
Discussion of Nigel Pain
“Policy Challenges of Globalization”

John Fernald

Federal Reserve Bank of San Francisco

Presentation surveys a huge amount of work

- Documents scope of globalization of production and capital markets for OECD economies

Assesses policy challenges of globalization, such as structural transformation...

Terms of trade effects (final consumer goods v. energy markets)

Financial market contagion: Increased sensitivity to global shocks

My focus: How important is globalization?

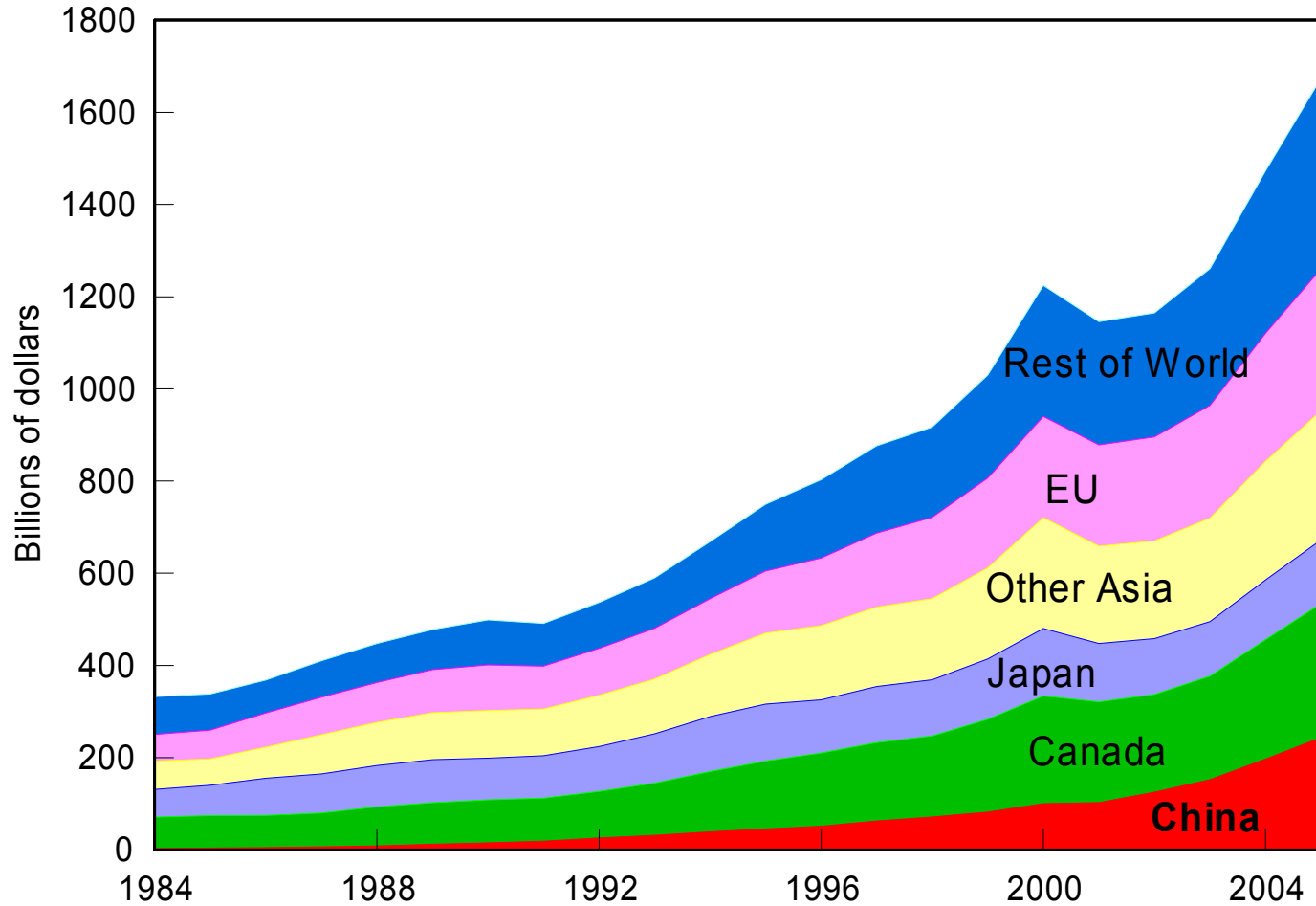
- How important is the emergence of China and India for industrialized economies?
- What's the underlying driving force behind globalization?

