

Crisis of Globalisation

FMM conference 2024

HANSJÖRG HERR

BERLIN SCHOOL OF ECONOMIC AND LAW

Structure

A: World with a Lack of Convergence

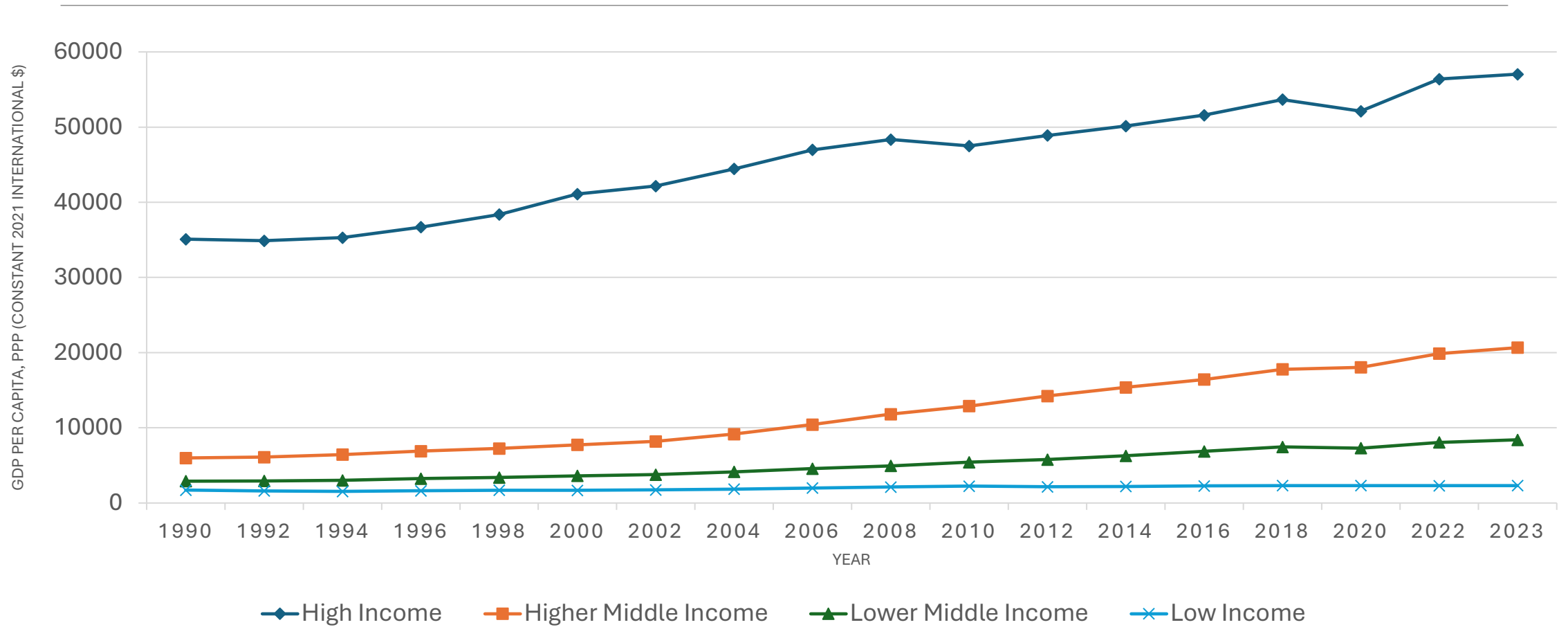
B: Economic Trade Models Explaining Lack of Convergence
(No debate about currency hierarchy)

C: New Imperialism?

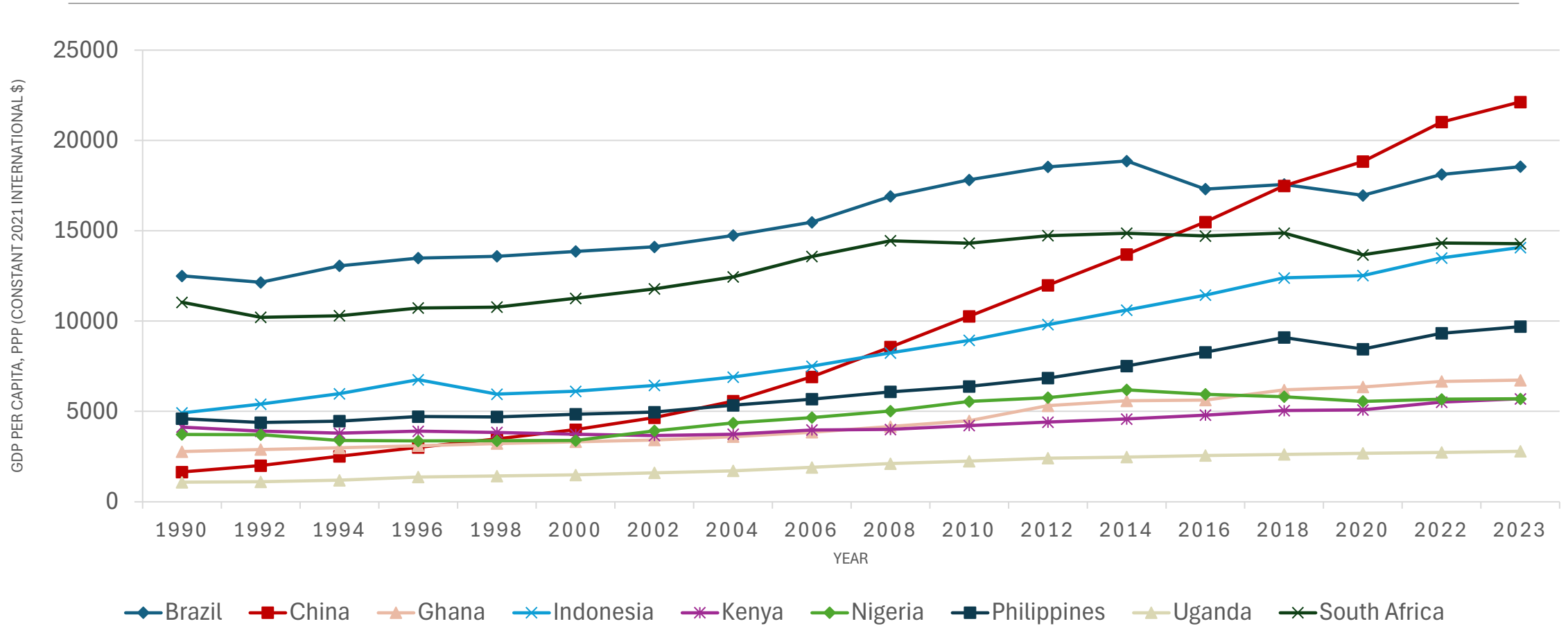
D: Policy Option

A: World with a Lack of Convergence

GDP Per Capita, Purchasing Power Parity (Constant 2021 International \$) 1990-2023

