



Noel Gaston and Ahmed Khalid

**Introduction to forthcoming book:
Globalisation and Integration in the Asia-Pacific**

No. 40, July 2010

Globalization and Economic Integration

Winners and Losers in the Asia-Pacific

Edited by

Noel Gaston

Bond University, Australia

and

Ahmed M. Khalid

Bond University, Australia

Edward Elgar

Cheltenham, UK • Northampton, MA, USA

Globalization is very much part of the modern vernacular. Arguably, it was first used by McLuhan and Fiore (1968) when they introduced the concept of the 'global village'. Globalization is characterized by the growth of the international trade of goods and services, the growth in foreign direct investment (FDI) as well as the political and social linkages that accompany growing economic integration. Outwardly, the driving forces seem to be the decline in administrative barriers to trade, sharp falls in the costs of transportation and communication, fragmentation of production processes and the development in information and communication technologies (ICT). Arguably, the perceived neo-liberal shift to greater market orientation in domestic economies has been accelerated by financial sector liberalization. Since the collapse of Lehman Brothers in September 2008, the backlash to globalization now seems to be in full swing.

In more normal times, the issue of macroeconomic stability is about riding the wave of business cycles with short-run or more immediate policy considerations at play. However, the current crisis will undoubtedly have effects that are both powerful and long lasting. The hopes of countries in the Asia-Pacific region are transparently pinned on a successful return to business-as-usual for China. China's re-emergence as a major player in world merchandise trade and the impending emergence of India is bringing hundreds of millions of people into the modern world. It's also fostering substantial uncertainty in some quarters. More generally, globalization is unsettling; the uneven global pattern of development has implications for capital markets and, quite possibly also, for migration flows, forcing national policy-makers to confront issues as fundamental as national identity.

The "problem", of course, is that globalization is neither universally good nor bad. For example, as we discuss below, it increases economic growth. However, it also seems positively associated with income inequality in some countries. In all likelihood, globalization does yield positive net returns for the globalizers; however, it also produces losers.

By the early 1980s, the more mature developed economies in the OECD had continued the long-run process of deindustrialization with real income growth well below 4 percent per annum. In turn, capital arbitrage stimulated FDI by these countries. There was also a substantial increase in portfolio investment.ⁱ The economic success of the wealthiest developed countries provided lessons on how developing countries could use more market-oriented economic strategies for their own development. This approach was reinforced and sanctified by the so-called Washington Consensus (Williamson, 1989). The economic reforms needed to be accompanied by establishing the necessary institutional structures. While many East Asian economies introduced sweeping economic reforms and liberalization policies from the mid-1980s to early 1990s, investment in the institutional infrastructure was sometimes lacking.

It has been an arduous period of trial and error in the economic and development policies in the emerging economies. For example, the East Asian experience suggests that the more significant mistakes may have been (1) the benign neglect of banking reforms and (2) an over-exposure to short-term foreign capital flows when declining exports were dramatically weakening the currencies of South Korea, Thailand, the Philippines and Indonesia starting from October 1994. McKinnon observed:

“For many years, diverse financial institutions in each of the five (crisis) countries had struggled with festering bad-loan problems from over-investment in real estate: lending to profitless real industry; government-sponsored mega projects; subsidized rural lending; and so on ... undermined the capital position of banks.” (McKinnon 1998, p.86)

In addition, many emerging economies, impressed by the exceptional performance of the East Asian economies, adopted aggressive export-oriented policies. In some cases, these policies were poorly implemented and there was a general lack of investment in infrastructure and commitment to a legal framework which would foster greater investment certainty. Corruption has

been endemic and a major problem (Ariff and Khalid, 2005). The variation in growth patterns across countries has been significant and large.

A potential downside of greater financial integration is the more rapid transmission of the spillover effects of crisis in any one economy in the now more integrated bloc of countries. Many studies find evidence of the “contagion” effects of crisis, both within regions and across regions. For instance, a comprehensive study by the IMF suggests that ten countries experienced substantial currency pressures during the Asian Financial Crisis.ⁱⁱ

It’s been déjà vu with the current Global Financial Crisis. This financial tsunami originated in the United States, the largest and most economically developed economy. As the anecdote goes, “when the U.S. sneezes, everyone else catches a cold”. An unfortunate feature of most of these contemporary financial crises has been the inability of policy-makers and economists to predict not only the occurrence crises, but also to foresee the strength and depth of the crises. The observations made by Rodrigo de Rato, Managing Director of the IMF in August 2007 (in the early phase of the sub-prime loan crisis) are a good example of how little we know about these crises.

“Actually, what we are seeing is a test of new markets and instruments under less flexible conditions than those that prevailed over the last few years. However, the spillover to noncredit markets- including currencies and equities – has so far been manageable, helped by solid fundamentals not only in more developed markets but also in emerging economies. And, if history is any guide, even when shocks in one region spill over into other markets, these effects are typically short-lived and sometimes even provide a necessary wake-up call to investors who may be underestimating the risks.”

Of course, reality bites; the current Crisis is fully global and, at time of writing, unlikely to be short-lived.

Mishkin (2007) identified four factors that could impede financial development due to asymmetric information in credit markets: the lack of sufficient collateral, inefficient enforcement of restrictive covenants, government directed credit, and lack of transparency and an

underdeveloped legal system. It is widely accepted that one or more of these factors were responsible for the major financial crises in the 1990s (Latin American crisis, Asian financial crisis, and Russian crisis). Major factors that academics identify as contributing causes of the current crisis also include a poor regulatory system (possibly induced by deregulations in the United States since 1994) and a lack of enforcement of prudential regulations.

