

Global Focus on Knowledge/Winter Semester 2008

Living in Globalized Society—Japan in Era of Global-scale Competition

The University of Tokyo
(October 9, 2008)

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As to Lectures of Global Focus on Knowledge ①

- Started in 2005 at the initiative of UT President Komiyama
- The lecture's aim is for freshmen and sophomores at the University, who are at the entrance of learning, to really experience what an overall picture of each academic field is and how an individual field is organically related each other by looking at a big organization and structure of "wisdom."

As to Lectures of Global Focus on Knowledge ②

- An omnibus lecture by 4 instructors
 - + Special lectures
 - + Panel discussion
- Able to listen to a lecture through an internet live relay (limited to LAN within the campus)
- Evaluation up to the attendance (passing or failing)

About Globalization ①

- The term “globalization” is said to be “to make it a global-scale,” or “to integrate the globe.”
In Chinese, it’s “turning into the entire globe”
- The term began to be used in the 1970s and came to be frequently used in the ‘90s; primarily in economics in the early stage.
- “Internationalization” often sets a state forth as a premise.

About Globalization ②

- Johan Naisbitt, *Megatrends*, 1982 (Japanese translation by Kenichi Takemura, Mikasa Shobo, 1983)
 - The author uses the term 'globalization' in the sense that "the U.S. economy is in the process of shifting from a self-sufficient national economy to the part of a mutually interdependent global economy."
- At the same time, he coined the term 'globalization = globalization + localization' by emphasizing 'Think globally, act locally.'

About Globalization ③

Subsequently, Thomas L. Friedman in his *The World is Flat*, 2005 (Japanese translation by Iwan Fushimi, Nikkei Inc., 2006) divides a history of globalization into the three stages and positions the present as “Globalization 3.0.”

- (1) “Globalization 1.0 (1492-1800)”: Lead role by nations
- (2) “Globalization 1.0 (1800-2000)”: Lead role by multinational corporations
- (3) “Globalization 1.0 (2000-)”: Lead role by individuals

About Globalization ④

Due to IT Revolution, the world has become flat (particularly since the 1990s).

Primary factors of flattening:

- ① The collapse of the Berlin Wall, and the epoch of creativity
- ② The spread of internet, and the new epoch of connection
- ③ New software that has enabled collaboration
- ④ Uploading: leveraging community power
- ⑤ Outsourcing : Y2K and the awakening of India

About Globalization ⑤

- ⑥ Offshoring: WTO accession of China
- ⑦ Supply chain: why is Walmart strong?
- ⑧ Insourcing: new business of UPS
- ⑨ Informing: ask Google what you want to know
- ⑩ Steroid: new technologies go even faster

Discussion of Thomas L. Friedman centers in the U.S.

→ Overlaps with problems of the internationalization of American standards.

About Globalization ⑥

- Here, globalization shall be grasped as an “evolution of integration or unification of economics and society on a worldwide scale.”*

*World Bank, *Globalization and Economic Development*, 2004, Springer-Verlag, Tokyo, p. i

About Globalization ⑦

- To confine this to the economic aspect:

“Globalization designates a unification on a worldwide scale of the invigoration of cross-border and -region movements of produce like goods and services and production factors like capital and people, and the market pertaining to demand and supply of production factors (including information and technology) involved with these.”

Evolution of Globalization ① Expansion of Trade

The ratio of the world's merchandise trade against its GDP increased rapidly until World War I, but did not surpass the 1913's level before the late 1960s. And which suddenly climbed in recent years.

	Ratios of Merchandise Exports to GDP and to Merchandise Value-Added (Percent)				
	1890	1913	1960	1970	1990
X/GDP					
Australia	15.7	21.0	13.0	11.5	13.4
Canada	12.8	17.0	14.5	18.0	22.0
Denmark	24.0	30.7	26.9	23.3	24.3
France	14.2	15.5	9.9	11.9	17.1
Germany	15.9	19.9	14.5	16.5	24.0
Italy	9.7	14.4	10.0	12.8	15.9
Japan	5.1	12.5	8.8	8.3	8.4
Norway	21.8	25.5	24.9	27.6	28.8
Sweden	23.6	21.2	18.8	19.7	23.5
United Kingdom	27.3	29.8	15.3	16.5	20.6
United States	5.6	6.1	3.4	4.1	8.0
World	6.0	9.0	8.0	10.0	13.0
X/MVA					
Australia	27.2	35.6	24.4	25.6	38.7
Canada	29.7	39.4	37.6	50.5	69.8
Denmark	47.4	66.2	60.2	65.9	85.9
France	18.5	23.3	16.8	25.7	53.5
Germany	22.7	29.2	24.6	31.3	57.8
Italy	14.4	21.9	19.2	26.0	43.9
Japan	10.2	23.9	15.3	15.7	18.9
Norway	46.2	55.2	60.0	73.2	74.8
Sweden	42.5	37.5	39.7	48.8	73.1
United Kingdom	61.5	76.3	33.8	40.7	62.8
United States	14.3	13.2	9.6	13.7	35.8

Sources: Feenstra(1998)except estimates for World which are derived from Maddison(1995)

Evolution of Globalization ②

- Changes in the contents of merchandise trade in the 20th century: ① primary commodity declined, replaced by manufactures, ② capital goods kept increasing their share consistently, ③ developing countries advanced their share of the total manufactures export.

Composition of World Merchandise Trade

(Percent, current prices)

	1913	1955	1973	1994
Categories of Goods				
Primaries	64.1	54.8	39.5	25.3
Manufactures	35.9	45.2	60.5	74.7
Machinery/Transport Equip.	6.3	17.5	28.7	38.3
Manufactured Exports Shares				
Developed Market	95.4	85.2	83.9	72.9
Developing	4.6	4.4	6.6	24.7
(Former) Iron Curtain		10.4	9.5	2.4

Sources: UNCTAD(1983)(1997) except for 1913: Yates(1959).

Evolution of Globalization ③ Increase in Capital Flow

- The ratio of external assets against the world's GDP increased toward World War I, but subsequently declined from the 1930s to the post-war period. Which went up from the '60s, recovered the 1914's level in the '80s, and since then jumped dramatically.

Foreign Assets/World GDP (in percent)

1870	6.9	1945	4.9
1900	18.6	1960	6.4
1914	17.5	1980	17.7
1930	8.4	1995	56.8

Sources: foreign assets/GDP from Obstfeld and Taylor(1999)

Evolution of Globalization ④ Movement of People

- Emigrants in each decade of the 1880s, '90s, and 1900s were 2-7% of the populations of the nations that sent them out, which, to those that received these immigrants, constituted, in case of the U.S., 4-9% of its population.