Economic development in China and India has first-order effect on global welfare

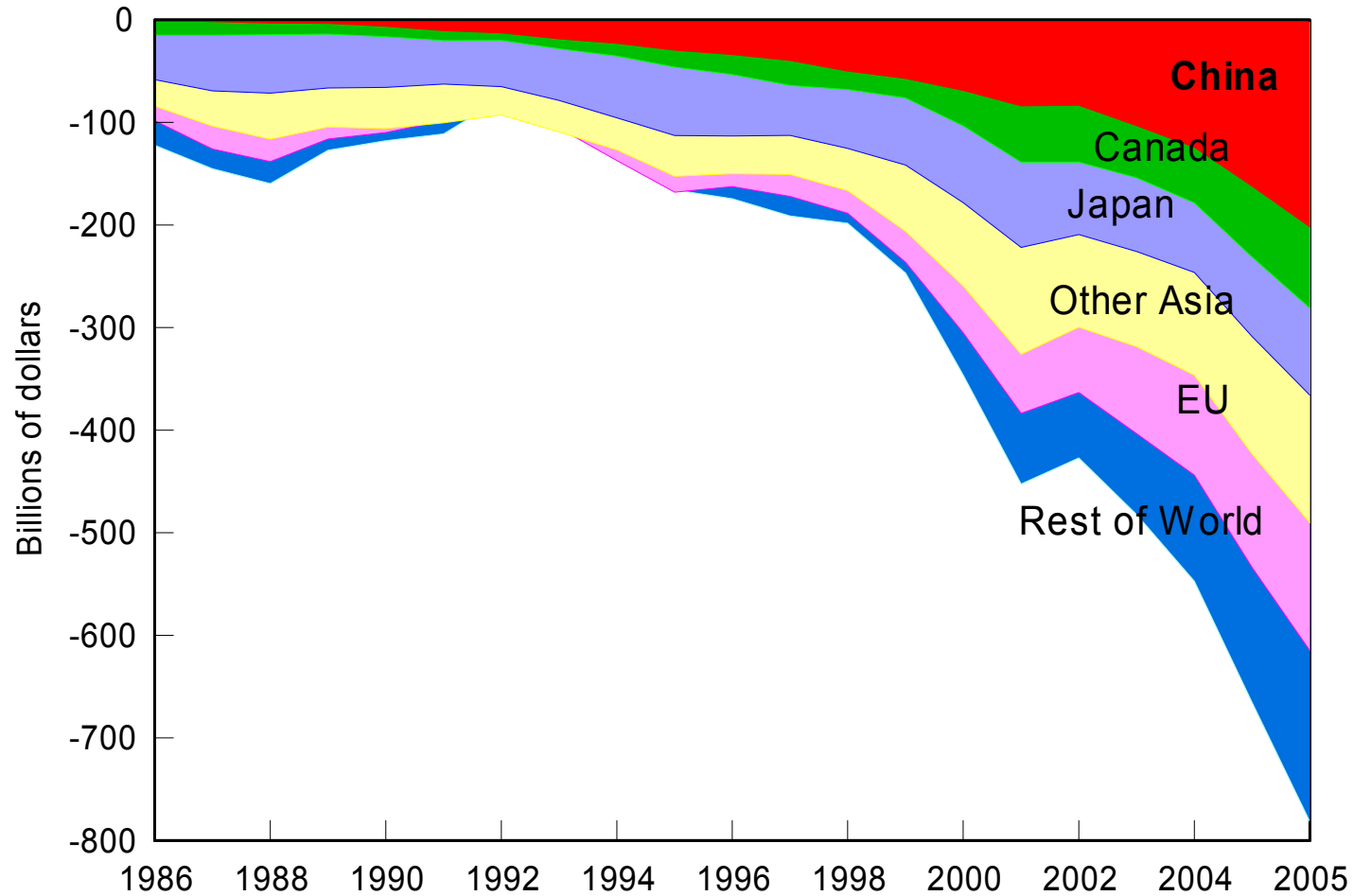
	China	India	Global Avg.
GDP/capita 2004 (PPP dollars)	\$5,896	\$3,139	\$8,908
Per capita growth rate, 1990-2004 (annual)	8.7	4.0	2.2
Share of global GDP (PPP, percent)	15	6	--
Share of global GDP (mkt exch. rates)	5	1	--
Share of global merchandise exports (2005)	9	1	--
Growth rate of exports (1990-2005, a.r.)	17	12	8