The deregulation which allowed banks to make greater use of off-balance sheet vehicles and the pooling of credit assets into complex structured financial products seem to have been the major factors that contributed to the U.S. crisis. Europe has been a major casualty of the crisis due to the similarities in financial market development and the use of innovative financial products. Most of the innovative products issued by U.S. financial institutions, such as securitized contracts, were sold in European markets. Somewhat fortuitously, the majority of emerging economies, including newly developed East Asian economies, still lack a market for innovative products. In some cases, these latter economies may have actually had better regulatory structures that discouraged market participants, especially banks, to take excessive risks. Relatively speaking, the less developed economies may have been spared the worst of the Global Financial Crisis (with the obvious caveat that, at the time of writing, the Crisis is still playing itself out). One lesson learnt from the multiple episodes of financial crises is that financial globalization, while being a strong force for economic development, can be disastrous if not managed properly.

The turmoil experienced by the Asian economies in the aftermath of Asian Financial Crisis created the impetus for the formation of a new financial architecture which defined financial rules and prudential regulations. Basel II and its underlying principles can be considered building blocks of this new architecture. Eatwell and Taylor (2000) argue that conventional practice of devising microeconomic regulations is inefficient in the current environment. In particular, the role of macroeconomic linkages in the formation of regulatory policy is far more important. The IMF and

the World Bank also initiated the Financial Sector Assessment Program (FSAP) involving the microeconomic appraisal of financial markets and the regulatory institutions. FSAP requires countries to adhere to regulatory requirements under the Basel accord. In the wake of the Global Financial Crisis, further questions have been raised about the effectiveness of supervisory controls.

Ito (2002) observes that a new international financial architecture should focus on an appropriate exchange rate regime and some measure of capital controls as part of crisis prevention and management. Studies suggest that many of the currency crises during the 1990s were associated with either pegged (or soft-pegged) exchange rate regimes (e.g., Bubula and Otker-Robe, 2004). Moreover, Fisher (2001) argues that pegs are unlikely to be sustainable in the current environment of financial market integration.

Another interesting development in the globalizing process which emerged in the aftermath of a series of crises in the 1990s was the active consideration of currency blocs and greater regional monetary integration (e.g., Mussa *et al.*, 2000). These developments were encouraged by the success of monetary integration and the adoption of a single currency in Europe. An important argument in support of greater regional monetary and exchange rate coordination in Asia is the protection of emerging economies from speculative attacks which were, in large measure, believed to have exacerbated the Asian Financial Crisis.

Some international finance economists suggested that world currencies would converge to a tri-polar regime where the U.S. dollar, Euro and Japanese yen would dominate the global currency market (e.g., Mundell, 2003). It was argued that most of the countries in the American region would link their currency to the U.S. dollar while the Euro would dominate Europe. Given Japan's position as a major trading partner in the East Asian region and the yen as a stable currency, the yen was considered to be the obvious choice as the anchor currency for the region.

The latter view has looked more suspect with the emergence of China and India as major players in the global economy. In particular, China has become increasingly dominant in the entire Asian region. Meissner and Oomes (2008) argue that the choice of a particular anchor currency depends on the amount of trade with countries that use that anchor. This argument is far more interesting with the China factor at play. The changing trade patterns can be seen in Figure 1.1. China's share of trade with six major East Asian countries surpassed the trade shares of United States and Japan by 2006. It is also important to note that China had a heavily-managed exchange rate regime until quite recently; it moved to a managed float in January 2006. China's heavy dependence on FDI and trade with the United States has seen it effectively link its currency to the U.S. dollar and not the yen. Consequently, for East Asia, the U.S. dollar still reigns supreme.

-- Insert Figure 1 here --

The 'new' debate in the corridors of the IMF and the World Bank is the role of development as a 'pro-poor growth' strategy. This leads to an important question: Does globalization contribute to economic growth? The answer to the question posed in this simple form is a qualified 'yes'. However, there are reservations about whether globalization leads to more economic volatility and vulnerability to external shocks. Another related issue, and perhaps politically more fundamental, is whether globalization can help the 'working poor' or reduce 'inequality'. Here the answer is less encouraging (see, e.g., Dreher and Gaston, 2008).

To provide a snapshot of globalization, we use the most widely-used index of globalization. To be in a position to evaluate the consequences of globalization in a rational and scientific manner, objective indicators are needed. To assess the extent to which any country is more (or less) globalized at any particular point requires much more than employing data on flows of trade or FDI. We use a measure of globalization that is defined in a very broad manner; specifically, the KOF index.ⁱⁱⁱ It is based on 25 variables that relate to different dimensions of globalization – economic,

political and social. The sub-index on actual economic flows includes data on trade, FDI and portfolio investment. Trade is the sum of a country's exports and imports and portfolio investment is the sum of a country's assets and liabilities (all standardized by GDP). The KOF index includes the sum of gross inflows and outflows of FDI and the stocks of FDI (again, both standardized by GDP). While these variables are standard measures of globalization, income payments to foreign nationals and capital are included to proxy the extent to which a country employs foreign labor and capital in its production processes.

The second sub-index refers to restrictions on trade and capital using hidden import barriers, mean tariff rates, taxes on international trade (as a share of current revenue) and an index of capital controls. Given a certain level of trade, a country with higher revenues from tariffs is less globalized. To proxy restrictions on the capital account, the KOF index includes data on 13 different types of capital controls.

The KOF index classifies social globalization in three categories. The first covers personal contacts, the second includes data on information flows and the third measures cultural proximity. The index on personal contacts measures the direct interaction of people living in different countries. It includes international telecom traffic (outgoing traffic in minutes per subscriber) and the extent of tourism (incoming and outgoing). Government and workers' transfers received and paid (as a percentage of GDP) measure the extent to which countries interact, while the stock of foreign population is included to capture existing interactions with people from other countries. Finally, the average cost of a phone call to the United States measures the cost of international interaction.

While personal contact data are meant to capture interactions among people from different countries, the sub-index on information flows measures the potential flow of ideas and images. It includes the number of internet hosts and users, telephone mainlines, cable television subscribers,

number of radios (all per 1,000 people) and sales of daily newspapers. Cultural proximity is arguably the dimension of globalization most difficult to grasp. One indicator is the number of McDonald's restaurants located in a country. For many people, the global reach of McDonald's is symbolic of globalization itself.