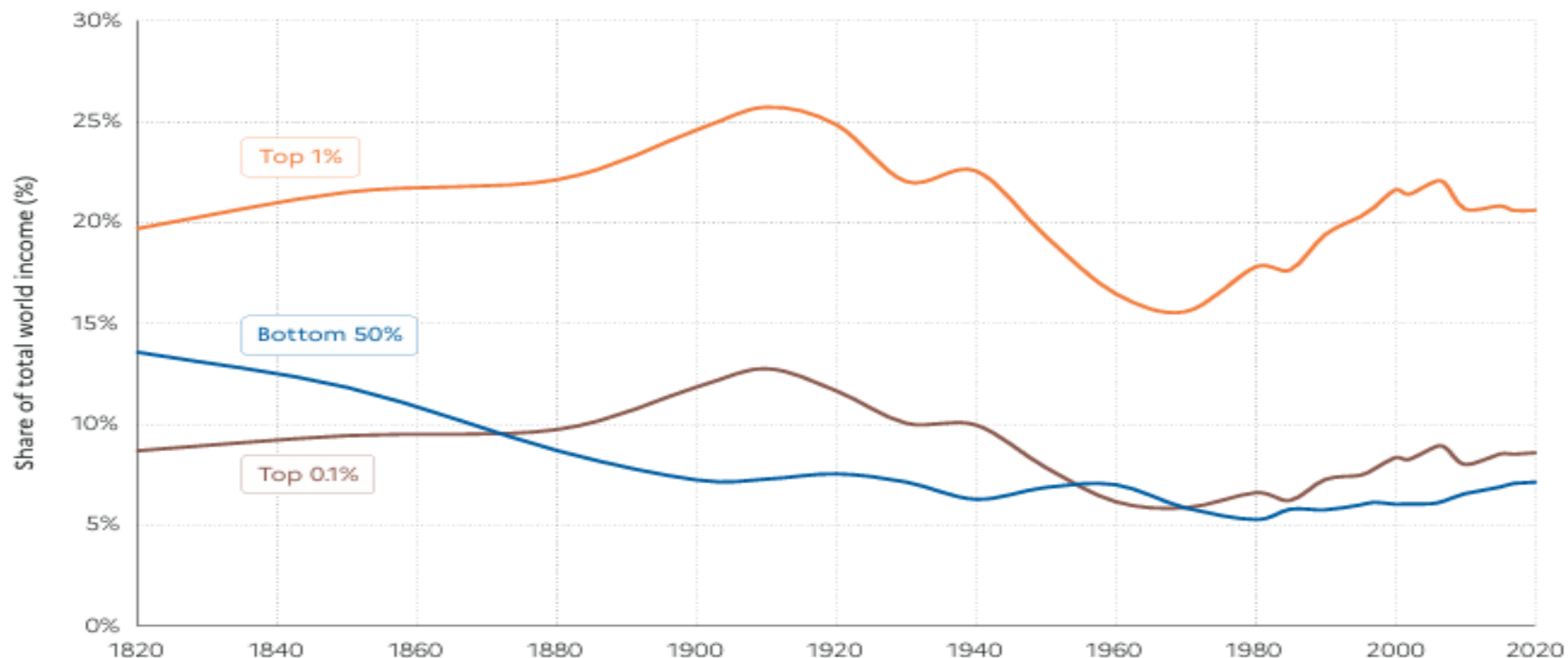


GDP Per Capita, Purchasing Power Parity (Constant 2021 International \$) 1990-2023



World Bank 2024

Figure 2.6 Global income inequality: top 1% and top 0.1% vs bottom 50% income shares, 1820-2020

