

GLOBALIZATION: HERO OR VILLAIN?

Op Ed by Dr Rory Knight



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JOONGANG SUNDAY

JoongAng Sunday is the Sunday edition of the leading Korean language daily newspaper JoongAng Ilbo. It is one of the three largest newspapers in South Korea. The paper also publishes an English edition, Korea JoongAng Daily, in alliance with the International New York Times.

Korea is the poster boy for the benefits of globalization. There can be little doubt of the opportunities that globalization has opened up for Korea. Since the creation of the modern state Korea has participated in world trade with determined gusto and has built an economy with a per capita income which began below the level of Africa and now equals the European Union.

Korean trade data are the gold standard

In fact Korean trade statistics are now routinely employed by leading economists, such as Jim O'Neill, the originator of the famous BRICs acronym, as a key lead indicator of the health of the world economy. This data series qualifies as a significant variable in many models of the world economy for three reasons.

Firstly, because it is so timely. Korea produces trade numbers on a monthly basis within 30 days, which is by far the most efficient of any country - full credit to Korea's Ministry of Trade, Industry and Energy (MOTIE). Secondly, Korean exports are extremely diversified spanning a wide international range. Thirdly, the figures involve a high level of trade with China which means it acts as a proxy for demand from China - China being a major driver

of world economic growth given its scale as the world's second largest and fastest growing economy.

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This indicator is doing extremely well, as shown in the tables provided below. At the beginning of this month MOTIE released preliminary data which showed Korea's April exports increasing by 24.2% from a year earlier to \$51.01 billion (Figure 1), while imports grew at 16.6% to \$37.75 billion, generating a \$13.25 billion trade surplus (Figure 2). Exports rose at the fastest pace since August 2011 when they gained 25.5%. April 2017 is in fact the second highest month on record. This augurs well for world economic growth, and yet the media generally paints a much more pessimistic picture.

Why such a bad press?

Why then is globalization - the free movement of capital and labour coupled with unfettered trading access to markets - receiving such a bad press? It is being blamed for the hollowing out of industries, the destruction of jobs, the circumvention of national regulations and tax responsibilities, damage to the environment, the undermining national identity and culture ... The list goes on and on.

Many - perhaps most - around the world have identified globalization as having had a negative impact on their lives. Migration, an inevitable part of globalization, has also developed a reputation as the local job destroyer rather than the driver of growth it really is. Data from the World Economic Forum shows that in various surveys in all but a few countries people believe that life was better prior to globalization. Surprisingly perhaps the most negative areas were the key countries in the G7. An actual majority of those surveyed in those countries firmly held to the view that globalization made their lives worse. In France the numbers were the highest (81%), followed by the US (65%) and the UK (65%), and then Germany (59%).

Yet globalization's achievements are many and various. Witness the growth in Korea. It has lifted millions out of poverty; reduced costs, improved the efficient distribution of goods and services worldwide, and provided a boost to technological innovation. We are arguably living through the longest period of shrinking inequality the world has ever seen. Mr Piketty's recent and regrettably influential book which potentially wrongly promotes the notion of widening inequality has much to answer for if proven inaccurate. This view of inequality needs to be challenged.

The world economy is healthy

A brief tour d'horizon of the world economy illustrates the benefits of globalization. If media commentary about the state of the world were to be believed, one would think it was performing a lot more weakly. But that's simply not true. The IMF in their April forecasts upgraded the growth prospects for the world economy for the first time since the financial crisis. World GDP growth in the past four years has averaged 3.4% - pretty much the same as the past thirty years. True, it has been weaker than the 1990s when world GDP growth was 3.7%, but it's still stronger than the previous two decades when it averaged about 3.3 percent. In the first half of 2017 the world economy was stronger cyclically than at any time since the financial crisis of 2008.