To proxy the degree of political globalization in each country the KOF index includes the number of embassies and high commissions, the number of international organizations in which a country has membership and the number of United Nations peace missions participated in.

The variables are combined into six groups: actual flows of trade and investment, restrictions, variables measuring the degree of political integration, data quantifying the extent of personal contact with people living in foreign countries, data measuring trans-border flows of information and a proxy for cultural integration. These dimensions are then combined into an overall index of globalization with an objective statistical method.^{iv}

The KOF index is shown in Figure 1.2 (taken from Dreher *et al.*, 2008, p.67). As can be seen from the top panel, high income OECD countries are, on average, the most globalized. Low income countries are the least globalized. Richer countries seem to be, on average, more globalized than the poorer ones. On the face of things, globalization seems beneficial. The second panel shows that in the last 30 years, globalization has been pronounced in all regions. Western European and other industrialized countries are the most integrated; South Asia and Sub-Saharan Africa are the regions least globalized.

-- Insert Figure 2 here --

We can further refine the focus by examining which regions have benefited most from globalization. Using the same data we split the world into three groups – the OECD, the Asian newly-industrializing economies (NIEs) and all other countries.^v

-- Insert Figure 3 here --

It is obvious that the Asian NIEs have grown the most rapidly - from 1970 to 2003 their income per head quintupled. This is, at least partly, attributable to their export-orientation and globalization. The clear losers are members of the group that are the least globalized; they have only made very modest economic progress over the past four decades.

The authors of the chapters in this book take some of these facts as the starting point for their analyses. In many cases, we will see that the portents for globalization are not particularly rosy. First up is Marcus Noland who starkly describes the vulnerability of globalization in Chapter 2. Ambivalence to globalization has been fuelled by skepticism about major international institutions, such as the WTO and IMF. In addition, in some countries the political consensus supportive of a more open system has been disintegrating. Of course, these challenges are made more acute by the global recession.

Aggravating the situation is that international trade negotiations have been made more difficult as the substantive agenda has grown more complex and the politics have become pluralistic and increasingly partisan. Depending on how the global downturn plays out, Noland warns that this reaction against globalization could broaden into a backlash against capitalism itself.

Noland highlights the increasing frailty of the WTO system and the likelihood that it will fail to deliver much in terms of further liberalization. The weaknesses of both the multilateral trade and financial institutions have provided impetus for regional initiatives in both trade and finance. Accelerated fragmentation is a distinctly possible outcome. If the political will is there, Asia has the financial wherewithal to go its own way. In fact, Noland sees Asia as being the key actor in undermining, or strengthening, global institutions.

Fukunari Kimura provides an in depth look at the growing proliferation of free trade agreements (FTAs) in Asia in Chapter 3. The backdrop is the bleak prospect of any further progress being made on the WTO's Doha Development Agenda. However, Kimura strikes an

optimistic tone. He views favorably what Baldwin (2006) refers to as “multilateralizing regionalism”. In particular, it is argued that East Asian FTA “networking” has been an effective driving force in promoting freer trade and investment, particularly through the facilitation of international production networks. This process has been driven by a number of factors. In the initial instance, it was the regional response to the Asian financial crisis; more recently, it is the specter of competing with China, the “elephant in the room”, and the growing importance of FDI, international production networks and the pressure for reform applied by multinational corporations. Like Noland in the previous chapter, Kimura argues that East Asia and the Asia-Pacific have not only become the focal point of multilateral regionalism; but also the primary vehicle for the advancement of trade liberalization.

In Chapter 4, David Greenaway and Doug Nelson also warn of the reversibility of globalization. Their focus is on the pivotal role of politics in supporting, or possibly even undermining, globalization. In particular, they contrast the politics of (anti-)immigration and the politics of free trade in the United States. In regards the latter, they argue that while reduced average levels of protection may well reflect the public interest, that the cross-sectional variation or structure of protection is best understood from a group politics perspective. In contrast to trade politics, immigration has been a more ephemeral issue. While the politics over trade is played by insiders with fairly predictable public policy preferences; in the case of immigration politics, the preferences and location of individuals within the public discourse are not immutable. In fact, rather than any tangible adverse economic impact attributable to greater immigration, the documented resistance to immigration by native-born residents appears to be the main driver of more restrictive immigration regimes in contemporary times.

More worrisome is the fact that in the case of the public politics of immigration, and anti-globalization politics in general, there appears to have been a strong link between poor

macroeconomic conditions and the attractiveness of restrictive policies. Unfortunately, it may be that globalization politics is more like the politics of immigration than the politics of trade (which its implied negotiability). Hence, rather than the pure economic self-interest of identifiable groups, public attitudes will play an increasingly important role in setting the terms of the politics of globalization.

Jenny Corbett questions the meaning of Asian financial integration and its presumed desirability in Chapter 5. She first reminds us that financial market openness, financial engagement and financial integration are distinct, albeit related, concepts. Financial policies run the risk of being misconstrued, if we are not clear on what financial integration really means. Economic theory does not provide any clear-cut indication of how greater integration would be beneficial. Until last year, however, policy makers in many regions, including Asia, saw benefits from greater integration. One does suspect that this view may have moderated in the midst of the global financial crisis, with its non-Asian origin. While Asia might well benefit from having financial development, Corbett's assessment of the recent estimates is that the gains from greater regional integration seem modest. Furthermore, it would appear that more financially integrated economies have more (and not less) synchronized GDP fluctuations. Given that one objective of integration may be to smooth out consumption fluctuations over time for each nation, this dependent and correlated nature of output shocks would seem to be problematic.