Sources: World Bank, IFS, and DOTS.

China is now the second largest source of merchandise imports in the United States



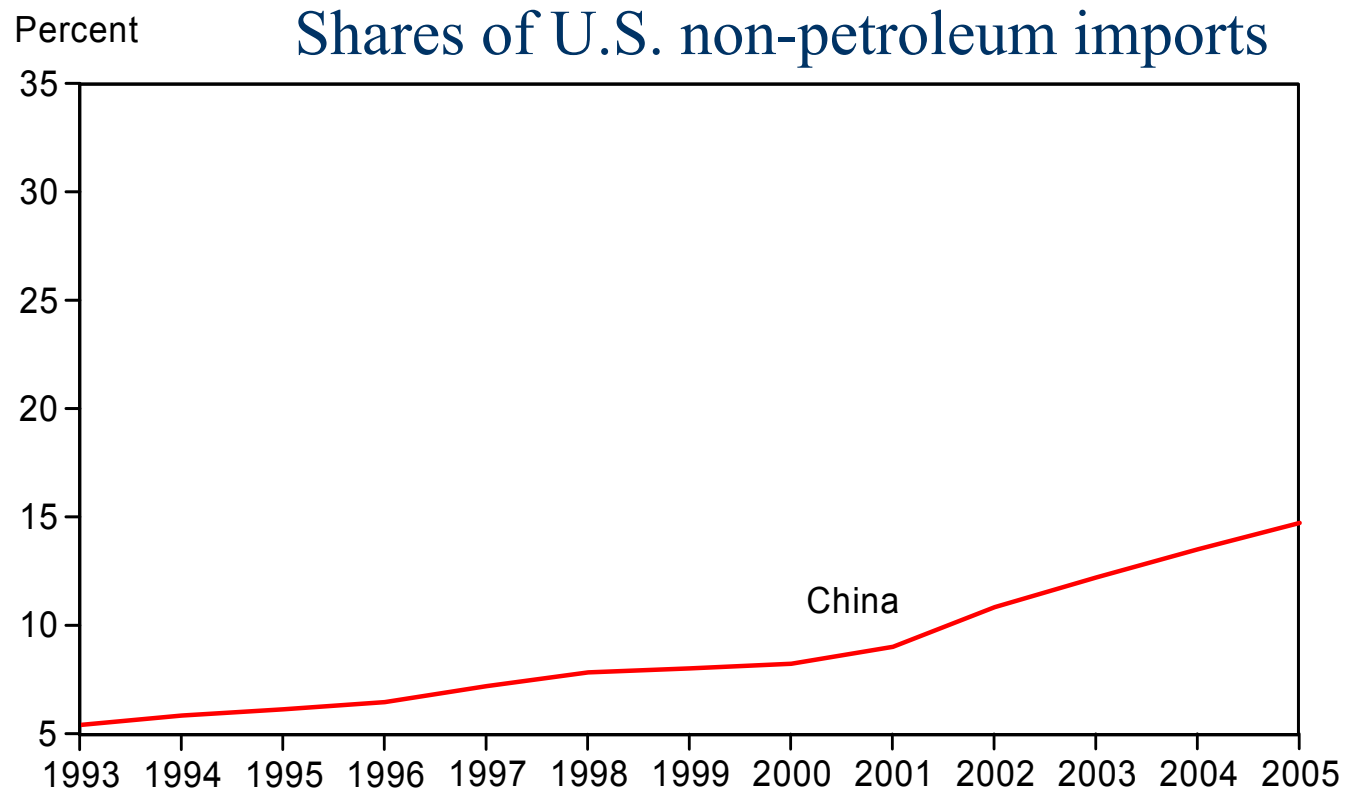
...Bilateral trade deficit figures are even more striking