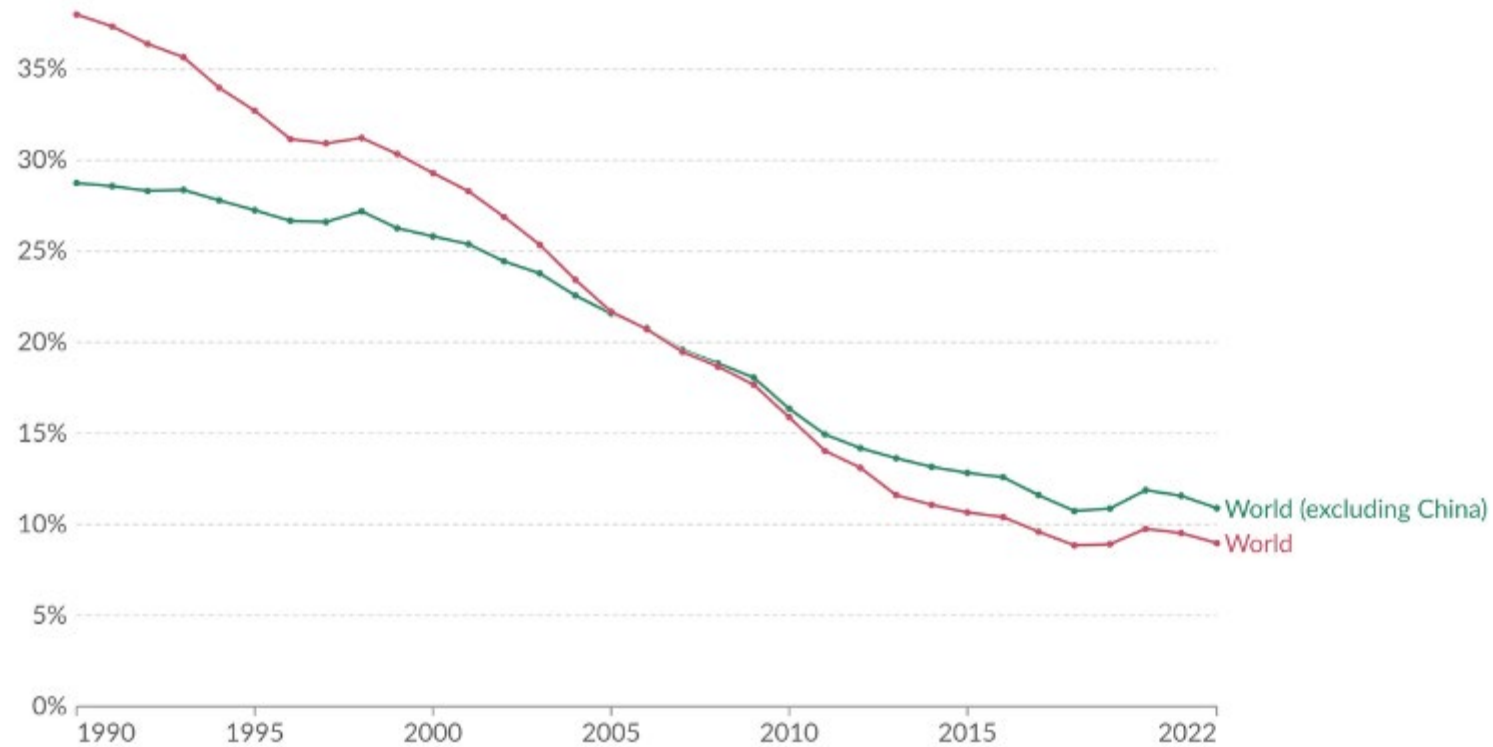


Interpretation: The share of global income going to the top 1% highest incomes at the world level has hovered around 15-25% between 1820 and 2020 (20% in 1820, 26% in 1910, 16% in 1970, 21% in 2020) and has always been substantially greater than the share going to the bottom 50%, which has generally been of the same order of magnitude as the share going to the top 0.1%. Income is measured per capita after pension and unemployment insurance transfers and before income and wealth taxes. **Sources and series:** wir2022.wid.world/methodology and Chancel and Piketty (2021).

Share of global population living in extreme poverty including and excluding China

Our World
in Data

Extreme poverty is defined as living below the International Poverty Line of \$2.15 per day. This data is adjusted for inflation and differences in the cost of living between countries.



Data source: World Bank Poverty and Inequality Platform (2024)

OurWorldInData.org/poverty | CC BY

Note: This data is expressed in international-\$ at 2017 prices. The data relates to income measured after taxes and benefits, or to consumption, per capita.

-
- Because of China and other emerging markets, inequality between countries slightly dropped
 - Absolute poverty decreased
 - However, inequality within countries increased substantially
 - There is very limited catching-up and there is no convergence – except for a few countries such as China

“Global inequalities seem to be about as great today as they were at the peak of Western imperialism in the early 20th century. Indeed, the share of income presently captured by the poorest half of the world’s people is about half what it was in 1820, before the great divergence between Western countries.”

World Bank, Inequality Report 2024, page 12

B: Economic Trade Models Explaining Lack of Convergence

a) Absolute Advantages, Natural Resources and Dutch Disease

- External value of domestic currency is for the industrial sector too high - the industrial sector is not developing
- Volatility of natural resource prices create shocks
- Tax system does in many cases not function - public budget depends on natural resource revenues
- Elites takes part in rent seeking
- Corruption is especially high
- **The additional demand for raw materials for the ecological transformation is likely to exacerbate the problem significantly**

b) Comparative Advantages

Less developed countries concentrate on

- Low-tech and
- Low-value-adding industrial productions or services

Developed countries concentrate on

- High-tech and
- High-value-adding industrial productions and services

No catching-up: learning effects, high qualifications, innovations, etc. are concentrated in developed countries

c) Internal and External Economies of Scale and Economic Clusters:

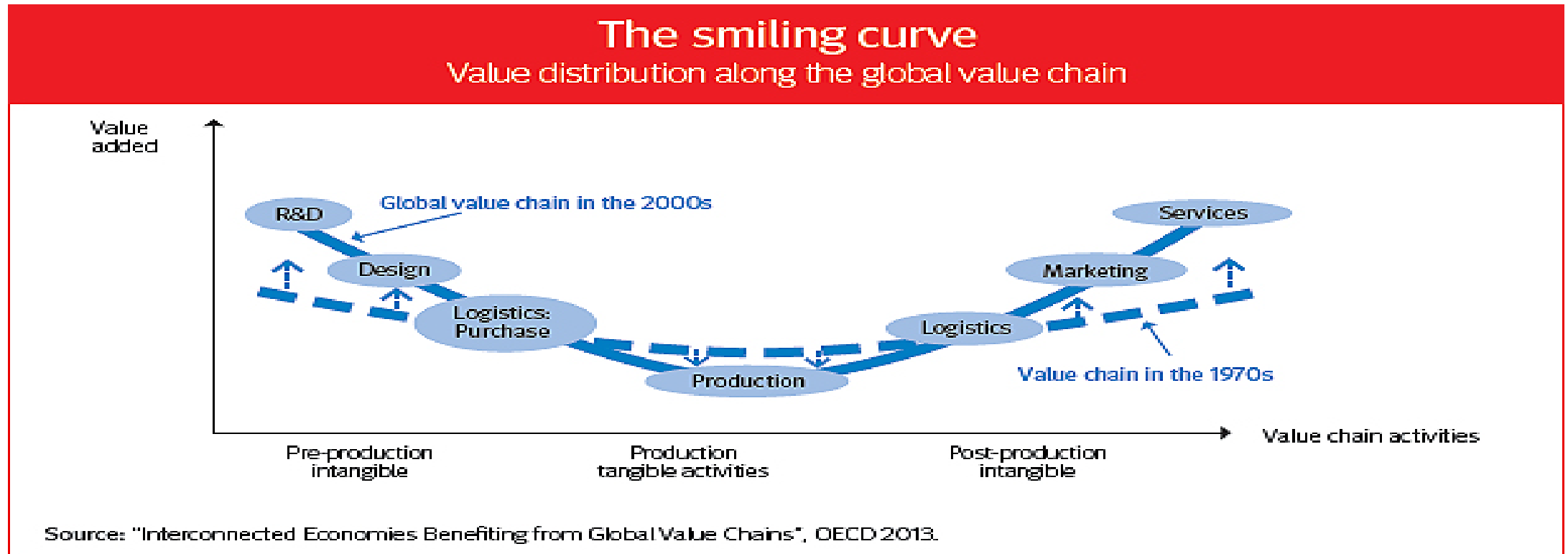
- Economic clusters and external economies of scale
- Late comers have problems to create new clusters

“Whether one prefers to explain the greater initial accumulation of capital in one region by the slave trade or the Protestant ethic, this is a model in which small beginnings can have large consequences.”

