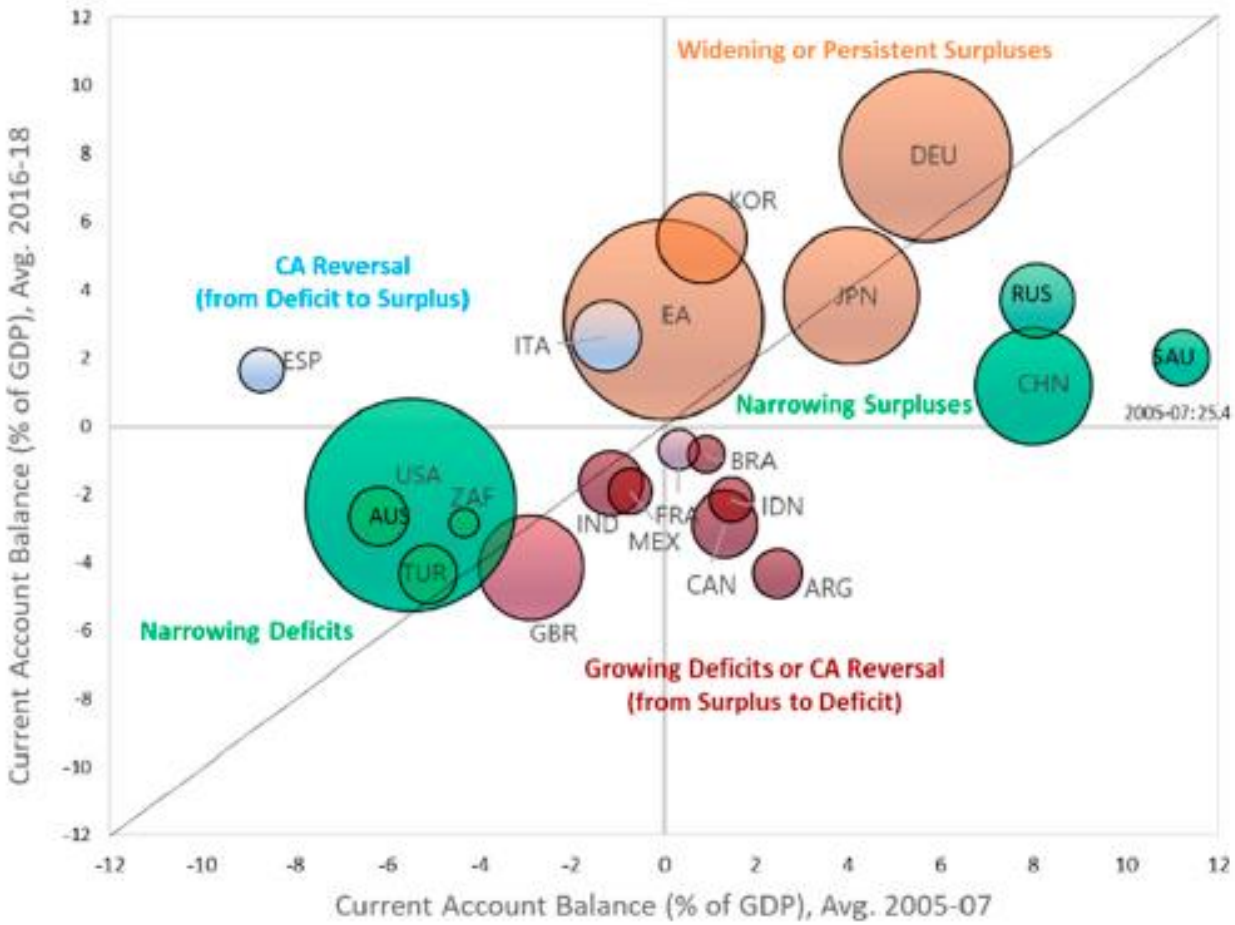
Travel declined: The pandemic led to a sharp decrease in tourism and travel. This had a significant negative impact on the account balances of countries that rely on tourism revenue, such as Spain, Thailand, Turkey, and even larger consequences for smaller tourism-dependent economies.

Oil demand collapsed: The collapse in oil demand and energy prices was relatively short lived, with oil prices recovering in the second half of 2020. However, oil-exporting economies, such as Saudi Arabia and Russia, saw current account balances decline sharply in 2020. Oil-importing countries saw corresponding increases to their oil trade balances.

Medical products trade boomed: Demand surged by about 30 percent for medical supplies critical for fighting the pandemic, such as personal protective equipment, as well as the inputs and materials to make them, with implications for importers and exporters of these items.