Decadal Migration, % Initial
Population, 1880-1910, Various Nations.

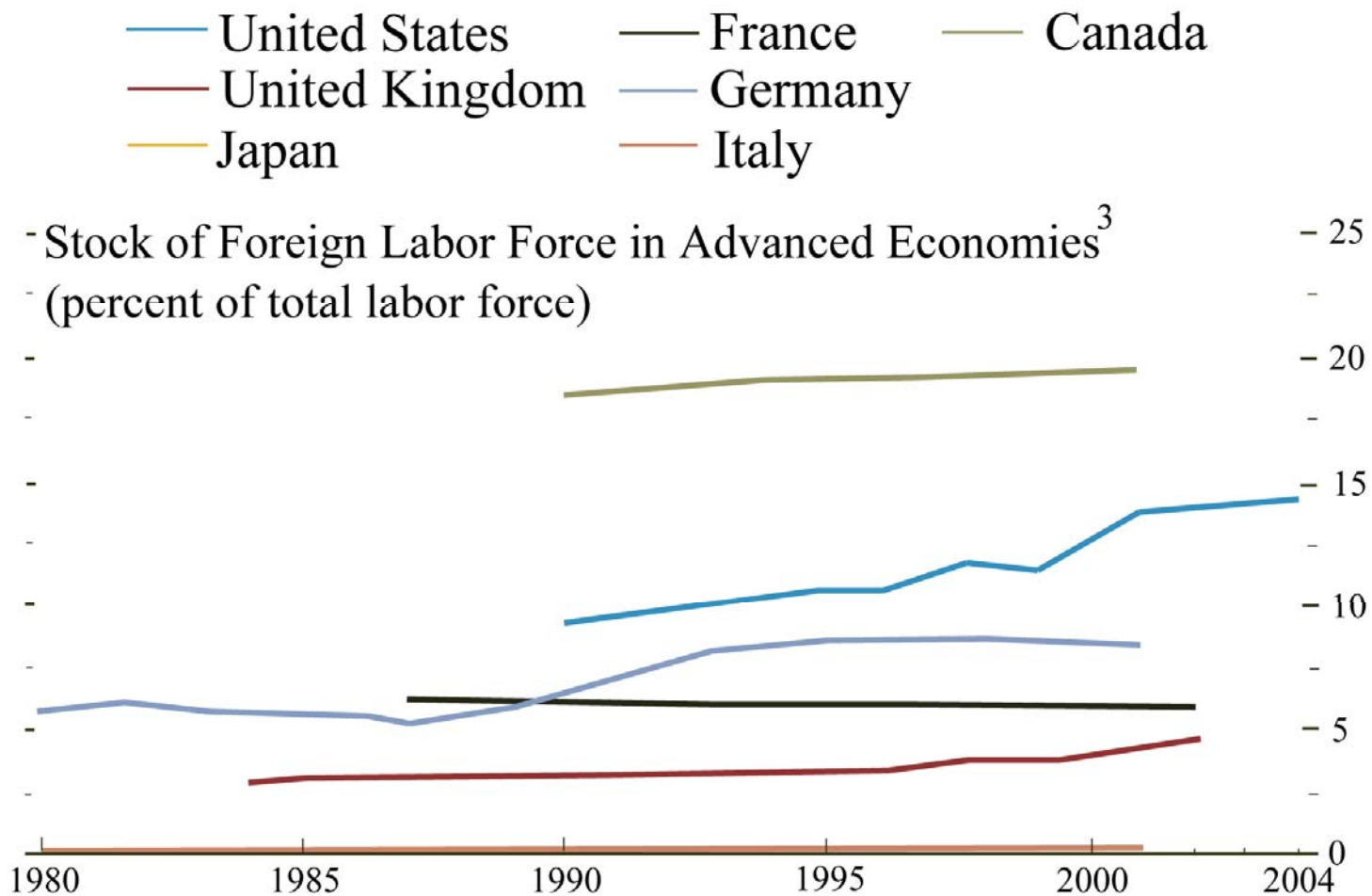
<i>% of Initial population</i>	<i>1880s</i>	<i>1890s</i>	<i>1900s</i>
<i>Senders:</i>			
UK	-3.05	-5.20	-2.04
Italy	-1.65	-3.37	-4.87
Spain	-1.51	-6.01	-5.18
Sweden	-2.90	-7.20	-3.51
Portugal	-3.52	-4.16	-5.94
<i>Receivers:</i>			
US	5.69	8.94	4.02
Canada	2.27	4.89	3.71
Australia	11.28	16.59	0.77
Argentina	4.50	25.60	9.5
Brazil	1.98	3.82	8.44
N. Zealand	53.52	4.08	4.15

Notes: UK includes Ireland; dates vary slightly according data available.

Source: Green & Urquhart (1976) Table 2.

† Source: Baldwin and
Martin (1999) p.19

Evolution of Globalization ⑤ While strictly controlled by many countries, an influx of immigrants increased in Germany, U.K. and U.S. in recent years.



Source: IMF (2007a) p. 163

<http://www.imf.org/external/pubs/ft/weo/2007/01/pdf/c5.pdf>

Driving Force of Globalization ①

(1) Progress in Transportation/Communication Technology

Transportation costs swiftly went down since the latter half of the 18th century. However, the ocean freight since the 1960s and air freight since the 1980s remained on the same level.

Transportation Costs, 1830-1990

	Ocean Transport Wheat, Percent of Production Costs	Ocean Freight 1920=100	Average Air Transportation Revenue per Passenger Mile (in 1990 US\$)
1830	79		
1850	76		
1880	41		
1910	27.5		
1920		100	
1930		65	0.68
1940		67	0.46
1950		38	0.30
1960		28	0.24
1970		29	0.16
1980		25	0.10
1990		30	0.11