In their classic paper, Meese and Rogoff (1983) found that an atheoretical random walk "model" of the exchange rate consistently out-performed structural models, despite the latter's being given the advantage of using actual future values of market fundamentals. This finding revealed how very little is known about exchange rate determination. In Chapter 6, Robert Flood and Andrew Rose use the Meese-Rogoff methodology to study international equity markets. In a similar fashion, the authors find that none of the structural models based on market fundamentals,

such as earnings and dividends, perform better than a simple random walk model of the aggregate stock market. Since the integration of international financial markets is a key part of globalization, understanding how these markets operate in practice is crucial. What the results of this chapter highlight is how little we know about the key drivers of international foreign exchange and equity markets. The key first step in the further integration of financial markets, and the implied setting of basic norms or rules to govern international financial markets, is presumably a deep understanding of how such markets operate. Flood and Rose's results suggest that our understanding of these markets is superficial at best.

The last decade of the last century and the early years of the new millennium were trying times for Japan. Within Japan, the 1990s are widely referred to as the "Lost Decade". The developments in Japan have been attracting renewed academic attention; with the collapse of the bubble economy, the share market crash and the banking and financial crisis, the parallels to the current global financial malaise seem altogether obvious. Along with Paul Krugman (1999), Yoshiyasu Ono has helped popularize the idea that the presence of a liquidity trap is the primary reason why Japan got "stuck" in a stagnation equilibrium. An implication, of course, is that with near zero short-term nominal interest rates in Japan, conventional monetary policy is impotent and fiscal stimulus is required. In Ono (2006), it was also observed that exchange rate movements during the 1990s saw the Japanese yen depreciate (appreciate) against the U.S. dollar when the Japanese economy improved (deteriorated) compared to the U.S. economy. This asymmetry in international business activity and the appreciation of the stagnant country's currency is the background for Ono's contribution in Chapter 7. He shows that if a country's liquidity preference strengthens, then domestic consumption and employment decline and its currency appreciates.

The message of this chapter is that, when faced with rising domestic unemployment, governments are often tempted to raise trade barriers to protect their industries. Ono shows that this

is likely to make the situation even worse. In the presence of persistent unemployment and a shortfall of aggregate demand, while higher tariffs do lead to improved terms of trade, they also lower international competitiveness, thereby reducing employment. The risk, of course, is that this could lead to yet further rounds of increases in trade barriers. The potential for an escalation of protection constitutes yet another serious threat to greater global integration.

The relationship between growing trade with developing countries (LDCs) and adverse labor market outcomes for unskilled workers in developed countries has without doubt been the topic attracting the greatest attention of labor economists since the early 1980s. Labor earnings and income inequality grew in most OECD countries during the 1980s and 1990s. Until recently, the academic consensus seemed to be that skill-biased technological change, rather than trade, was the most likely culprit responsible for the adverse affects on the least skilled and most vulnerable workers. However, more recent opinion is more divided. This appears to be the case for a couple of reasons. First, technical progress may have been accelerated by import competition. Hence, technological progress may have been overly ascribed as the major cause of adverse (unskilled) labor market effects. Secondly, there has been a growing number of studies using data on trade in intermediates which indicate that trade may be having significant effects on the labor market. International outsourcing as well as the imports of intermediate goods may have extensive effects at a more disaggregated level. In other words, there may be considerable distributional implications with, e.g., trade in services or the increased sourcing of inputs from LDCs. Identifying the downstream (and upstream) effects of such trade is important in knowing how different types of workers may be affected.

Over the last three decades the United States has experienced a dramatic increase in its imports, followed by an equally dramatic increase in the wage gap between skilled and unskilled labor. A lot has been said, but little is known, about the relationship between these developments.

In Chapter 8, Christis Tombazos argues that imports may not only displace domestic output (and, hence, domestic labor), but imports may also be used as inputs in domestic production and subject to extensive downstream handling by unskilled workers. The latter effect stimulates domestic labor demand and may be particularly important when there is specialization in the production of some of these intermediate goods. While the displacement effect has been thoroughly explored, the stimulation effect has been largely neglected in the literature. Using a sophisticated empirical framework and using disaggregated data on imports of both goods and services by kind, the author finds that labor demand stimulation effect is significant, i.e., imports actually stimulate unskilled labor demand and reduce the wage gap between skilled and unskilled workers.

Ian Harper surveys labor market developments in the Asia-Pacific region in Chapter 9. He notes the impressive economic growth rates, which have led to rapidly growing employment in many countries in the region. These findings seem to reaffirm both the benefits of greater globalization and the shift in the world's economic center of gravity towards Asia. However, Harper notes that while some countries in the region have witnessed a reduction in unemployment over the past two decades, others have seen unemployment increase dramatically. Moreover, while globalization does bring substantial economic benefits, these gains have not been shared by all labor market participants. The costs of adjustment disproportionately fall on the shoulders of low-skilled workers. Globalization also seems to be associated with increased uncertainty about job security for the least skilled and most vulnerable workers.

Against this backdrop, Harper then looks at labor market regulation, particularly the successful implementation of minimum wage policies. The setting of an appropriate level of the regulated wage is described as a delicate balancing act. On the one hand, minimum wages can be an effective tool for poverty reduction in countries disrupted by rapid globalization. On the other, wages must not be set "too high", i.e., so as to minimize its disemployment effects. In the current

environment, Harper advocates erring in favor of the former objective, i.e., on sharing the benefits, and reducing the risks, of globalization as much as possible.

While Japan has long been the dominant player in Asia, the lost decade and the growing economic importance of China have placed a spotlight on its domestic and international policy options. The long slump and the rapid aging of its population have left Japan with little choice, but to attempt to restructure basic features of its economy. The demographic problem has seen pension liabilities increase; and the historically high post-War unemployment and flat economy have reduced the tax base. Unfortunately, reform is difficult when there is little or no economic growth. Aggravating this situation is that the desirability of internationalization is controversial in Japan.

In Chapter 10, Junichi Goto examines the merits of increased immigration as the best means to address a declining fertility rate, rapid aging, and a future of chronic labor shortages in Japan. He classifies the effects of immigration into three parts. There is a beneficial effect of cheaper foreign labor and workers willing to do the jobs that Japanese workers are unwilling to do. This is offset by a trade barrier effect. Since prices for a country's "scarce factor" are higher with high tariffs, workers - native and immigrant - are essentially "overpaid". Complicating the mix is a non-tradable good effect which could operate in either direction due to a positive consumption effect and a negative income effect for native workers. Given what the author argues is the highly uncertain dividend from increased immigration, he examines the alternatives. The obvious internationalist alternative is further trade liberalization and structural reform. The alternatives in the domestic setting are measures to raise labor productivity, encouraging greater female labor force participation and using policy to address the low fertility rate.