Household consumption shifted: As people were forced to stay home, households shifted their consumption away from services toward consumer goods. This happened most in advanced economies where there was an increase in the purchase of durable goods like electrical appliances used to accommodate teleworking and virtual learning.

Changes in Current Account Imbalances for selected economies



Sources: WEO and IMF staff calculations.
Note: The size of the bubble depends on the current account balance in USD in absolute terms, taking the 2016-2018 average.

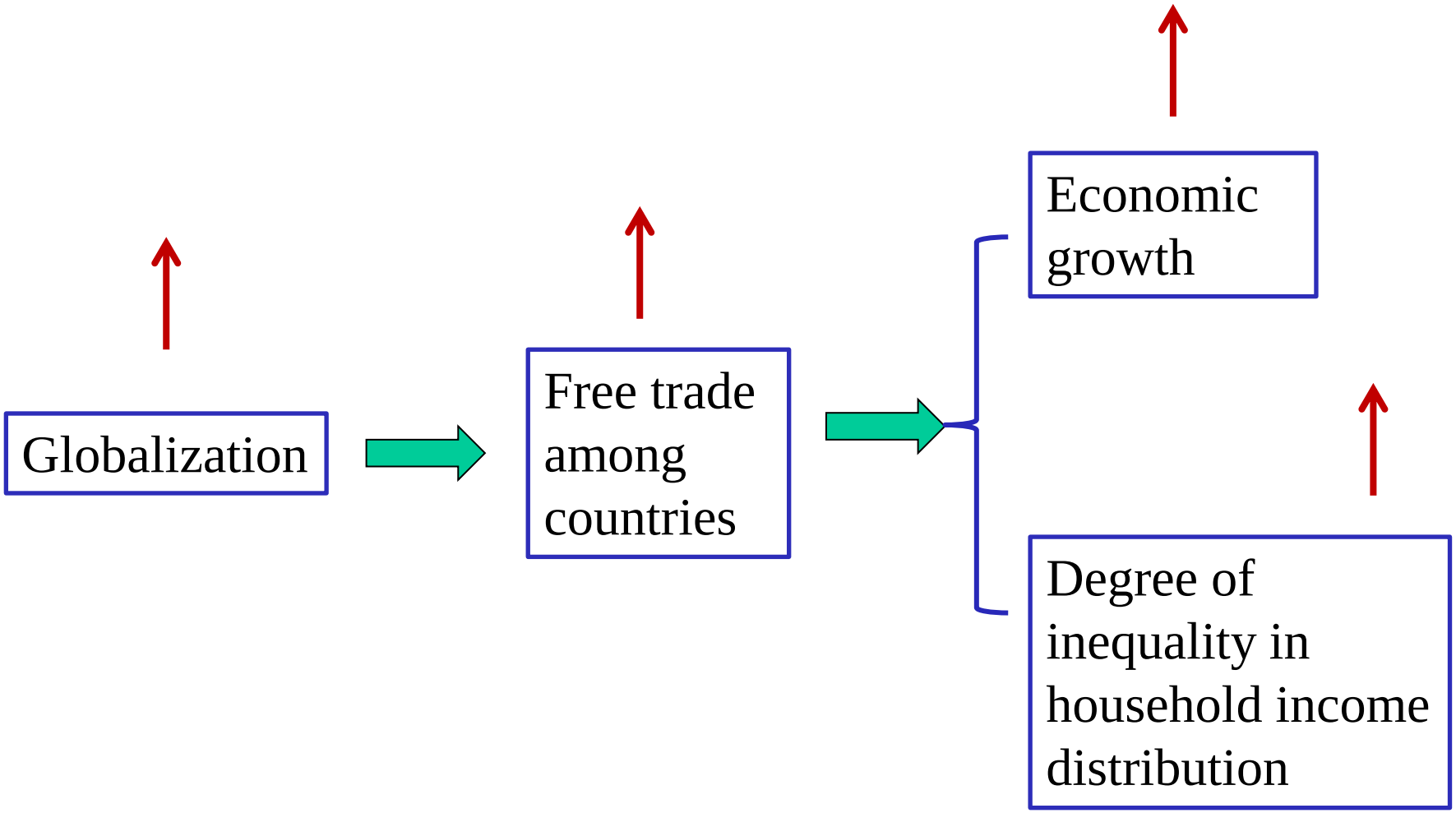
- Aggregate current account surpluses and deficits narrowed in the aftermath of the global financial crisis but have remained relatively stable in recent years.
- Meanwhile, external creditor and debtor positions have continued to increase.
- Risks from the current configuration of global imbalances are generally contained, but continued vigilance and policy action are required.
- Reducing excess external imbalances in a growth-friendly manner requires a collective effort by both excess deficit and surplus economies.
- The IMF will continue to strengthen its analysis and understanding of the underlying drivers of global imbalances.