So the question again poses itself: why does globalization receive such a bad press? Perhaps it is fueled by an underlying mood of pessimism in the West. The spectre of the 9/11 attacks (the ominous 21st Century equivalent of Titanic sinking in the early years of the previous century), the long dark shadow of the 2007 financial crisis together with unresolved and inconclusive wars in the Middle East all still loom large in the collective psyche. In addition, the irresistible shift of the global economic centre of gravity towards Asia has no doubt played a role in denting arrogant Western confidence.

Quo vadis globalization?

So what now for globalization? Currently it faces threat on three major fronts:

1. A move towards national protectionism. The election of President Trump, the increasing popularity of Le Pen in France and the leave vote in the UK Brexit referendum all illustrate the populist revolt against globalization, either directly or indirectly. Pulling back from the North American Free Trade Agreement (NAFTA) and the Trans Pacific Partnership (TPP) by the US is a direct blow to free trade, and President Trump's reticence at the most recent G7 summit on the Paris accords on climate change further sets back global co-operation.
2. The rise of regional blocs such as the EU, and the tensions to which they inevitably give rise, arguably hinder globalization rather than promoting it. The current stand-off between Britain and the rest of the EU is perhaps the clearest manifestation of these tensions in the form of a would-be independent Britain confronting a fortress-like bloc of the EU.

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3. But among the biggest threats are undoubtedly conflict and terrorism. Terrorism is a blow to the heart of

globalization. Recent attacks such as those in Paris and Manchester have meant that domestic agendas are increasingly dominated by issues of local national security. The Manchester Arena attack incidentally has a particular aspect of poignancy regarding globalization. The city of Manchester's fortunes have been inextricably linked with globalization, being the pinnacle of the world cotton trade before its demise. How symbolically fitting is it that the city's memorial ceremony was held in St Ann's Square under the shadow of that great nineteenth-century Mancunian advocate of free trade and economic liberalism, Richard Cobden.

Regardless of whether globalization is hero or villain, a pull-back from free trade and globalization will damage economic growth. It could even result in trade wars, as a result of which the lacklustre performance in emerging markets would be certain to continue to deteriorate.

President Moon on a tight rope

Korea is at the very front of the firing line and will suffer more than most countries if such a retreat from globalization becomes reality. The view of international investors is very much focused on President Moon and how he responds to the various challenges confronting him. Not everything is in his control. However, a falling out with the US or China with a knock-on effect on trade would have an immediate and dramatic effect on the Korean economy. Korea will need to continue to walk the tightest of ropes between China and the US - something fortunately in which it is well practiced.

These issues are currently weighing on Korean stock markets and the value of the currency. The early indicators are that growth will rise and Korean trade flourish, making current stock prices an attractive proposition for international investors. But much depends on how President Moon is able to deal with foreign affairs. International investors await clear signals that Korea

has a clear direction in its foreign policy, one that reflects an understanding of the Korean economy's dependence and its sensitivity to globalization.