A phenomenon being experienced by many economies during the last decade has been the strong growth in part-time employment. In fact, in Japan the new jobs added during the recovery from the Lost Decade were mainly part-time jobs. In Chapter 11, Tomoko Kishi and Noel Gaston

study the labor market transitions of female workers during the period of economic stagnation for Japan. They examine the commonly made claim that globalization has been responsible for the changing nature of the employment relationship. Controlling for a number of the usual demographic and sociological determinants, they examine whether workers in trade-exposed industries are more likely to move from full-time to part-time jobs. In fact, they find that the firms in the most internationally-exposed and competitive sectors of the economy were the ones most under pressure to forego traditional life-time employment practices. In contrast, while all firms were under financial pressure during the economic slowdown, firms in non-tradable goods sectors seemed better able to resist the need for more flexible work-place arrangements. However, using the KOF index the authors find that globalization may be a savior, rather than villain, for workers during economic hard times. The growing integration of Japan into the world economy appears to have softened the blow of a severe recession. The rapid growth of ICT and high tech service sector industries, inwards FDI, financial sector liberalization and political internationalization offer workers full-time employment opportunities, they don't destroy them.

Jagdish Bhagwati (1999) notes the ironic 'about face' in policy-making circles concerning the impact of globalization in the last twenty or so years of the twentieth century. Post-WW2 concerns about neo-colonialism and the dependency of developing countries on developed countries, raised questions for the poorer countries about the desirability of increased integration and trade. This view has been supplanted, almost completely, by developing country enthusiasm for trade and inwards foreign investment. The reservations are now expressed by many developed countries, which worry about the consequences and perils for their domestic workers if integration via trade, migration or investment in LDCs continues unabated. Fears in many developed countries about domestic firms 'sending jobs overseas', whether to other developed countries or to LDCs, are

an extension of the more traditional concerns about ‘hollowing out’ of manufacturing industry and the loss of ‘key’ manufacturing activities and ‘good jobs’ overseas.

Nobuaki Yamashita and Kyoji Fukao address whether the employment of domestic workers falls when the overseas affiliates of Japanese multinationals expand their operations in Chapter 12. They focus on disentangling the employment creation or scale effect of expanded operations and the substitution of cheaper foreign labor for domestic workers. This is a valuable study, because most recent studies have focused on either U.S. or Swedish multinationals.^{vi} They find evidence against the usual concerns expressed about the adverse effects of FDI investment, the evidence does not support the view that overseas operations expand at the cost of home employment in Japan. Jobs are not “exported”, in fact, consistent with the findings in the previous chapter, their findings suggest that overseas operations may have helped to maintain the level of home employment in Japanese manufacturing.

Globalization is indeed a broad issue that cannot be fully addressed in one volume. However, during the dark days of the Global Financial Crisis and the threat posed by protectionist rhetoric and posturing and the possible retreat from the further globalization and internationalization, the issues discussed here are salutary and timely. It is important that market participants and regulators clearly understand the risks associated with the present stage of globalization. Policymakers need to reconfigure the regulatory framework having learned the necessary lessons from the episodes of financial crisis experienced in various parts of the world in the last two decades. Financial literacy is essential for market participants especially in emerging economies. Some of the issues discussed in this book are useful for the development of a new international financial architecture. These measures will help to reap the full benefits of globalization.

Given the importance of globalization today, the Globalisation and Development Centre at Bond University organized an international conference in September 2008 with the theme “*How Globalization is Shaping the Asia-Pacific*”. This book includes some the papers from this conference. The papers included all have relevant themes to the above discussion on globalization namely, regional trade issues, globalization and foreign direct investment, financial integration, the labor market consequences of globalization and the economic and political economic consequences of globalization.

We would like to thank our colleagues at the Globalisation and Development Centre (GDC) at Bond University and particularly Kyona Box for her support with the GDC Conference. Generous financial support was provided by the Japan Foundation and the Queensland state government. We thank Arsalan Khalid for editorial and research assistance. Finally, we are grateful and indebted to Alex Pettifer of Edward Elgar for his support and advice in helping us prepare the manuscript.

References

- Ariff, M., and A. Khalid (2005). *Liberalization and Growth in Asia: 21st Century Challenges*. London: Edward Elgar.
- Baldwin, R. E. (2006). "Multilateralizing Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade," *The World Economy* 29 (11), 1451-518.
- Barbera, Frank, Ahmed M Khalid and Rajaguru Gulasekaran (2009) "It's not Yen Bloc or Koala Bloc. Greenback is Still Dominant in East Asia" Paper presented at the 2009 Singapore Economic Review Conference, 6-8 August, Singapore.
- Bhagwati, J. (1999). "Globalization: Who Gains, Who Loses?" in *Globalization and Labor*, edited by H. Siebert. Tübingen: Mohr Siebeck, 225-36.
- Blomström, M., and A. Kokko (2000). "Outward Investment, Employment, and Wages in Swedish Multinationals." *Oxford Review of Economic Policy* 16(3), 76-89.
- Brainard, S., and D. Riker (2001). "Are U.S. Multinationals Exporting U.S. Jobs?" in *Globalization and Labour Markets* (Volume II), edited by D. Greenaway and D. Nelson. London: Edward Elgar, pp.410-26.
- Bubula, A., and I. Otker-Robe (2004). "The Continuing Bipolar Conundrum," *Finance and Development*, IMF, Washington DC, March, pp. 32-35.
- De Rato, R. (2007). "Economic Growth and Financial Market Development: a Strengthening Integration," speech by the Managing Director of the IMF at the 3rd International Derivatives and Financial Market Conference, Campos do Jordão, Brazil, August 22.
- Dreher, A., and N. Gaston (2008). "Does Globalization Increase Inequality?" *Review of International Economics* 16(3), 516-36.
- Dreher, A., N. Gaston and P. Martens (2008). *Measuring Globalization - Gauging Its Consequences*, New York: Springer.
- Eatwell, J., and L. Taylor (2000). *Global Finance at Risk: the Case for International Regulations*. New York: New Press.
- Fisher, S. (2001). "Exchange Rate Regimes: Is the Bipolar View Correct?" *Journal of Economic Perspectives* 15(1), 3-14.
- Giddens, A. (1999). "Runaway World," 1999 Reith Lectures. Available at: http://news.bbc.co.uk/hi/english/static/events/reith_99/week1/week1.htm.
- International Monetary Fund (IMF) (1999). *World Economic Outlook 1999*. IMF, Washington D.C.,