Policies to reduce external imbalances

- G20 (aims at international coordination of economic policy and comprises 19 countries and the European Union) surplus and deficit countries need to adopt carefully calibrated macroeconomic policies to reduce excess imbalances.
- Structural reforms also have an important role to play to boost potential growth and address external imbalances.
- Exchange rate flexibility should continue to support external adjustment, notwithstanding varying effects across countries.
- Vulnerabilities associated with external stock imbalances require careful monitoring.
- Protectionist and trade policies that target bilateral trade balances are likely to be ineffective and impose substantial efficiency costs.
- Data collection efforts should be strengthened to account for the growing complexity of multinational cross-border activities.
- The IMF's surveillance of external imbalances will remain key for monitoring global risks and coordinating appropriate policy actions.

Pause

Trade, Growth and Inequality

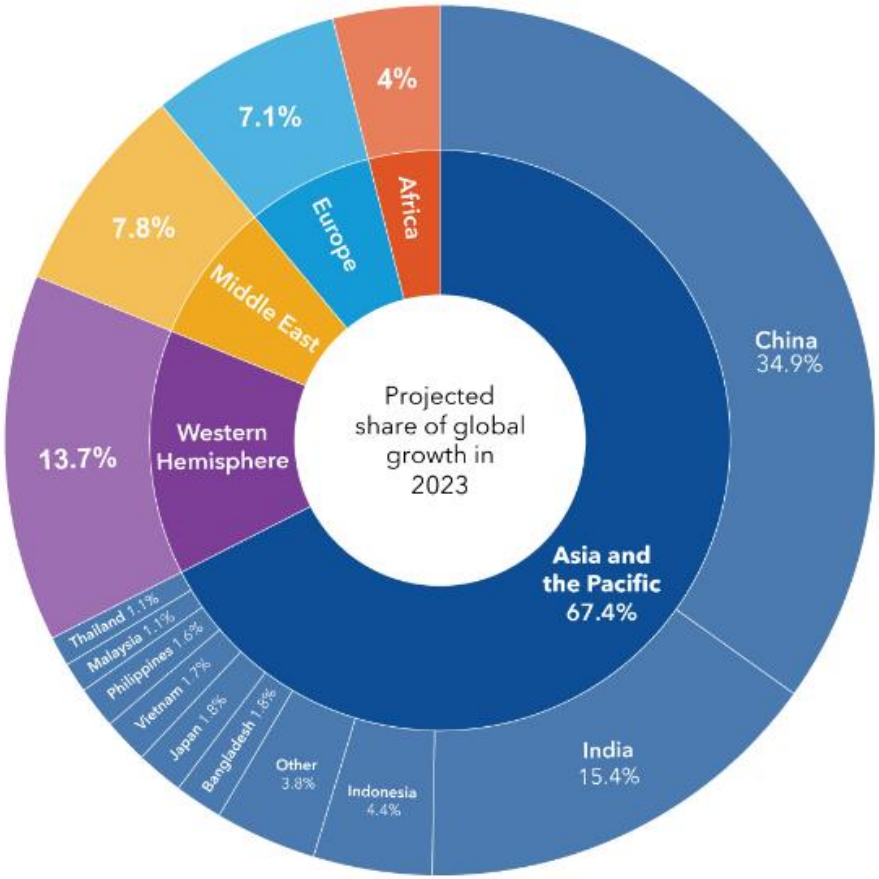

Globalization
Free trade among countries
Economic growth
Degree of inequality in household income distribution

Globalization and Growth

Correlation between trade and growth need not imply causation!

- Economists try to unravel the relationships, and some do find evidence of trade causing growth. And there are good reasons. (Comparative advantage, scale economies, inducements to innovate)
- But problem is that others also find strong (and even more compelling evidence of an association between "high-quality" institutions and both trade and growth. As paper co-authored by Rodrik notes " Institutions Rule"
- So, trade plays a key role, but domestic institutions and policies are vital as well. Indeed, high quality institutions play an important role in promoting both trade and growth
- Some obviously: Customs administration, Regulations, transportation,
- Others less obviously, Corruption, business environment, quality of the rule of law.

Drivers of Global growth



rce: IMF, World Economic Outlook, April 2023.
e: Groupings based on IMF Regional Economic Outlook classifications.