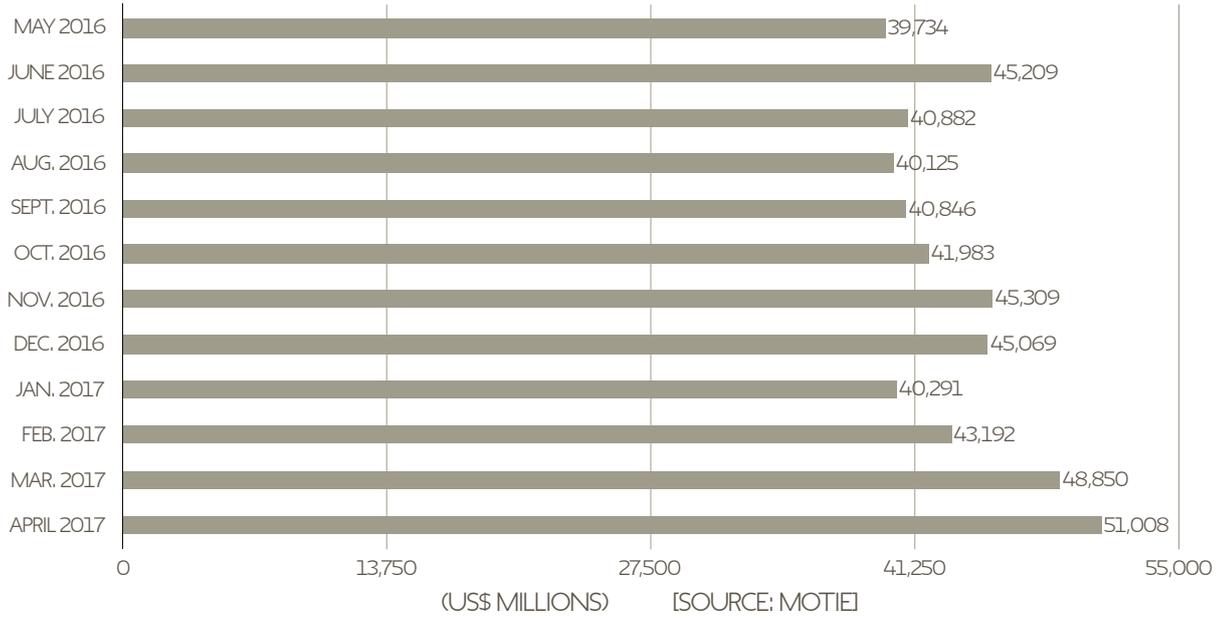


FIGURE 1
Korean Exports

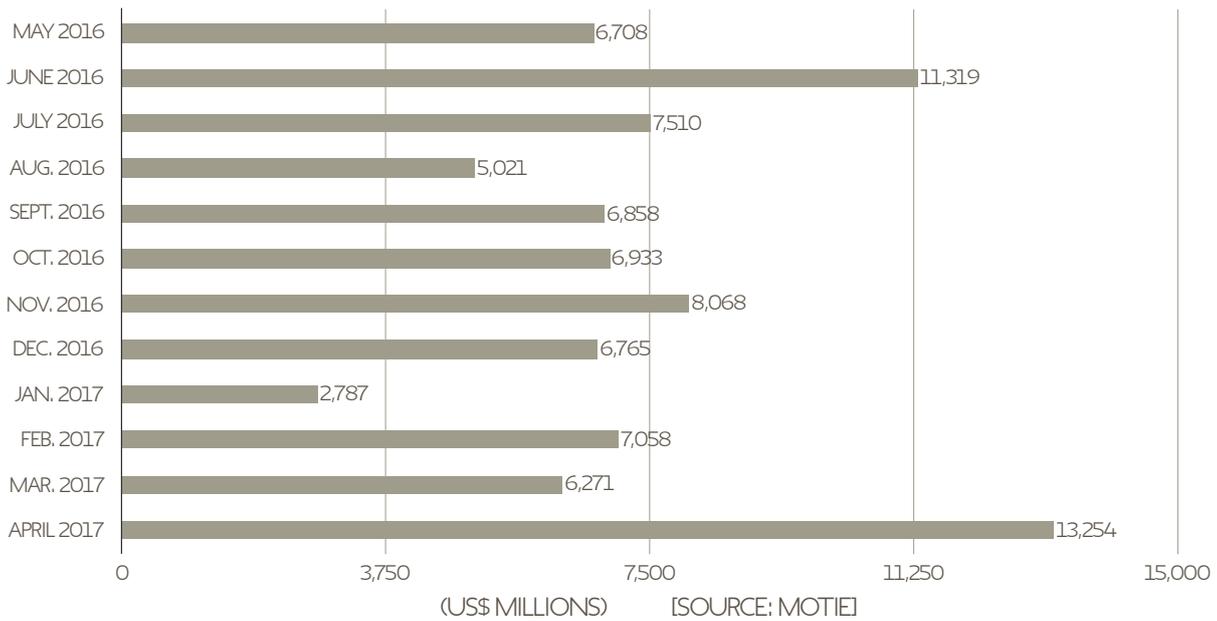


FIGURE 2
Korean Balance Of Trade

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