66-87.

Mussa, M., P. Masson, A. Swoboda, E. Jadresic, P. Mauro and A. Berg (2000). "Exchange Rate Regimes in an Increasingly Integrated World Economy," IMF Occasional paper no.193, International Monetary Fund, Washington DC.

Ito, T. (2002). "Toward New International Financial Architecture: An Asian Perspective," Working paper, Victoria University of Wellington, February.

Krugman, P. (1999). "It's Baaack: Japan's Slump and the Return of the Liquidity Trap," *Brookings Papers on Economic Activity*, Issue 2, 188-206.

McLuhan, M., and Q. Fiore (1968). *War and Peace in the Global Village*, New York: Bantam Books/Random House.

Meese, R., and K. Rogoff (1983). "Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample?" *Journal of International Economics* 14(1), 3-24.

Meissner, C., and N. Oomes (2008). "Why Do Countries Peg the Way They Peg? The Determinants of Anchor Currency Choice," IMF Working Paper WP/08/132. International Monetary Fund, Washington, DC.

Mishkin, F. (2007). "Is Financial Globalisation Beneficial?" *Journal of Money, Credit and Banking*, Volume 39, issue 2-3, 259-294.

Mundell, R. (2003). "Prospects for an Asian Currency Area," *Journal of Asian Economics* 14(1), 1-10.

Ono, Y. (2006). "International Asymmetry in Business Activity and Appreciation of a Stagnant Country's Currency," *Japanese Economic Review* 57(1), 101-20.

Williamson, J. (1989). "What Washington Means by Policy Reform," in *Latin American Readjustment: How Much has Happened*, edited by J. Williamson, Washington: Institute for International Economics.

Contributors

Jenny Corbett, Professor of Economics and Executive Director, Australia-Japan Research Centre, Crawford School of Economics and Government, Australian National University and Reader in the Economy of Japan at the University of Oxford

Robert Flood, Research Department, International Monetary Fund

Kyoji Fukao, Professor of Economics, Institute of Economic Research, Hitotsubashi University

Noel Gaston, Professor of Economics and Director, Globalisation and Development Centre, Bond University

Junichi Goto, Professor of Economics, Faculty of Policy Management, Keio University

David Greenaway, Professor in the School of Economics and Director, Leverhulme Centre for Research on Globalisation and Economic Policy, University of Nottingham

Ian Harper, Professor of Economics and Chairman, Australian Fair Pay Commission

Ahmed Khalid, Associate Professor of Economics and Finance and Co-Director, Globalisation and Development Centre, Bond University

Fukunari Kimura, Professor of Economics, Faculty of Economics, Keio University and Chief Economist, Economic Research Institute for ASEAN and East Asia

Tomoko Kishi, Professor of Economics, Nanzan University

Douglas Nelson, Professor of Economics, Murphy Institute of Political Economy, Tulane University and Professorial Research Fellow, Leverhulme Centre for Research on Globalisation and Economic Policy, University of Nottingham

Marcus Noland, Senior Research Fellow, Peter G. Peterson Institute for International Economics (IIE) and East-West Center

Yoshiyasu Ono, Professor of Economics and Director, Institute of Social and Economic Research, Osaka University

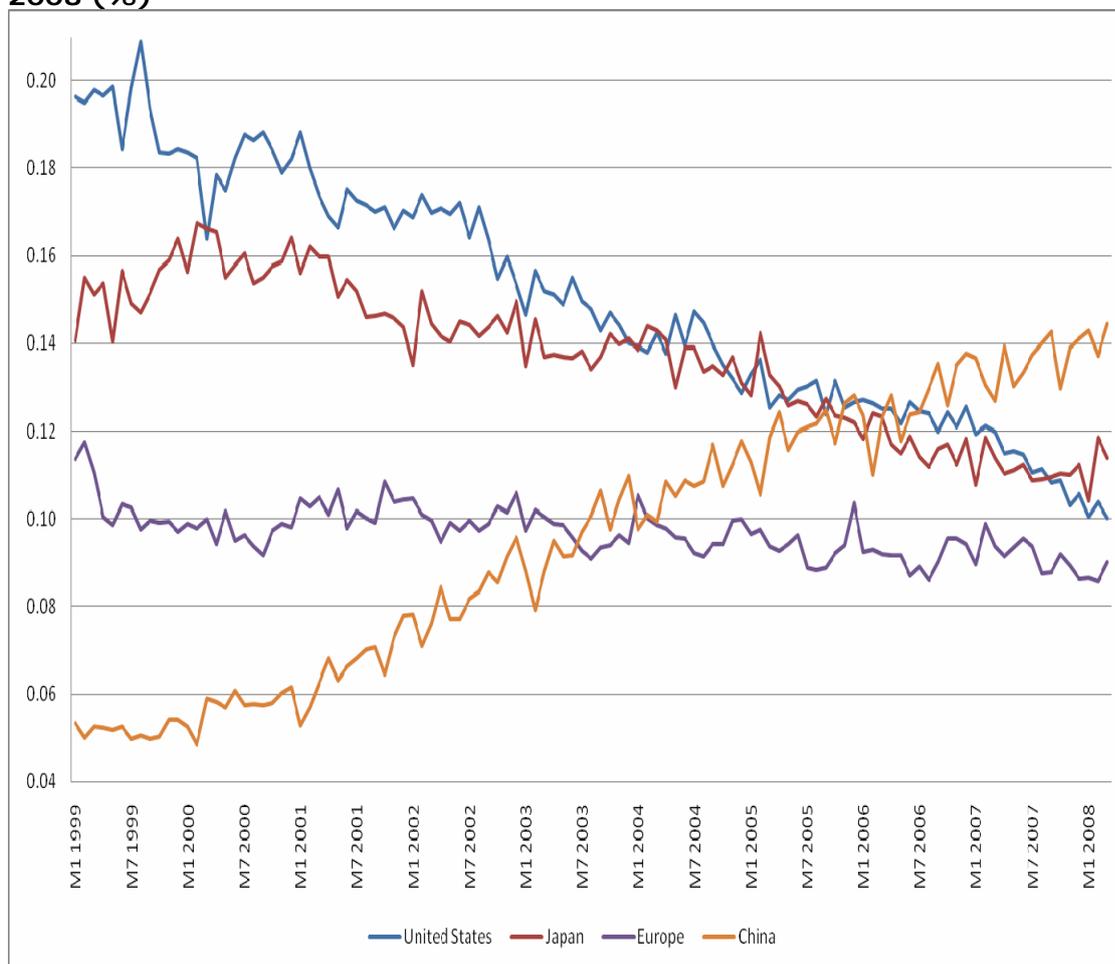
Andrew Rose, B.T. Rocca Jr. Professor of International Business in the Economic Analysis and Policy Group, Haas School of Business, University of California, Berkeley