Sources: Baldwin and Martin(1990); World Economic Outlook, May 1997, Table 11

Driving Force of Globalization ②

- Drastic drop in communication and computer costs

Communication and Computer Costs, 1960-2000

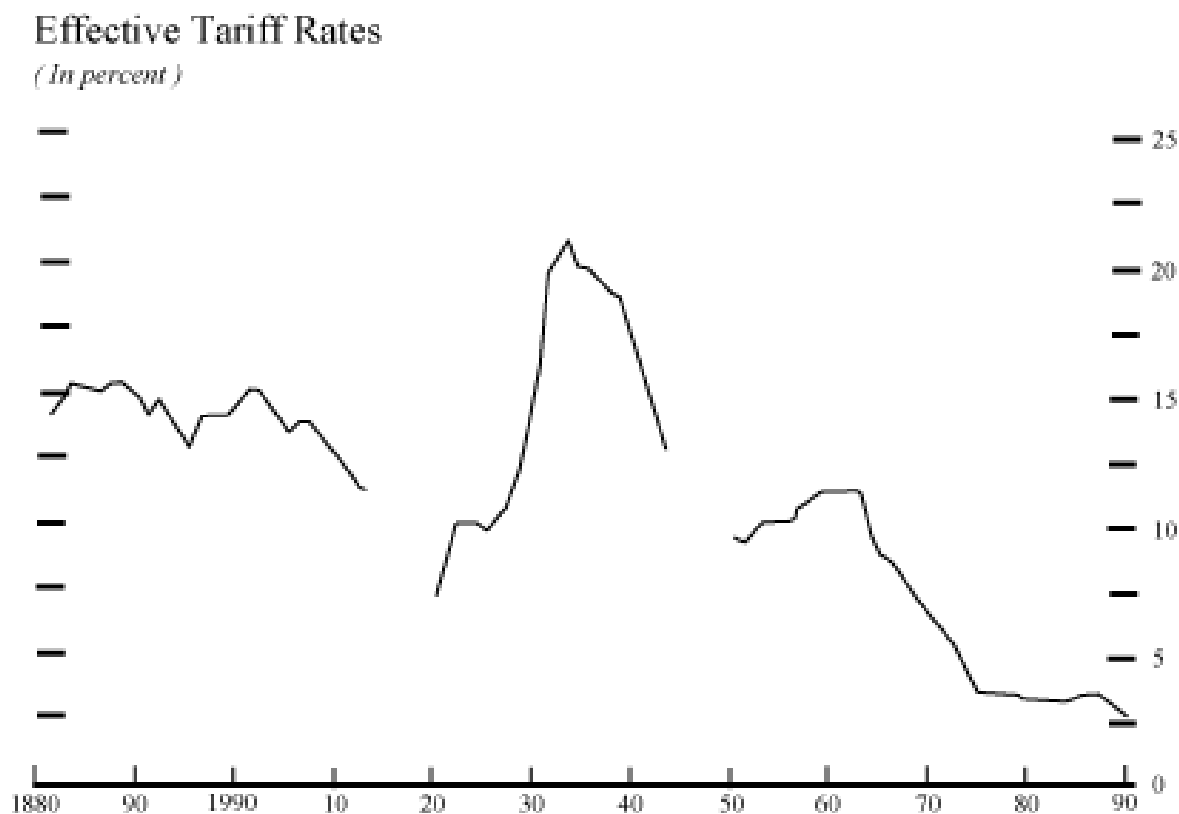
	Cost of a 3-minute Telephone Call, New York to London	Price of Computers and Peripheral Equipment Relative to GDP deflator
	(in 2000 US\$)	(2000=1000)
1960	60.42	1,869,004
1970	41.61	199,983
1980	6.32	27,983
1990	4.37	7,275
2000	0.40	1,000

Source: Masson (2001) p.6 <http://www.imf.org/external/pubs/ft/pdp/2001/pdp04.pdf>

Driving Force of Globalization ③

(1) Lowering of Institutional Barrier

Effective tariff rates of developed countries declined in principle except the period between the World Wars.



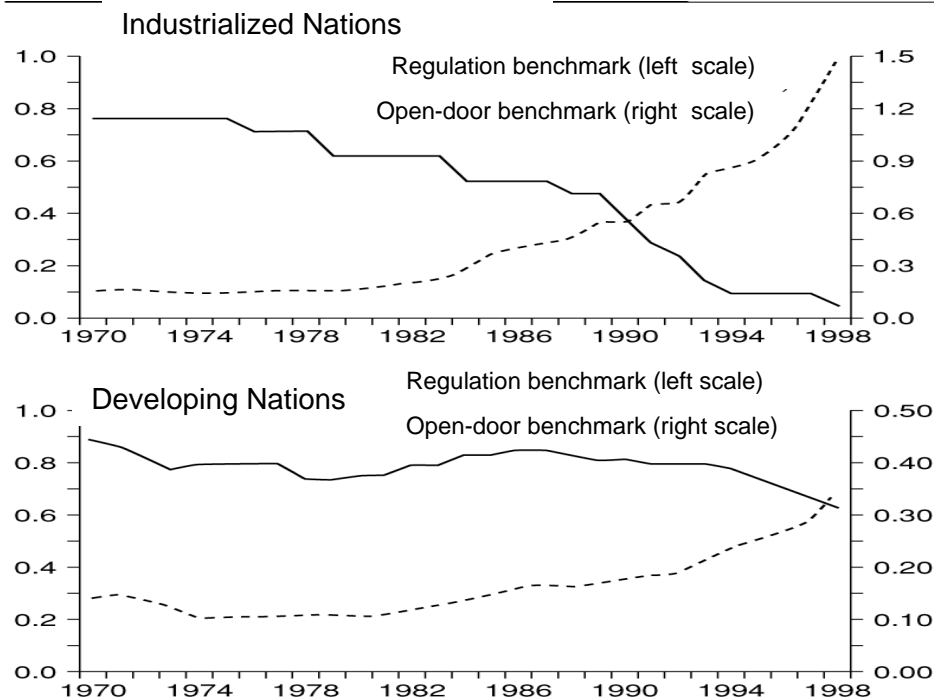
Source: IMF (1997) p. 112

<http://www.imf.org/external/pubs/ft/weo/2007/01/pdf/c5.pdf>

Driving Force of Globalization ④

Regulations on international capital flow in recent years were, in industrialized nations, on an easing trend almost consistently since the latter part of the 1970s, while in developing nations, on the trend of liberalization in the '70s which went into reverse in the '80s, and back on track of freeing since the early '90s.

Chart 1 Measuring Financial Globalization Degree



Source IMF "World Economic Outlook" (Oct. 2001, Sept. 2002), Lane and Milesi-Ferreti (2003)

Note: "Regulation benchmark" is a method to measure the degree of financial globalization based on the present state of public regulations against external capital flow. "Open-door benchmark" is a method to measure the actual degree of financial globalization based on the ratio of total external assets and liabilities against GDP.