IMF

- Asia contributed to about 70% of global growth.
- China and India together are forecast to generate about half of global growth this year.
- In the longer term, the Chinese economy that has been the primary engine of regional and global growth for decades is expected to slow considerably in the face of unfavorable demographics and a productivity slowdown.

Sources: https://www.imf.org/en/Blogs/Articles/2023/05/01/asia-poised-to-drive-global-economic-growth-boosted-by-chinas-reopening

Trade and Growth: What explains the association

- Links between growth and trade.
  - Key role of investment-equipment and imported inputs require imports.
  - To pay for imports you must export.
- Links between exports and imports.
  - To export you must import.
  - Export promotion leads to import promotion.
  - Example: Free Trade Zones.

Converse is true too: A tax on imports is a tax on exports.

Growth and Inequality:

- Growth:
  - Over the past two decades growth has become more concentrated nationally but more people have been affected.

- Inequality:
  - The emergence of the middle class in India and China may increase inequality in these countries but actually decrease inequality in the world as a whole.

Globalization and Inequality

- Anti-Globalizers:
  - For developing countries recent period of globalization and liberalization worse than earlier period with more protection.
  - Inequality is rising everywhere as well.
- Pro-Globalizers:
  - For developing countries recent period of globalization and liberalization is better than earlier period.
  - World is becoming less unequal.
- They Are Both Right!

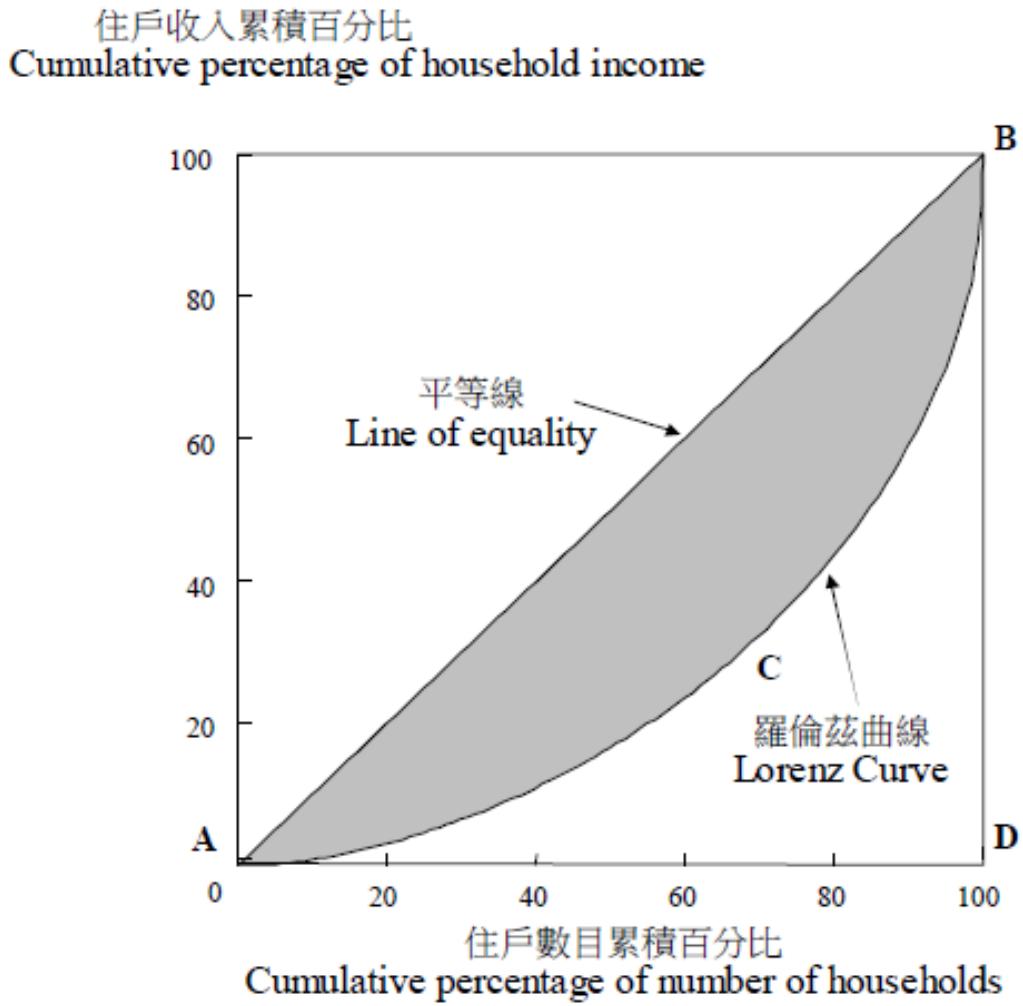
Measure of inequality in income distribution

The Lorenz Curve

- Max Otto Lorenz (1876 – 1944), American.
- It is a graphic device for comparing cumulative percentage relationships between two variables.
- Each axis of the chart is scaled from 0 to 100%.
- The cumulative percentage of household income is plotted on the vertical axis and the cumulative percentage of households is plotted on the horizontal axis.
- The resulting curve of actual income distribution (the Lorenz curve) is than compare to a 45° diagonal line representing equal income distribution.
- The degree of the departure between the two curves indicates the extent of income inequality.