Christis Tombazos, Associate Professor Economics, Monash University

Nobuaki Yamashita, Research Fellow, School of Business, La Trobe University

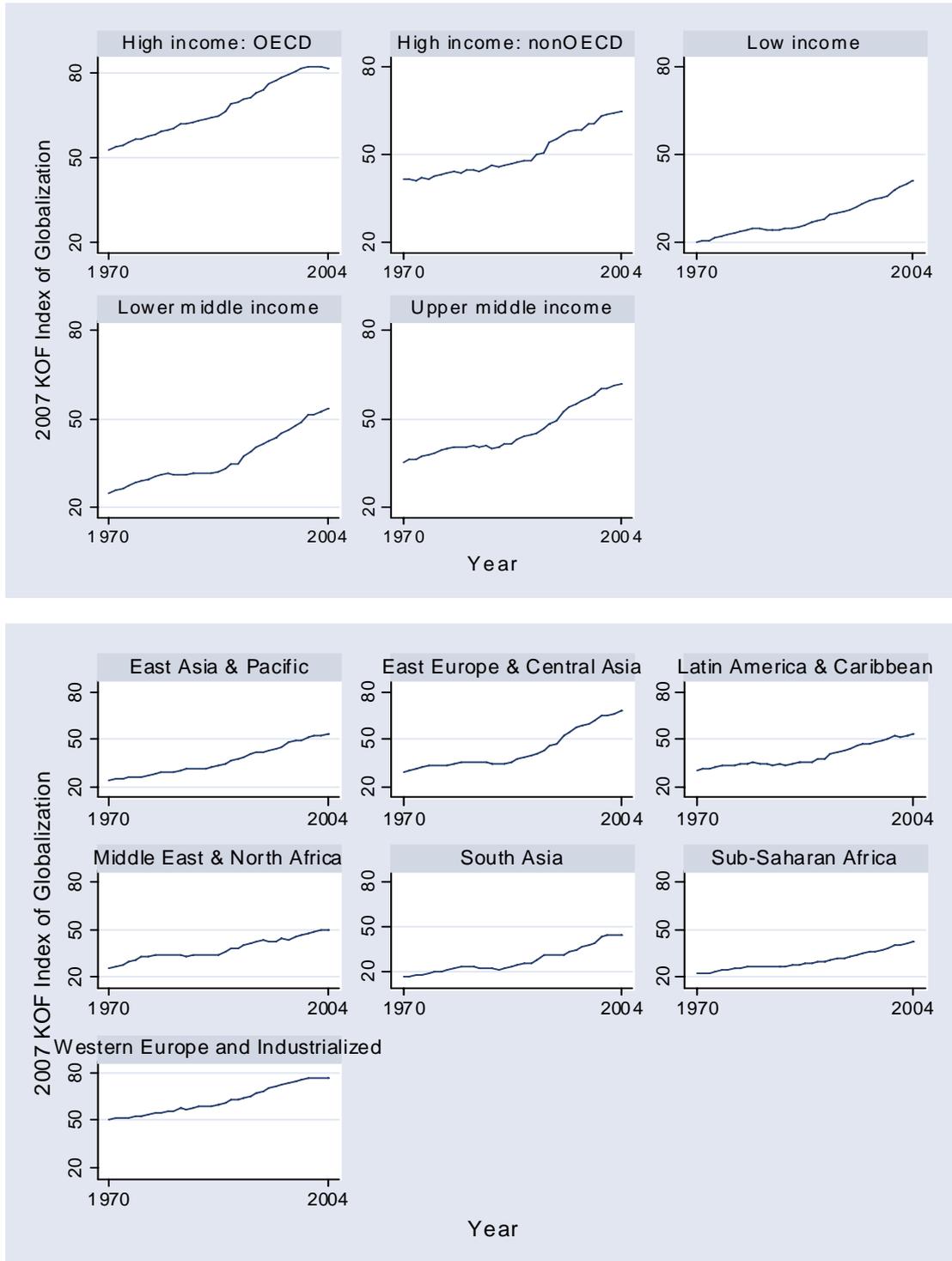
Dingsheng Zhang, Central University of Finance and Economics, China and Research Associate, Monash University (check affiliation with Christis)