Driving Force of Globalization ⑤

(3) Benefits Economic Integration Brings Forth

- Corporations and individuals are considered to have preferred in overall effectively utilizing opportunities to gain benefits that are brought about by the decline in transportation and communication costs and the reduction in institutional barriers, and it is possible that tendencies seeking for these economic benefits have constituted a huge driving force of globalization.
- Nonetheless, as for such benefits, globalization in recent years has embroiled developing nations extending over a wide field from dealings of goods' to their productions (thus thought to be exerting a great influence on labor markets), and further, financial globalization has advanced drastically also involving developing nations (which has not yet been tested in terms of pluses and minuses), and due to these situations, it is likely that changes are occurring in contents and cost risks accompanying these benefits.

Benefits of Globalization①

(1) Trade and economic growth

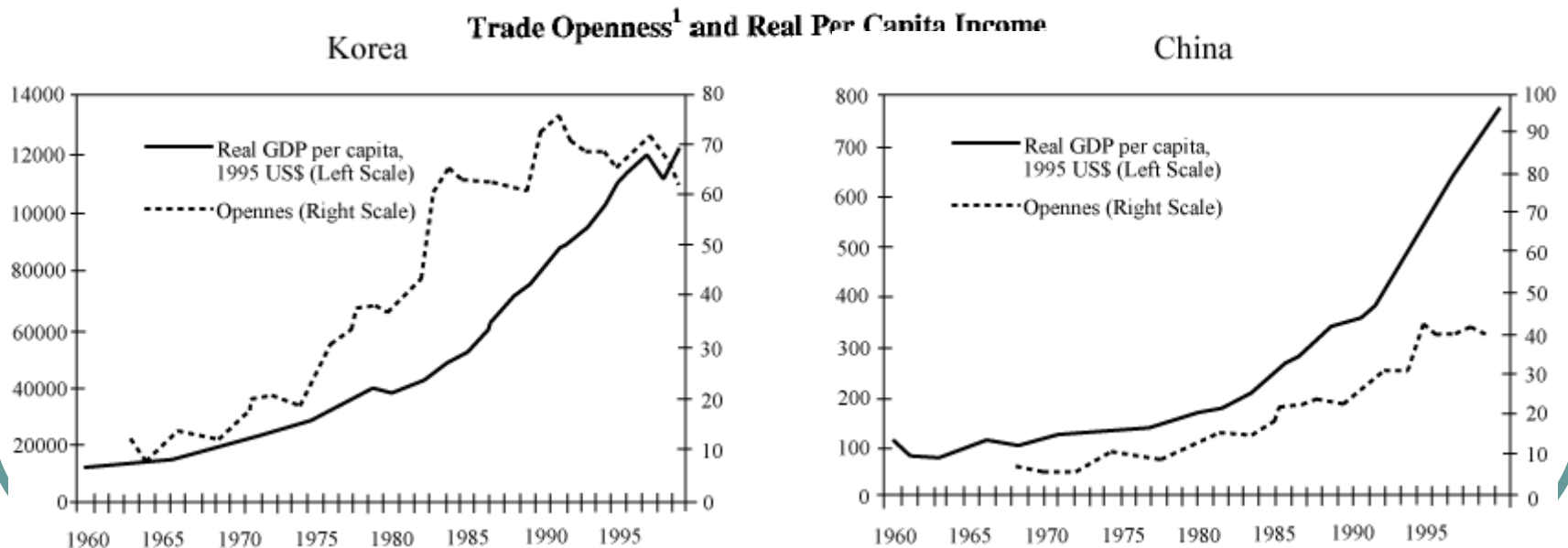
(Theory)

- A standard theory on trade advocates that the shift from a closed economy to an open one (trade liberalization) elevates GDP level.
- Furthermore, the presented thought is that trade is likely to lift the rate of economic growth by means of promoting technological progress through foreign nations' imitations, instilling correct discipline toward competition-orientation, economy of scale via market expansion, and such.

Benefits of Globalization ②

(Actual Proof)

- As to the relationship between trade or open-door trade policies and economic growth, while there is a thesis to conclude that an overwhelming majority of substantive theses concludes trade openness is growth-stimulatory (Prasad et al. (2003) p.18), it cannot be said that a perfect consensus has been achieved as there exists some skeptical view about it.
- However there seems to be an agreement that an overall external open-door policy is by far useful to growth compared to inward-looking measures.
(Jansen and Lee (2007) pp.20–24)



