

GLOBALISATION BEYOND THE GLOBAL FINANCIAL CRISIS

HSC Students Conference

25 August 2009

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Global economic issues



OVERVIEW

- **The Global Financial Crisis and global recession**
 - Is this the end of globalisation?
- **Impacts of globalisation**
 - Faster or slower growth?
 - Increased or decreased inequality?
 - Forwards or backwards on free trade?
- **Conclusion**
 - Is this the end of the globalisation era?

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The global recession

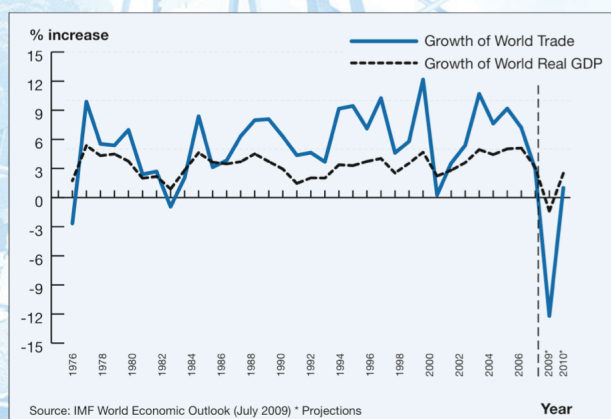
- The worst global recession in 75 years
- From the “glory days of capitalism” in 2007 to “deglobalisation” in 2009
- The global financial system almost collapsed in late 2008
- The financial crisis is a crisis of globalisation
 - Just as globalisation fuelled higher economic growth, it has fuelled a deeper global slump

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The collapse in growth



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The global recession

- Severe recession centred on major advanced economies
- Slump in global economic growth:
 - from an average of 4.7 per cent during 2003-2007 boom period
 - to an average of 1.3 per cent from 2008-2010
- Unemployment up sharply
- Budget deficits at extraordinarily high levels
- The exit from the recession is expected to be slow and grinding

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Impact of the GFC (1)

1. Greater regulation of global financial flows
2. Shift in economic power balances
 - China's power grows at expense of US and EU
 - China proving resilient while advanced economies remain weak
3. Increasing importance of the G20
 - G7's role diminished

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Impact of the GFC (2)

4. **Commodity prices have not collapsed as would be expected**
 - Indicates higher prices are here to stay
5. **Slow recovery for advanced economies**
6. **'Washington consensus' weakened**
 - Free market and deregulation policies are being blamed for the financial crisis
 - A new era of regulation and govt intervention
7. **Progress on Doha Round less likely**

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FASTER OR SLOWER GROWTH?

- Overall growth has risen only slightly
- Greater synchronisation in international business cycle
- But a wider gap between 'winners' and 'losers' over medium to longer term
- Globalisation helps explain successes and failures
 - Fast-growing countries have used globalisation to their advantage eg China
 - Failing economies are generally those isolated from global finance and trade

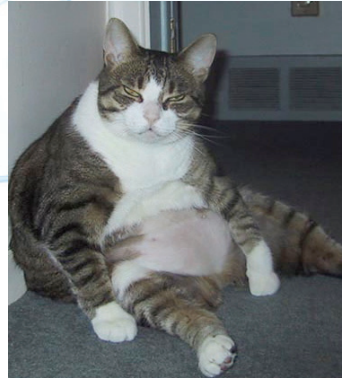
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INEQUALITIES: BETTER OR WORSE?

- Global economy is more unequal than any individual economy
 - Top 5% are 165 times richer than the bottom 5%
- Most inequality is caused by gap *between* economies, not *within* them



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INEQUALITIES

- After centuries of deterioration, overall inequality falling
 - Mainly because Asia is experiencing 'catch-up' to developed world incomes
 - Only 160 years to go!
- Inequality is greatly influenced by regional factors
 - Falling inequality within countries in Asia, Latin America and the Middle East
 - Rising inequality within transition and sub-Saharan African economies (and rich nations too)



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TRADE AND THE GLOBAL ECONOMY

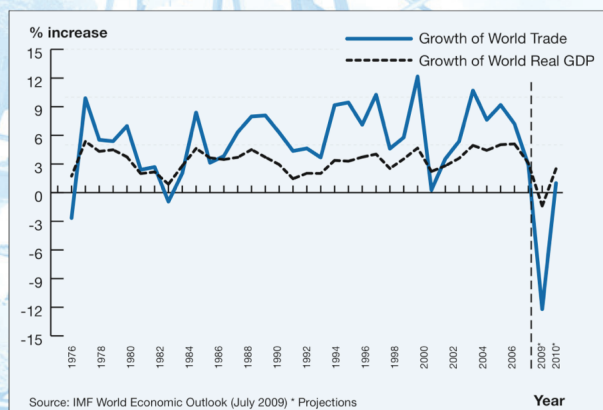
- **WTO's Doha Round is ambitious: cut protection in developed and developing countries**
 - Broader range of issues aimed at developing countries
 - Agriculture, manufactures, services
 - Would assist confidence and global recovery
- **But the Round has almost entirely collapsed...**
 - July 2008 meeting was suspended due to disagreement
 - In April 2009 London G20 meeting, countries have pledged to complete Doha round
 - But it is not clear how agreement will be reached
- **Meanwhile, bilateral and regional agreements increasing**

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The collapse in world trade



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CONCLUSION

- **The GFC and recession have shaken basic assumptions about globalisation**
- **Confidence in the drivers of globalisation shattered**
 - Financial markets and dominance of advanced economies
- **Global economic system facing major tests in the future**
 - Recovery, free trade, dealing with inequality and getting agreement on climate change

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