羅倫茲曲線

Lorenz Curve



Source: 2011 Population Census Thematic Report: Household Income Distribution in HK. P.167

Gini Ratio

- Corrado Gini (1884-1965), Italian. He taught Economics, Statistics, Sociology and Demography, making path breaking contributions to these highly related disciplines.

- In 1909 he corrected the interpretation of Pareto's inequality parameter and, in 1914, proposed a new measure of income inequality, the Gini Ratio.

- $G = 1 - 2A$, where A is the area under the Lorenz curve expressed in terms of the percentage of the total area.

- More specifically, the Gini ratio is a ratio which takes values between 0 and 1, and measures the ratio of the area between the Lorenz curve and the 45° diagonal line (area of L) to the total area below the 45° diagonal line (area of L + A).

- The higher the Gini ratio the more inequality is the distribution of income.

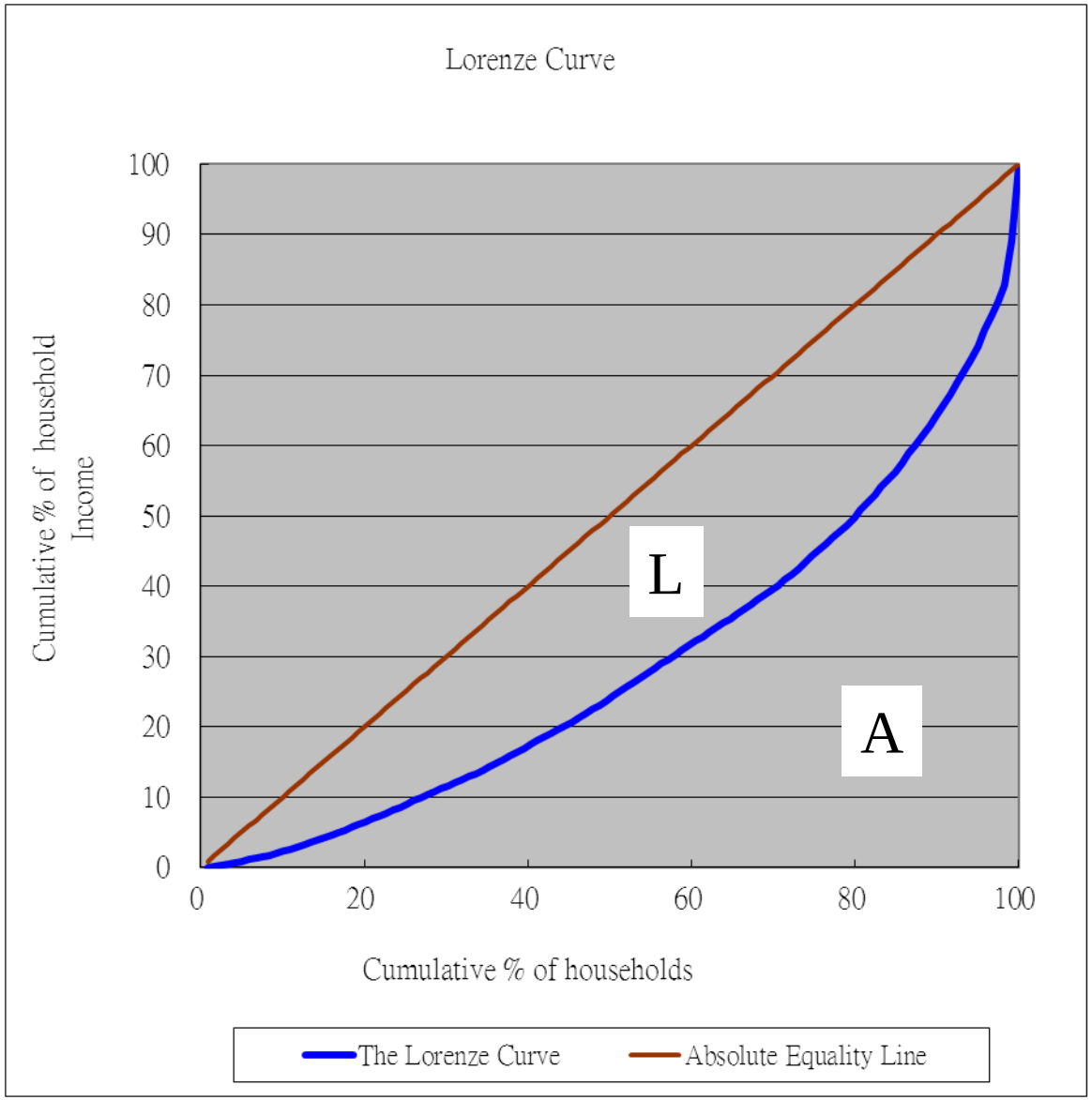
For ungrouped data:

- Calculate the percentage of households, cumulative percentage of households, percentage of household income, and cumulative percentage of household income
- The cumulative percentage of household income is plotted as an ordinate against the cumulative percentage of households
- By connecting those points, we will get the Lorenz curve

Hypothetical example: n=119

Obs	Household	Income in ascending order	Cumulative no. of households	Cumulative % total households	Cumulative individual income	Cumulative % of total income
1	1	2000	1	0.840336134	2000	0.043135986
2	1	5000	2	1.680672269	7000	0.150975952
3	1	6000	3	2.521008403	13000	0.28038391
4	1	8000	4	3.361344538	21000	0.452927855
5	1	10000	5	4.201680672	31000	0.668607786
6	1	10000	6	5.042016807	41000	0.884287717
7	1	10000	7	5.882352941	51000	1.099967648
8	1	10000	8	6.722689076	61000	1.315647579
9	1	10000	9	7.56302521	71000	1.53132751
10	1	10000	10	8.403361345	81000	1.747007441
11	1	12000	11	9.243697479	93000	2.005823358
12	1	14000	12	10.08403361	107000	2.307775262
13	1	14000	13	10.92436975	121000	2.609727165
14	1	15000	14	11.76470588	136000	2.933247061
15	1	15000	15	12.60504202	151000	3.256766958
16	1	15000	16	13.44537815	166000	3.580286854
17	1	15000	17	14.28571429	181000	3.903806751
18	1	16000	18	15.12605042	197000	4.24889464
19	1	16000	19	15.96638655	213000	4.59398253
20	1	17000	20	16.80672269	230000	4.960638413

Obs	Household	Income in ascending order	Cumulative no. of households	Cumulative % total households	Cumulative individual income	Cumulative % of total income
100	1	50000	100	84.03361345	2557500	55.16014235
101	1	50000	101	84.87394958	2607500	56.238542
102	1	60000	102	85.71428571	2667500	57.53262159
103	1	60000	103	86.55462185	2727500	58.82670118
104	1	60000	104	87.39495798	2787500	60.12078076
105	1	60000	105	88.23529412	2847500	61.41486035
106	1	65000	106	89.07563025	2912500	62.8167799
107	1	65000	107	89.91596639	2977500	64.21869945
108	1	70000	108	90.75630252	3047500	65.72845897
109	1	70000	109	91.59663866	3117500	67.23821848
110	1	70000	110	92.43697479	3187500	68.747978
111	1	79000	111	93.27731092	3266500	70.45184946
112	1	80000	112	94.11764706	3346500	72.1772889
113	1	90000	113	94.95798319	3436500	74.11840828
114	1	100000	114	95.79831933	3536500	76.27520759
115	1	100000	115	96.63865546	3636500	78.4320069
116	1	100000	116	97.4789916	3736500	80.58880621
117	1	100000	117	98.31932773	3836500	82.74560552
118	1	300000	118	99.15966387	4136500	89.21600345
119	1	500000	119	100	4636500	100
Total	119	4636500	n.a.	6000	n.a.	3496.139


Lorenze Curve
Cumulative % of household Income
100
90
80
70
60
50
40
30
20
10
0
0
20
40
60
80
100
Cumulative % of households
L
A
The Lorenze Curve
Absolute Equality Line