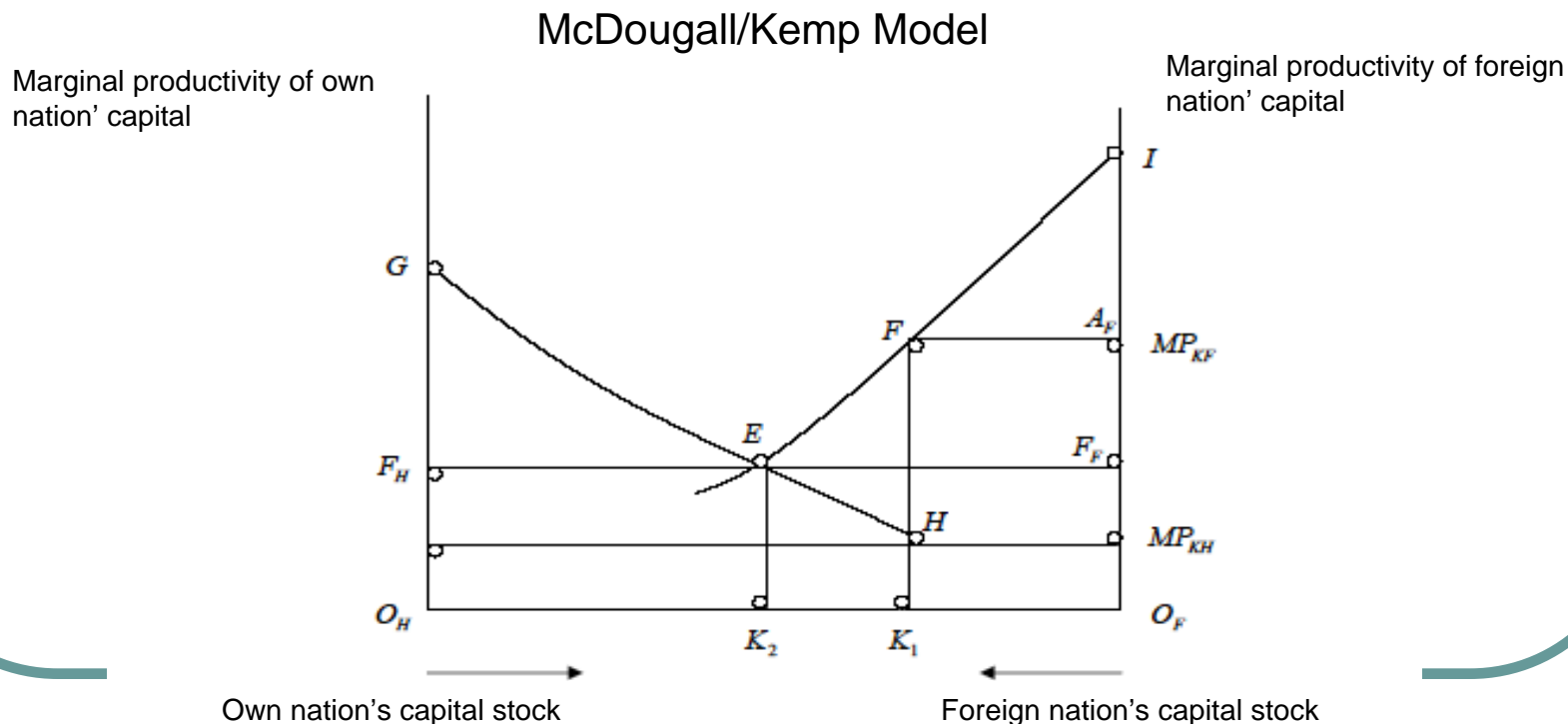
Benefits of Globalization ③

Financial Globalization and Economic Growth

(Theory)

① Direct channel

- Free international capital flow improves capital rationing efficiency and brings benefits on the world economy



Benefits of Globalization ④

② Indirect channel

- Financial globalization advances growth through other indirect channels as follows:
 - (i) Development of financial markets
 - (ii) Development of institutions
 - (iii) Improvement of governance (corporate management)
 - (iv) Discipline for macroeconomic policies

Benefits of Globalization ⑤

(Actual Proof) Liberalization of International Capital Flow and Economic Growth

- An examination of experiences of nations with rapid growth and ones with low growth for 1980-2000 shows that the level of financial openness is neither a necessary condition or a sufficient condition.

Chart 5 Nations Grown Fastest and Slowest (1980-2000) and Their Levels of Financial Openness

	Nations of fastest growth	Gross change of GDP per	Is financial globalizatio n level	Nations of sloweast growth (1980-	Gross change of GDP per	Is financial globalizatio n level
1	China	391.6	Yes/No	Haiti	-39.5	No
2	South Korea	234.0	Yes	Niger	-37.8	No
3	Singapore	155.5	Yes	Nicaragua	-30.6	No
4	Thai	151.1	Yes	Togo	-30.0	No
5	Mauritius	145.8	No	Cote d'Ivoire	-29.0	No
6	Botswana	135.4	No	Burundi	-20.2	No
7	Hong Kong	114.5	Yes	Venezuela	-17.3	Yes/No
8	Malaysia	108.8	Yes	South Africa	-13.7	Yes
9	India	103.2	Yes/No	Jordan	-10.9	Yes
10	Chile	100.9	Yes	Paraguay	-9.5	No
11	Indonesia	97.6	Yes	Ecuador	-7.9	No
12	Sri Lanka	90.8	No	Peru	-7.8	Yes

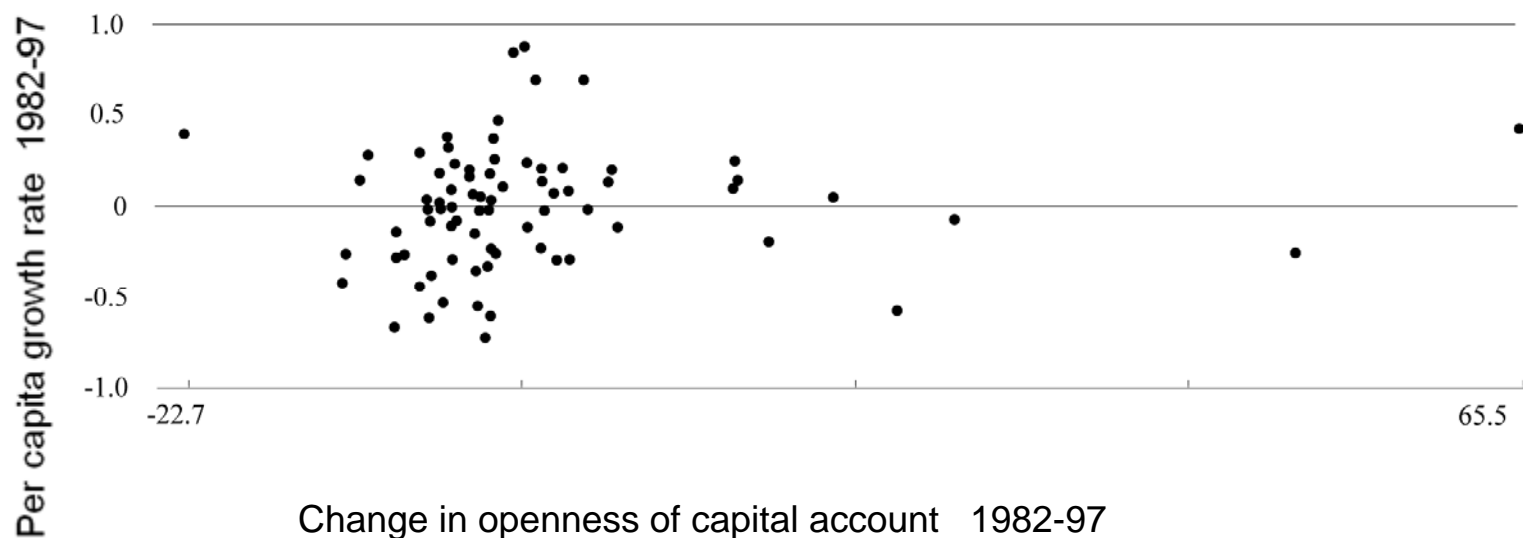
Origin: Calculations based on the data base of World Bank's World Development Indicator (WDI)

Original note: Per capita growth rates are the ones in real terms on the basis of constant local currencies.

Benefits of Globalization (6)

There is no correlation between the level of financial globalization and growth rates of real per capita GDP.

Elevation of Financial Openness and Growth of Real Per Capita GDP (simple correlation, 1982-97)



Source: Calculation by IMF staff based on Wel and Wu (2002b)

Original note: Level of openness of capital account calculated by (gross private capital inflow + gross private capital outflow) / GDP. Coef=0.002, Robust SE=0.003. t-statistics=0.67

Benefits of Globalization ⑦

Why is it that growth-promotional effectiveness of financial globalization cannot be observed?