Krugman, P. (1981): Trade, Accumulation, and Uneven Development, in: Journal of Development Economics, Vol. 8, 149-161

- Oligopolistic markets and internal economies of scale
- Incumbent firms are protected from new competitors
- Less developed countries have difficulties to create national champions
- In developing countries markets prevent clusters and national champions

d) Global value chains (GVCs)



- In GVCs production is cut in different tasks which are produced in different countries
- The logic of comparative advantage can explain the allocation of tasks
- Developing countries take over the manufacturing stages
- Global value chains share of trade around 30%

GVCs

a) Logic of comparative advantages also works in GVCs

b) Lead firms manage GVCs

- Subcontracting
- Foreign direct investment (FDI)

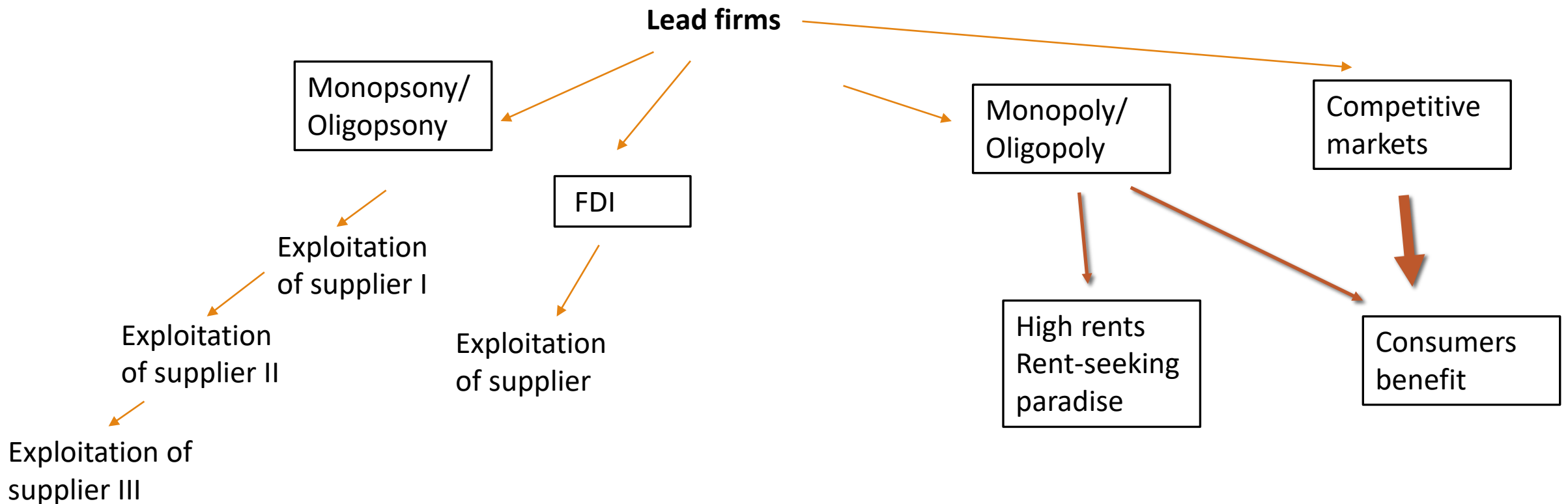
Dominating Role of Multinational Enterprises in Global Trade and GVCs

- In 2002 about 70% of world trade is controlled by just 500 of the largest industrial corporations
- A substantial increase in multinational enterprises (MNE)
 - 1970 7,000 in
 - 1990 35,000 MNE with 147,200 foreign affiliates
 - Early 2000s 77,000 MNEs with 773,000 foreign affiliates

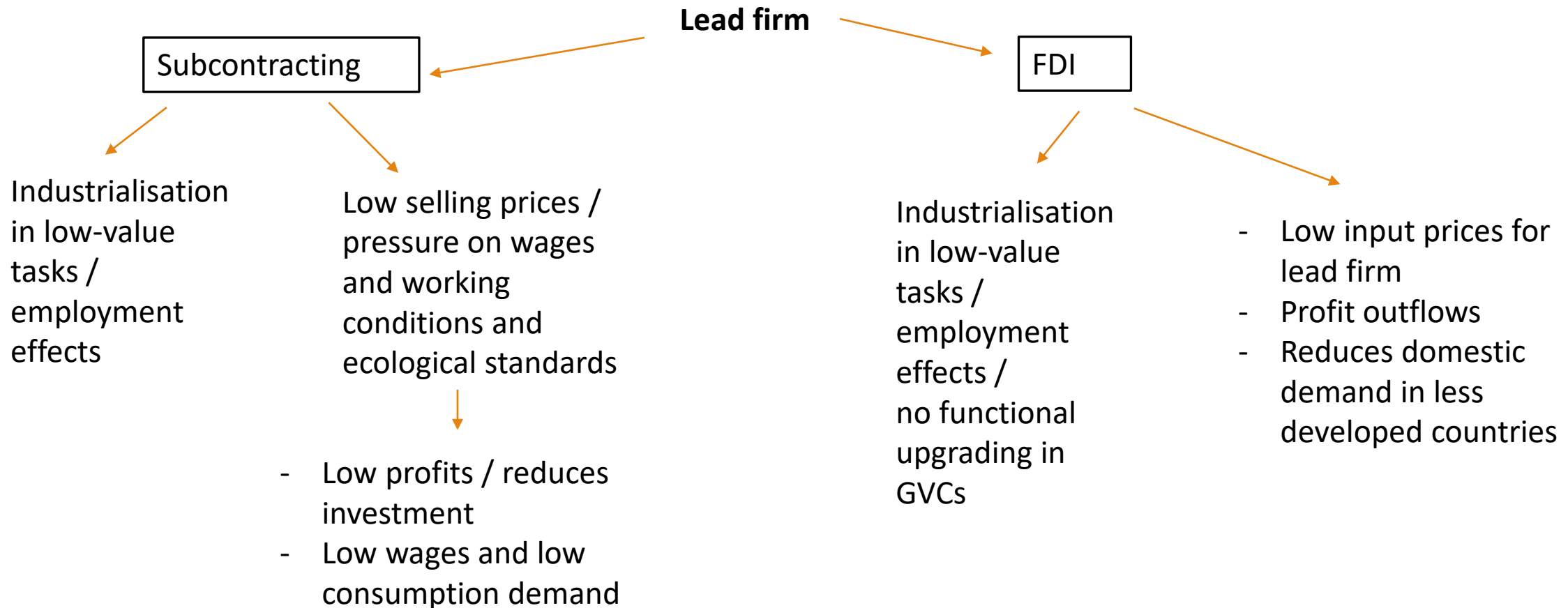
<https://sharing.org/information-centre/articles/multinational-corporations-overview>