Computation Formula of Gini Ration for Ungrouped Data

$$G = \frac{\text{Area of L}}{\text{Area of (L + A)}}$$

$$= \frac{\sum_{i=1}^{n} \text{Cum \% of Households} - \sum_{i=1}^{n} \text{Cum \% of Household Income}}{\sum_{n=1}^{n} \text{Cum \% of households}}$$

$$G = \frac{\text{Area of L}}{\text{Area of (L + A)}}$$

$$= \frac{\sum_{i=1}^{n} \text{Cum \% of Households} - \sum_{i=1}^{n} \text{Cum \% of Household Income}}{\sum_{n=1}^{n} \text{Cum \% of households}}$$

$$= \frac{6000 - 3496.14}{6000}$$

$$= 0.41731$$

International organizations publish World Gini Index

The World Bank is an international financial institution that provides loans to countries of the world for capital programs. It is a component of the World Bank Group, which is part of the United Nations system

http://data.worldbank.org/indicator/SI.POV.GINI

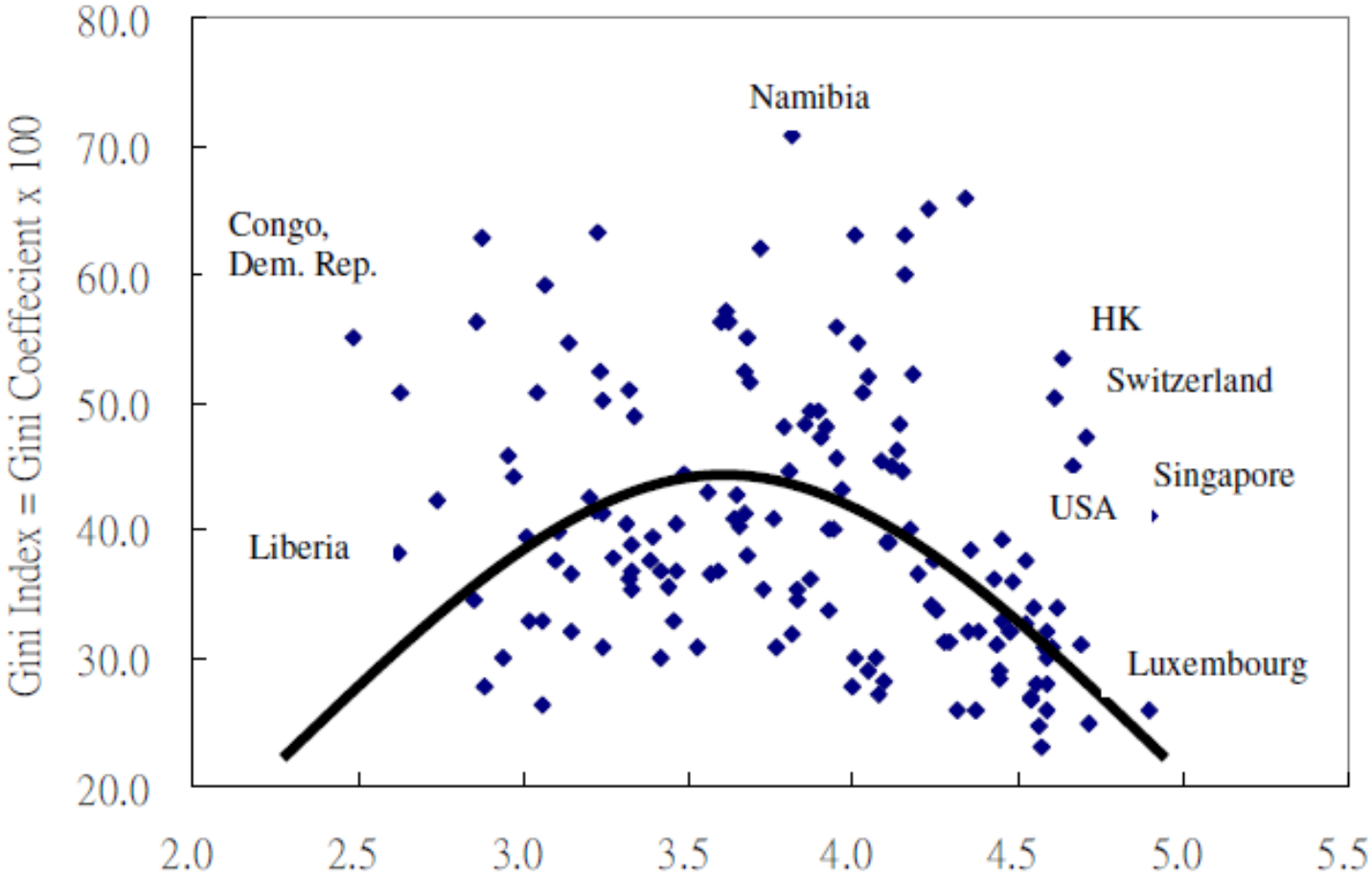
The Organization for Economic Co-operation and Development (OECD) is an intergovernmental economic organization with 35 member countries, founded in 1960 to stimulate economic progress and world trade.

https://data.oecd.org/inequality/income-inequality.htm

Central Intelligence Agency (CIA) is a civilian foreign intelligence service of the United States federal government, tasked with gathering, processing and analyzing national security information from around the world.

https://www.cia.gov/library/Publications/the-world-factbook/rankorder/2172rank.html

Scatter plot of real GDP per capita and Gini Index of 149 countries



Log value of mean real per capita GDP in USD from 2010 to 2018

A laundry list of puzzles and paradoxes

What do we find in our globalized 21st century world?