- Investment increase effect can depend on the type of capital that flows in.
 - While FDI and domestic investment are in one-to-one relation, the effect of portfolio investment is the smallest, and one of loan is in the middle of these. (Bosworth and Collins (1999) p.161)
 - Proof of FDI's growth-promotional effectiveness is inconclusive. (Kose et al. (2006)pp.27-29)
 - Growth-promotional effectiveness can differ by investment targets (sectors) (Compared to a primary industry, FDI to manufacturing sector is likely to produce a greater growth-promotional effectiveness as it is closely linked to other sectors.)
 - FDI involving trade expansion is likely to be effective in promoting a growth.
 - There is a view that bank/currency crises in the process of financial globalization make a judgment on effectiveness on growth difficult. (Prasad et al. (2003)p.18)

Benefits of Globalization ⑧

Possibility that an indirect effect of capital flow is more important

- It is possible that benefits of financial globalization lie not in capital inflow itself but in such indirect benefits as development of financial sectors, improvement of institutions, and improvement of macro-policies which it promotes.
- Although a direct effect has been emphasized to date, should an indirect effect be important, then, growth-promotional effectiveness of financial integration can hardly be measured by separating from other related political measures.

(Kose et al. (2006) pp.33-53)

Globalization and Economic Disparity ①

(1) Theory

- A traditional trade theory states that each nation has comparative advantage in a commodity that utilizes more intensively a production factor which that nation possesses relatively in abundance, and that, brought forth through trade liberalization are the commodity's price increase, production expansion, and export, and that, as the result, the returns to the abundant production factor goes up.
- In developing nations the price of unskilled-labor-intensive commodity, in its turn, the wage of unskilled workers, goes up, thus the gap narrows. On the contrary in advanced nations the price of skilled-labor-intensive commodity, by extension, the wage of skilled workers, goes up, and the gap takes a widening direction.

Globalization and Economic Disparity ②

(2) Actual Proof

① Spread of disparity

- In recent years inequality (disparity) has escalated in all income groups. (Scarce support for the idea that freeing of trade profits less favorite)
- By region, the gap narrowed in Sub-Sahara Africa and CIS countries, but widened Asia, Central and Eastern Europe, Latin America, and advanced nations.

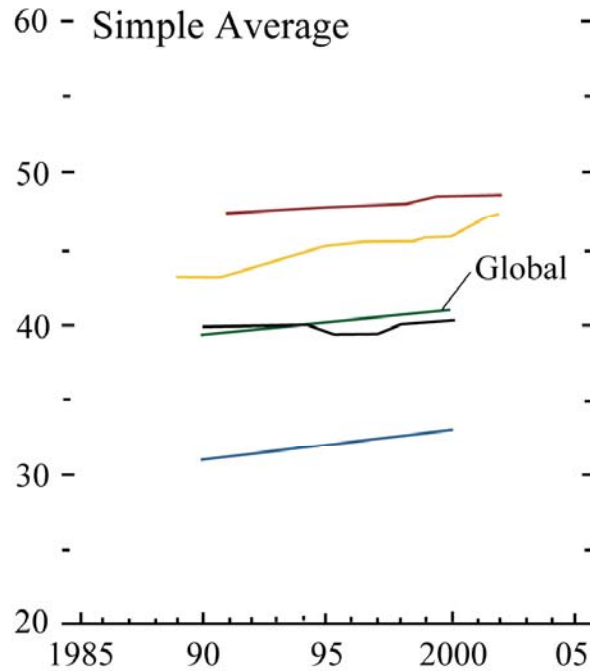
Globalization and Economic Disparity ③

Cross-Country Trends in Inequality

(Gini coefficient)

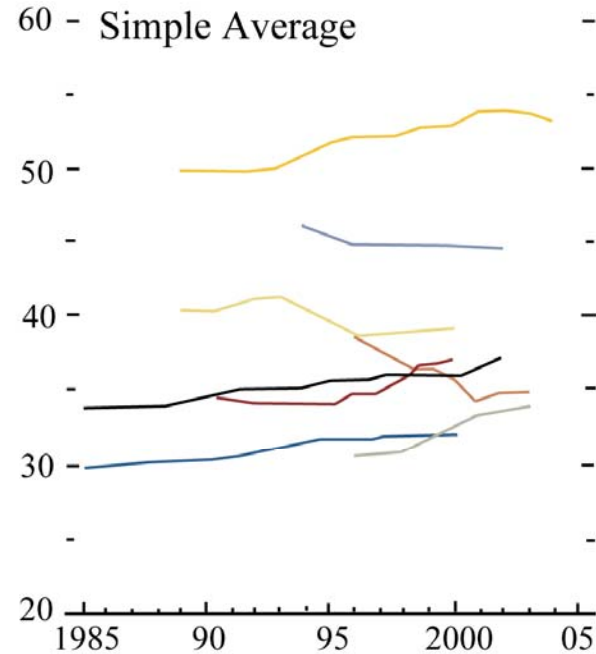
Average of Country Gini Coefficients by Group

- High income
- Upper middle income
- Lower middle income
- Low income



Average of Country Gini Coefficients by Region

- Advanced economies
- Newly industrialized Asian economies
- Latin America and the Caribbean
- Sub-Saharan Africa
- Central and eastern Europe
- Commonwealth of Independent States
- Middle East and north Africa
- Developing Asia