UNCTAD. (2006). *World Investment Report 2006. FDI from Developing and Transition Economies: Implications for Development*. United Nations.

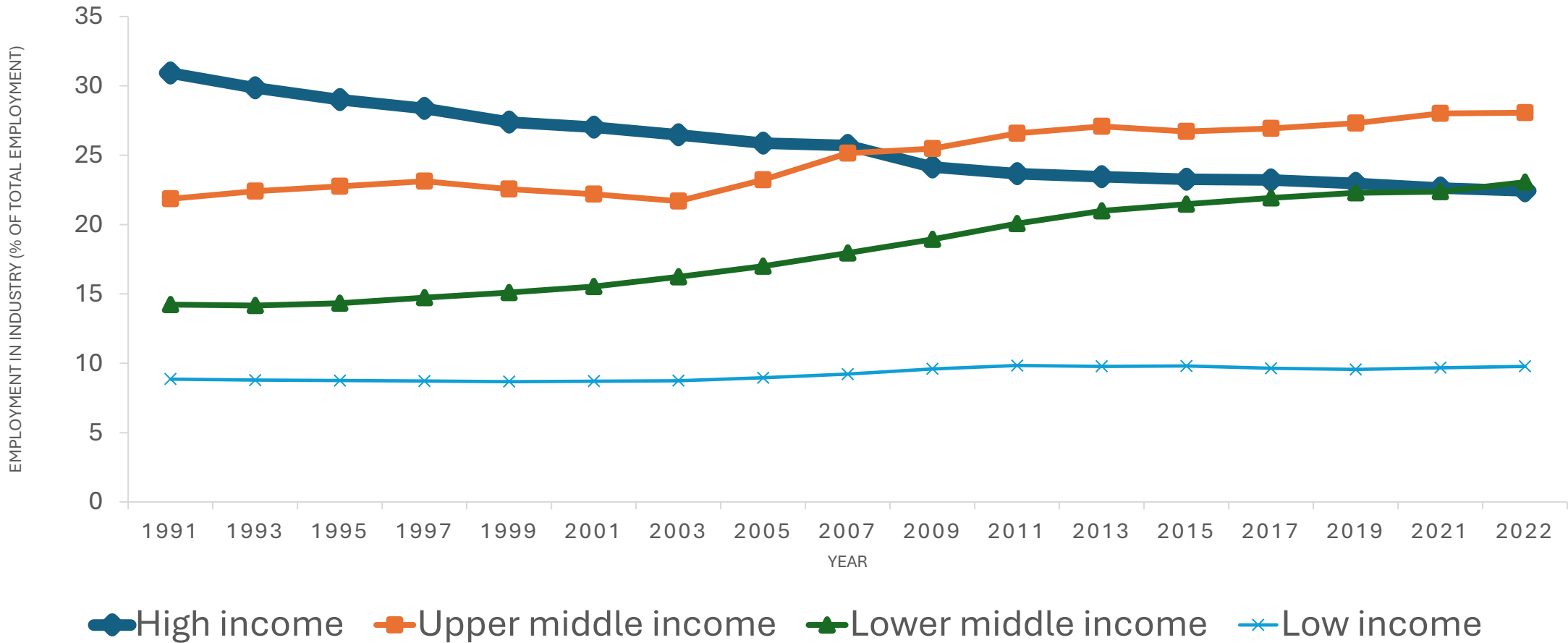
Typical Constellation in GVCs



Effects of GVCs for Countries in Less Developed Countries

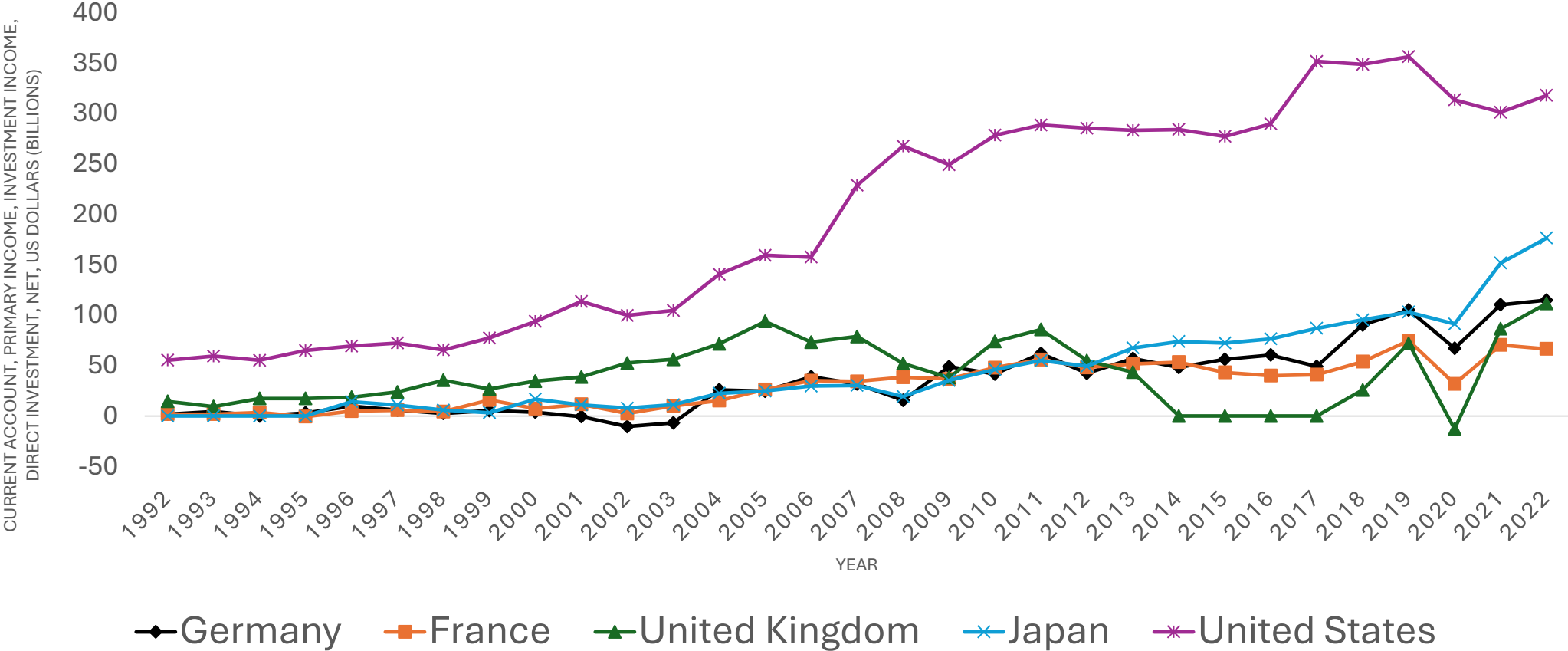


Employment in Industry as a Percentage of Total Employment



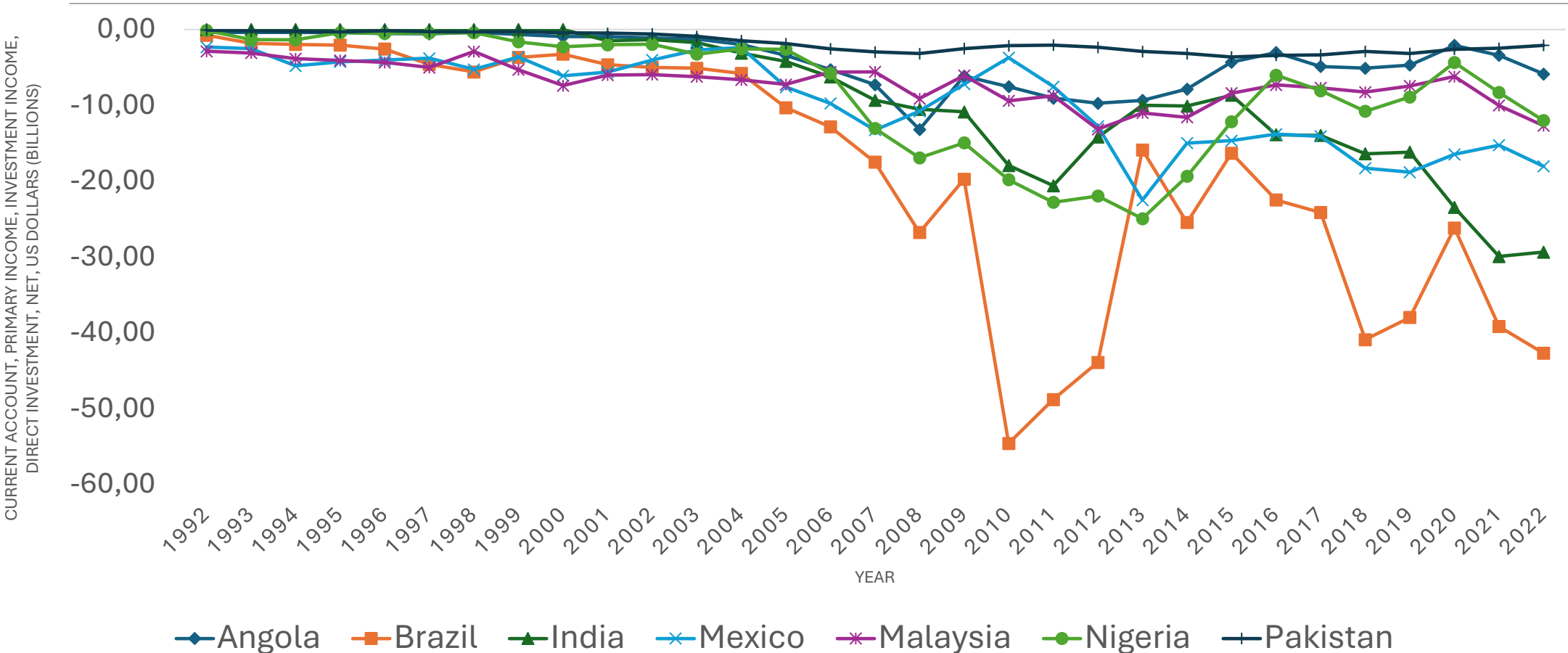
Source: World Bank 2024

Gross Border Income Flows from FDI, Net, US Dollars



Source: World Bank (2024)

Gross Border Income Flows from FDI, Net, US Dollars



Source: World Bank (2024)

C. New Imperialism?

Key points Surrounding Economic Debate on Imperialism Before World War II

(John Hopson, Rudolf Hilferding, Waldimir Lenin, Rosa Luxemburg)

Oligopolistic or monopolistic markets

Finance capital and industrial capital cooperate

Multinational companies, capital export and FDI –also driven by inequality and lack of demand

- In mining
- In agriculture, plantation
- Railway company, etc.

Profit and other capital income flows from colonies

Cheap natural resources and cheap and exotic agricultural products from colonies

No general industrialisation in less developed countries – partial deindustrialisation (India)

Part of working class in developed countries benefit from the system (aristocracy of labour)

Today: A Modified or New Type of Imperialism?