1. More countries than ever before in history.
2. No diminution of regional conflict, despite replacement of bipolar, nuclear-backed military hegemony with unipolar American military hegemony.
3. More regional trade agreements than ever before in history, in the context of stalled multilateral trade talks.
4. "Multinational" corporations that primarily operate regionally .
5. More currencies than ever before in history. Academic controversy about flexible versus fixed or common currencies that is as intense as it was fifty years ago.
6. Heightened geographic hubris at regional, national and community levels.
7. Heightened ethnic awareness, despite unprecedented migration and also inter-marriage.
8. Heightened religious hubris, and polarization toward fundamentalist extremes.

9. Intense concern about cultural identities in the context of globalization and “Americanization”.
10. Less equitable income and wealth distribution both within most ‘globalized’ countries, and between most countries.
11. Poor countries lending much more money to rich countries than vice-versa.
12. Developing countries that borrow capital from the rest of the world grow more slowly than those that lend to the rest of the world.
13. No consensus about the universal feasibility or even desirability of democracy.
14. No consensus even among democratic, capitalist countries about optimal government involvement in their economies.
15. Many people in ex-communist countries claiming to be worse off under capitalism.
16. Increasing awareness among economists that other disciplines, particularly psychology, can shed light on human behavior. Accumulating evidence that even economic and financial behavior is sometimes systematically non-rational.

Conclusion

- While there is a strong evidence of positive association between trade and growth, the degree of inequality of income distribution rising within many countries but falling globally.

- The globalization pros and cons show that there would be many benefits to a borderless world, but there would also be great challenges which would need to be solved for it to be a workable solution. Whether one supports a world without borders or supports the current situation, one truth can be found: we have a responsibility to help each other.

- These are paradoxes and puzzles that inhabit a world that by many measures is more globalized than ever before in human history. The common threads are diversity, disparity, anomaly, inconsistency, and incongruity.

International Organizations Responsible for Monitoring Global Business Activities

How did Western leaders try to restore world trade after World War II?

In 1944, at the Bretton Woods Monetary Conference in New Hampshire, Western leaders

- created the World Bank.
- established the International Monetary Fund.
- established stable currency exchange rates.
- ushered in a new Global Age of economic cooperation.

However, these agreements did not include the Communist bloc nations

World Trade Organization (WTO)

https://www.wto.org/

https://www.wto.org/english/tratop_e/tpr_e/trade_monitoring_e.htm

The WTO currently produces two series of “trade monitoring reports”:

- WTO-wide reports on trade-related developments covering the whole WTO membership and observers
- Joint reports with the Organization for Economic Co-operation and Development (OECD) and the UN Conference on Trade and Development (UNCTAD) on trade and investment measures taken by G-20 economies.

International Monetary Fund (IMF)

https://www.imf.org/external/index.htm

- The IMF oversees the international monetary system and monitors the economic and financial policies of its 189 member countries.
- As part of this process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments

The Organization for Economic Co-operation and Development (OECD

https://www.opec.org/opec_web/en/

https://www.opec.org/opec_web/static_files_project/media/downloads/publications/OPEC_Statute.pdf

- The principal aim of the Organization shall be the coordination and unification of the petroleum policies of Member Countries and the determination of the best means for safeguarding their interests, individually and collectively.

- The Organization shall devise ways and means of ensuring the stabilization of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations.

- Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.

The World Bank (WB)

https://www.worldbank.org/

Global Economic Prospects: Slow Growth, Policy Challenges. January 2020
https://www.worldbank.org/en/publication/global-economic-prospects

The World Bank Group has set two goals for the world to achieve by 2030:

- End extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%
- Promote shared prosperity by fostering the income growth of the bottom 40% for every country

The Bank of International Settlement (BIS)

https://www.bis.org/

- Established in 1930, the BIS is owned by 63 central banks, representing countries from around the world that together account for about 95% of world GDP. Its head office is in Basel, Switzerland and it has two representative offices: in Hong Kong SAR and in Mexico City, as well as Innovation Hub Centres around the world.
- The BIS's mission is to support central banks' pursuit of monetary and financial stability through international cooperation, and to act as a bank for central banks.

Thank you
for your attention