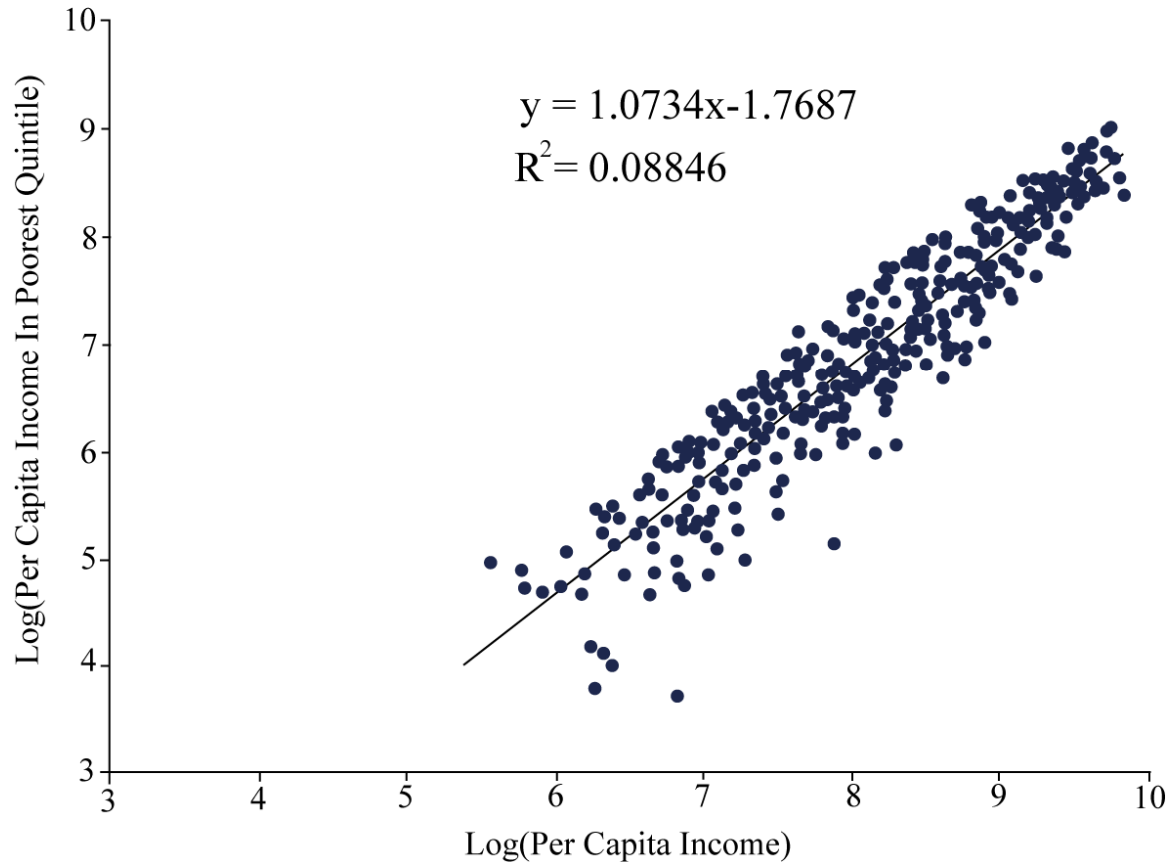


Source:IMF(2007b) p.36 <http://www.imf.org/external/pubs/ft/weo/2007/02/pdf/c4.pdf>

Globalization and Economic Disparity ④

Average income of the poorest 20% climbs nearly in proportion to per capita income of that nation.

Incomes of the Poor and Average Incomes Levels



Source: "Growth is good for the poor"
Author: David Dollar, Aart Kraay (2001)
the World Bank

Globalization and Economic Disparity⑧

Causes of Widening of Disparity

(a) Idea to stress influence of skill-biased technological progress

Note: Skill-biased technological progress is technological progress that increases advantage in productivity by possessing skill.

(b) Idea that financial globalization (FDI in particular) enhances inequality both in nations receiving and providing investment

(c) Idea that building of production network beyond national boundaries and advance in the trade of intermediate goods worsen inequality

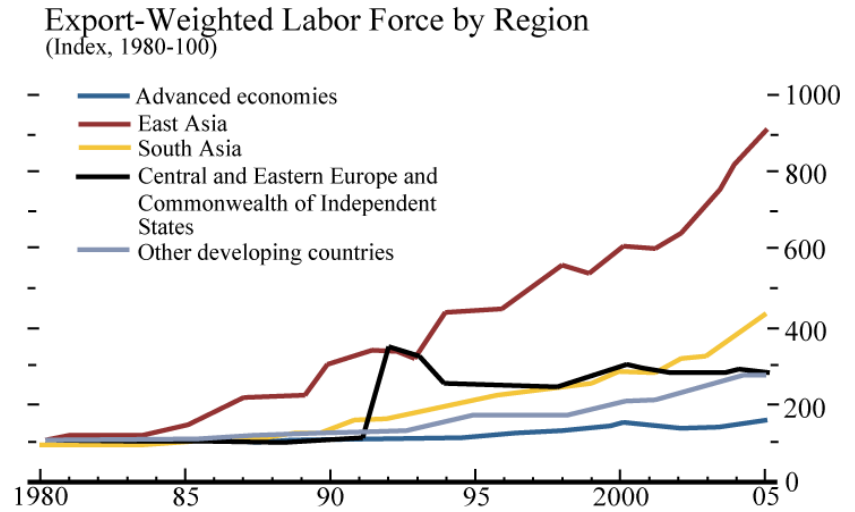
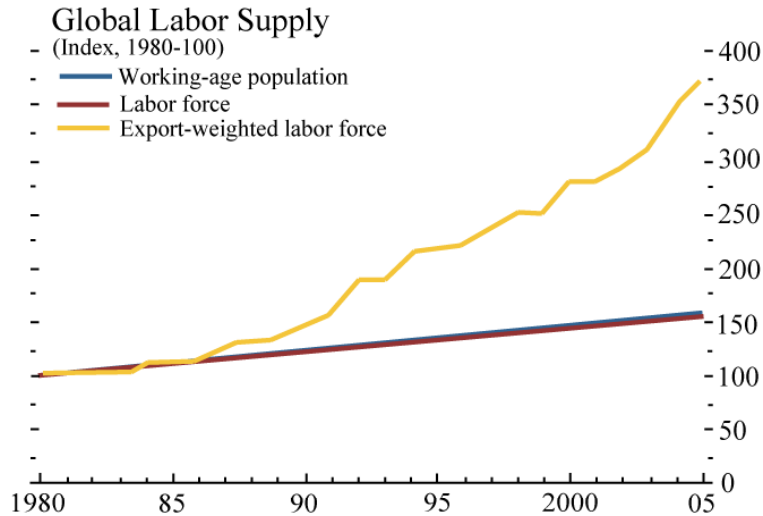
Globalization and Economic Disparity ⑨

(e) Idea to mark expansion of global labor supply

- Attributable to the opening of economies in China, India and former East-block countries, and ongoing changes in the movement of population, the global labor supply has increased significantly.
- To calculate the size of manpower that can potentially compete in the global market by multiplying each nation's manpower and ratio of export/GDP, and adding up, such effective labor supply almost quadrupled during 1980 through 2005 (most of the increase occurred after 1999).
- East Asia contributed to nearly the half of the increase.
- The majority of the absolute increase in global labor supply come from the rise in less-educated workers (those without higher education)

(IMF (2007a) p.162)

Globalization and Economic Disparity ⑩



Source: IMF (2007a) p.162
<http://www.imf.org/external/pubs/ft/weo/2007/01/pdf/c5.pdf>

Globalization and Economic Disparity ⑪

(f) Idea to focus on rise in employment instability

- There is an argument to advocate that trade liberalization raises instability of employment because of: ①intensification of competition in product market, ②increase in possibility to substitute domestic labor by importing intermediary goods, ③rise in dependence on non-regular workers who can be flexibly adjusted coping with changes in the world market. (No consensus as to proofs)
- Supposing that the degree of upswing in the instability differs by an individual's education level and age, inequality is likely to grow by the rise in instability promoted by globalization.