Multinational companies play a bigger role

Financialisation – finance plays a bigger role

Outsourcing covers also industrial production and services– partly industrialisation of less developed countries

Consumers in the global north benefit substantially from the global south – imperialist lifestyle (Markus Wissen), but low skilled-workers can be losers

Some countries with comprehensive government interventions managed to catch-up and became competitors of developed countries

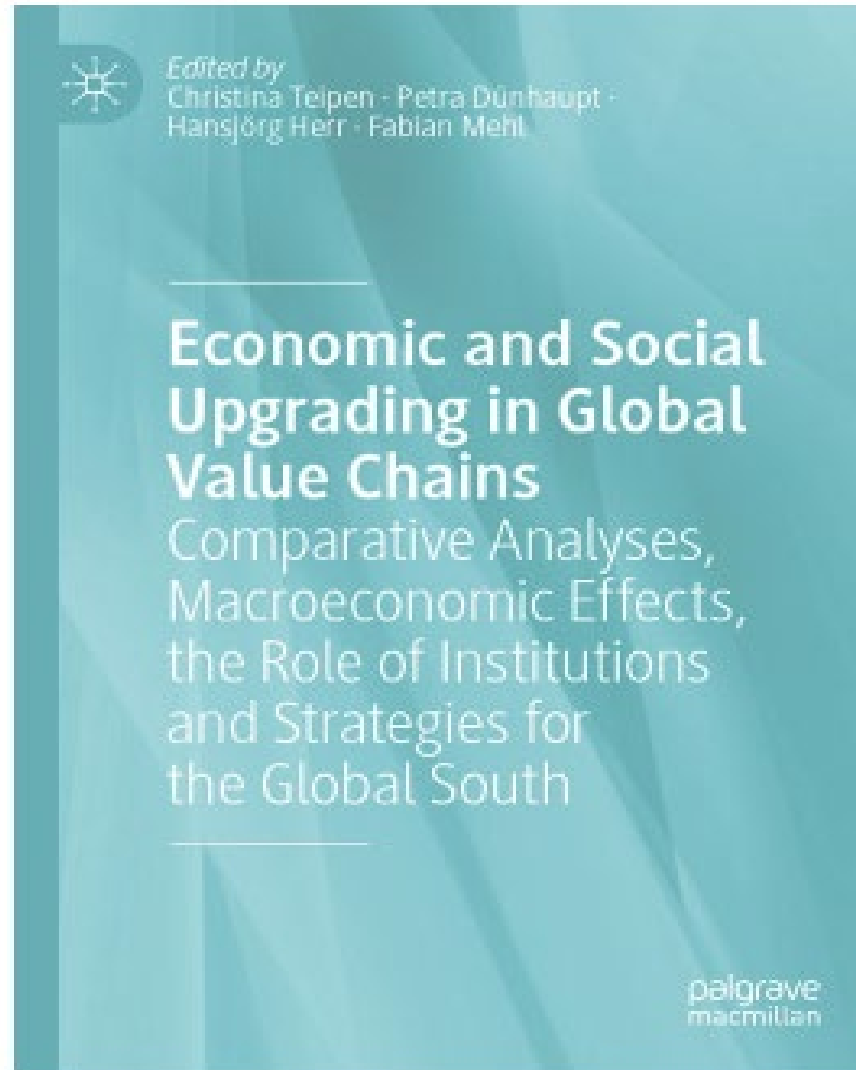
Overall: No catching-up in most countries in the world

Globalisation is in a crisis: it does not deliver equal productivity levels and living standards

E. Policy Options

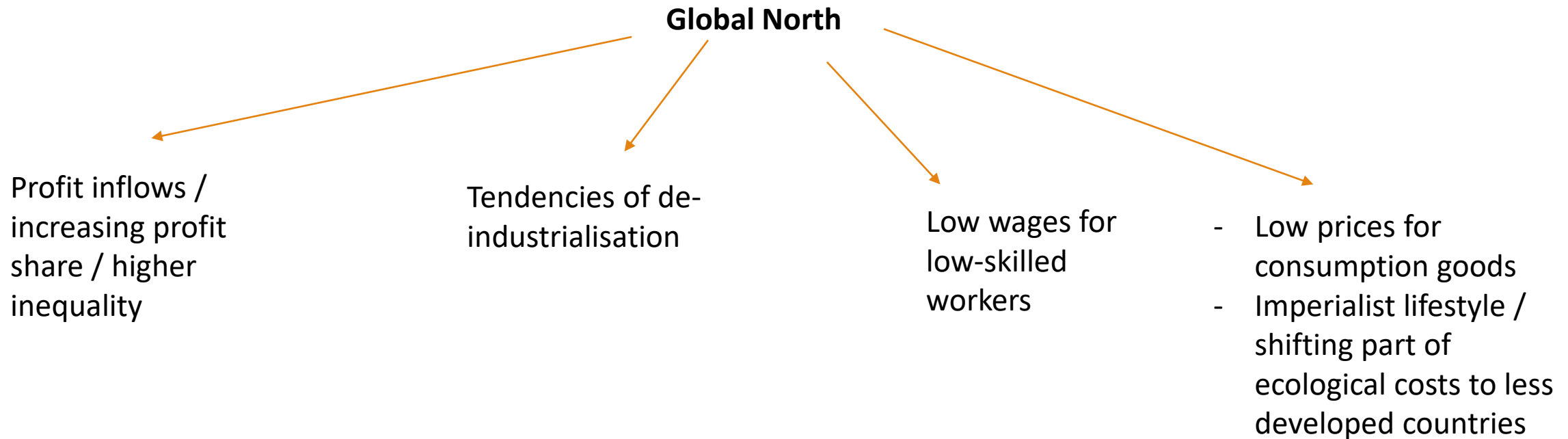
-
- Comprehensive horizontal and especially vertical industrial policy is needed
 - Free trade as a goal must be abandoned
 - Dani Rodrik speaks about the “globalisation trilemma”
 - Certain deglobalisation is needed
 - Control of international capital flows
 - More regional trade – internalisation of ecological damage in transportation costs
 -