Figure 1.1: East-Asia Weighted Average Trade, by Major Trading Partner, 1999 to 2008 (%)



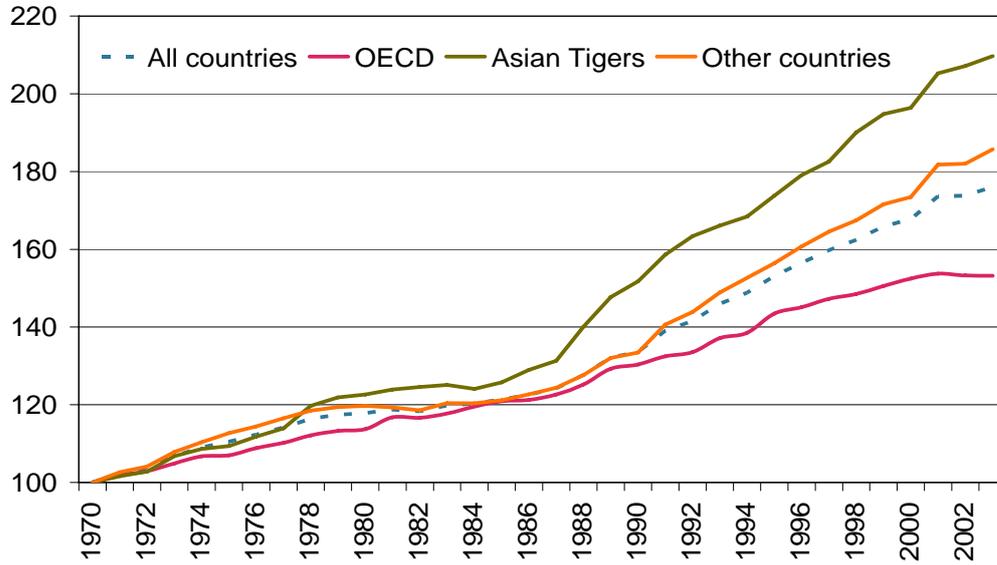
Source: Barbera et al. (2009)

Figure 1.2: KOF Index of Globalization, by income and by region

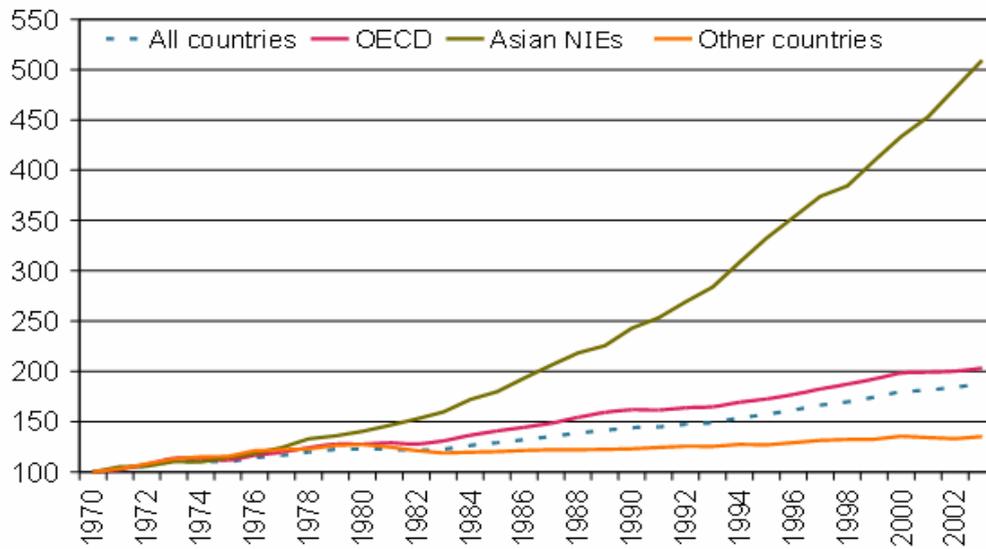


Source: Dreher *et al.* (2008, p.67).

Figure 1.3
Increase in Globalization



Increase in Real GDP



Notes: 1970=100, 104 countries. Author calculations based on data from http://globalization.kof.ethz.ch/static/rawdata/globalization_2007_short.xls.

Endnotes

ⁱ “The volume of world financial transactions is usually measured in US dollars. A million dollars is a lot of money for most people. Measured as a stack of thousand dollar notes, it would be eight inches high. A billion dollars - in other words, a million million - would be over 120 miles high, 20 times higher than Mount Everest. Yet far more than a trillion dollars is now turned over each day on global currency markets, a massive increase from only 10 years ago, let alone the more distant past.” Giddens (1999).

ⁱⁱ Results are based on a study involving 60 industrialized and emerging economies, see IMF (1999). The study also details how the stock markets in Brazil and Hong Kong fell by 30 percent, India by 17 percent, while losses in the stock markets in Indonesia, Malaysia, South Korea and Thailand were approximately 40 percent.

ⁱⁱⁱ The KOF index has been increasingly used in the economics literature. It is probably the best known and mostly widely-used index of globalization. Dreher *et al.* (2008, 75-78) list 36 journal articles published between 2003 and 2008 that employ the KOF index in statistical analyses.

^{iv} Dreher *et al.* (2008) describe the method in more detail. The annual data are publicly available at: http://globalization.kof.ethz.ch/static/rawdata/globalization_2007_short.xls.

^v (Old) OECD countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, U.K., and the U.S.A. Asian NIEs: China, India, Indonesia, South Korea, Malaysia, Singapore, Thailand, Papua New Guinea. Other countries: comprise a very mixed group of 73 countries.

^{vi} Brainard and Riker (1997) is a well-known study. They find that U.S. multinationals do substitute labor at home with labor abroad, although the substitution is greater between affiliates in countries at similar levels of development. Blomström and Kokko (2000) identify large changes in Swedish employment, with an astonishing 80 percent of jobs disappearing each year from Swedish multinationals, but an almost equivalent number being created via acquisitions of new plants.