Globalization and Economic Instability ①

(1) Theory

- It is theoretically unclear as to globalization's influence on instability of production. (Prasad et al. (2003) p21)
 - Namely, trade liberalization promotes the specialization of production based on comparative advantage, which enhances economic vulnerability against shock peculiar to that particular industry.
 - On the other hand, freeing of capital flow facilitates the supply of capital to nations running short of capital, which contributes to the diversification of their production bases.
- Some point out that an abrupt change in capital flow may incur business fluctuations (boom-bust cycle) in developing nations that are not equipped with deep-rooted financial sectors capable to cope with unstable capital flow. (Kose et al.(2003) p123)

Globalization and Economic Instability ②

Impact on consumption instability

- An idea exists that regardless of influence on production instability, financial globalization theoretically reduces instability of the consumption standard.
- Namely, as fluctuation in production is not completely correlated striding over nations, through dealings of financial assets when an access to the international financial capital market become possible, a nation's consumption standard can be stabilized by separating it from production fluctuation peculiar to that nation.
(Prasad et al.(2003) p21)

Globalization and Economic Instability ③

(2) Actual Proof

① Economic openness and instability of macroeconomics

- A report indicates that a study, targeting at advanced and developing nations, regarding the influence of openness in the areas of trade and finance upon the instability of production, consumption and investment could not find any significant empirical relations between openness and instability of macroeconomics. (Kose et al. (2003)P.123)

Globalization and Economic Instability ④

Financial Globalization and Instability of Consumption

- Instability of consumption level in emerging nations where financial globalization made headway assumed an upward curve in the '90s.
- Meanwhile there is threshold effect that is supposed to largely reduce instability once financial globalization exceeds a specific standard, but the majority of developing nations are positioned below that threshold.

(Kose et al. (2003) pp. 119-142)

Globalization and Economic Instability ⑤

Frequency of Crisis Outbreak

- There is a study setting forth that the frequency of crises (probability) of banks and currencies combined has gone up as compared to the one in the period before the disintegration of Bretton Woods System (1945-71).
- Particularly the number of cases of currency crisis has climbed in emerging nations.
- GDP output losses caused by crises have grown larger across the board compared to ones in the period before the breakdown of Bretton Woods System

(Eichengreen and Bordo (2002))

Summary and Conclusion ①

(Driving Force of Globalization)

- Backed by the cross-border movement of technological progress in cost reduction and the reduction of political barriers, the driving force of economic globalization is considered to be the voluntary behavior that aims at securing benefits which each economic nucleus is able to obtain in microscopic scenes by carrying out the cross-border movements of produce, production factors, and production locations.
- Therefore unless some political deterrent measures should be adopted, or unless some costs exceeding benefits should accrue, economic globalization is expected to move forward uninterruptedly.

Summary and Conclusion ②

(Growth-Promotional Effect of Globalization)

- In macroeconomics while the majority of arguments seem to approve the positive growth-promotional effect of trade liberalization, there is no consensus established.
- Nor is there a consensus as to its mechanism. But it is considered that a mechanism operates compelling qualitative advancement of economic activities such as technological progress effect brought about by engaging in foreign trade and pressures on productivity improvement caused by integrating into the world market.
- No proof has been obtained as to the opinion that free capital flow promotes a growth, but rather it is possible that its direct effect is little.

Summary and Conclusion ③

(Globalization and Widening of Disparity)

- Along with the advancement of globalization, irrespective of advanced or emerging nations, domestic income disparities are becoming more serious.
- Although there is no consensus on a mechanism for widening of disparity:
On one hand on the demand side;
 - ① Increase in demand for skilled labor which FDI brings forth to both sides of nations that receive and provide investment
 - ② Increase in demand for skilled labor in both sides of nations that supply intermediary goods and provide outsourcing orders along with the building of regional production networks
 - ③ Backed by competition in the world market, an increase in demand for skilled labor in the wake of pressures on improvements in productivity and products' quality, and skill-biased technological progress. (Along with this, the demand for unskilled labor declines relatively.)

Summary and Conclusion ④

On the other hand on the supply side;

④ Serving as a background exists an abrupt increase in the supply of unskilled labor along with the market-oriented economic reform in China, India and former Eastern camp countries.

Furthermore,

⑤ There is a view to point out a possibility that the trade liberalization brings about the intensification of worldwide competition, substitution of domestic manpower by imports, and increase in dependence on non-regular workers, as well as worsening of employment instability; if the degree of upswing in the instability differs by an individual's education level and age, inequality is likely to grow by this process.

Summary and Conclusion ⑤

- Under the worldwide competition over productivity, the demand shift from unskilled labor to skilled labor, and further, within skilled labor, the demand shift to manpower with even higher skill are considered to continue without interruption, and corporations and individuals around the world are presumed to have to develop economic activities amid the worldwide competition having an eye on securing and acquiring higher technologies/ skills and higher education/training.
- Under this kind of process, it is highly likely that changes will be forced toward productivity advancement and qualitative improvement in the domestic economy, even in fields that used to be positioned relatively distant from competitive pressures in the world market particularly such as the labor market and regional economies, and those individuals, industries and states that can hardly participate in such competitions are thought to be exposed to risks to be economically subordinated.

Summary and Conclusion ⑥

(Globalization and Instability)

- At this writing, there is no definite proof as to whether globalization enhances instability of macroeconomics.
- But it is necessary to be mindful of a possibility that globalization may escalate instability of employment and regional economies through competitive pressures as mentioned above.

Summary and Conclusion ⑦

- As for emerging countries, some point out a possibility that the integration into the global financial market without being equipped with necessary conditions (stability in macroeconomics, sound financial sectors) has a bearing on recent outbreaks of crises, thus in a number of countries attempts to control inflows of unstable funds are being observed.
- In addition, it is not adequately clarified what kind of benefits financial globalization brings regardless of advanced nations or developing ones. Nonetheless, the fact of globalization has preceded in this field, and in addition to a partial careful treatment mentioned in above, it is possible to respond each time a problem occurs in a trial-and-error manner.

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