Thanks

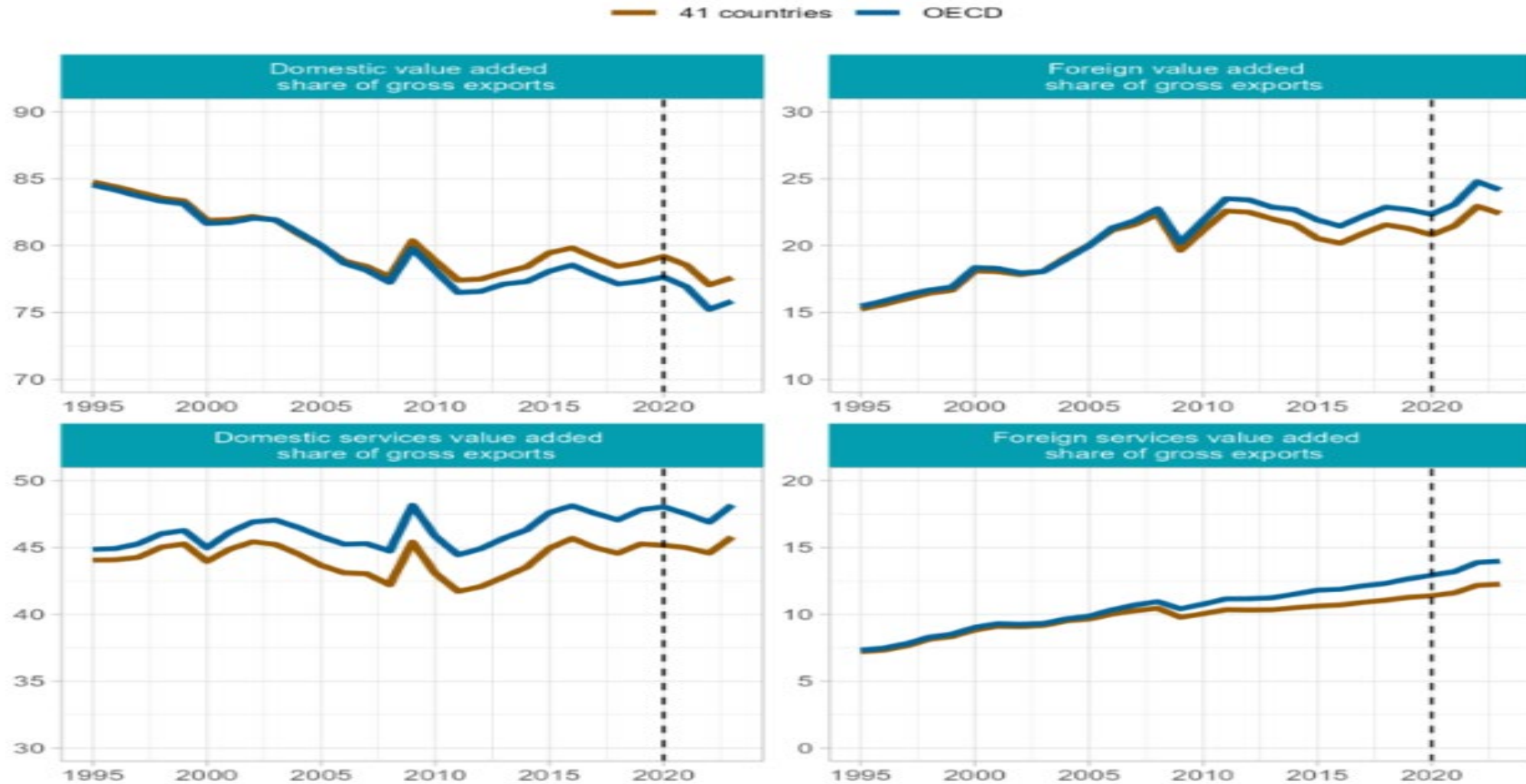


9781107000000 - 47.00 € - 24.00 €

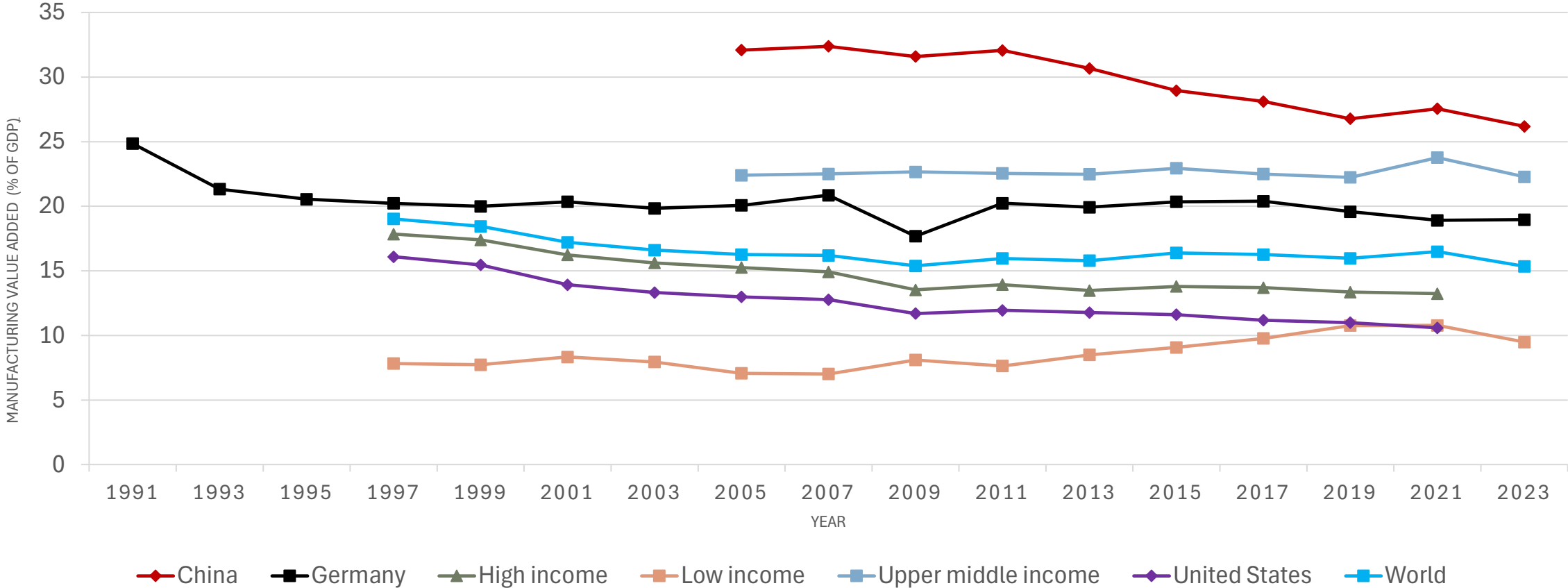
Effects of GVCs in More Developed Countries



Development of global value chains



Manufacturing Value Added as Percentage of GDP





GNI per Capita & Income Thresholds