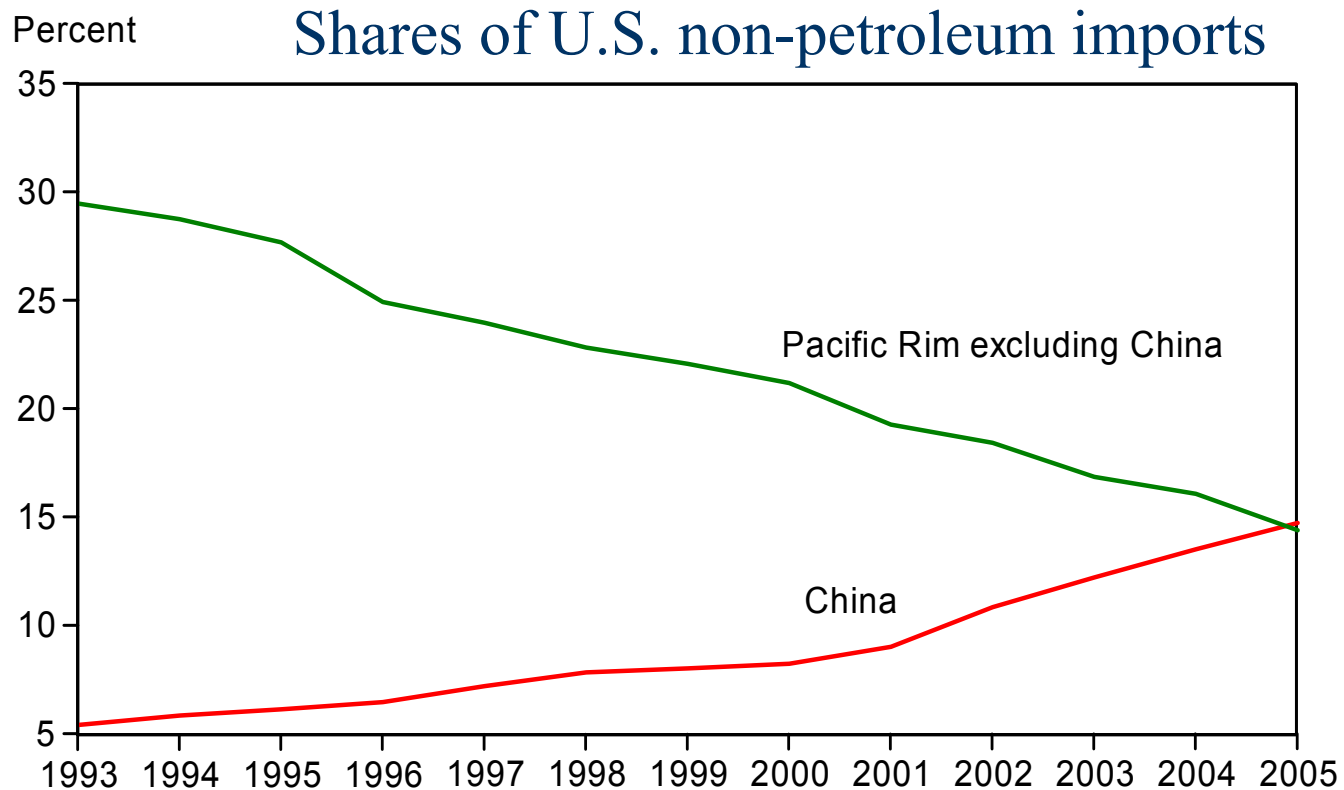
Analytically, effects should be large

- Extraordinary combination of fast growth, size, and openness
- Major effects on terms-of-trade
- A big source of global financial flows

But so far, effects are overstated



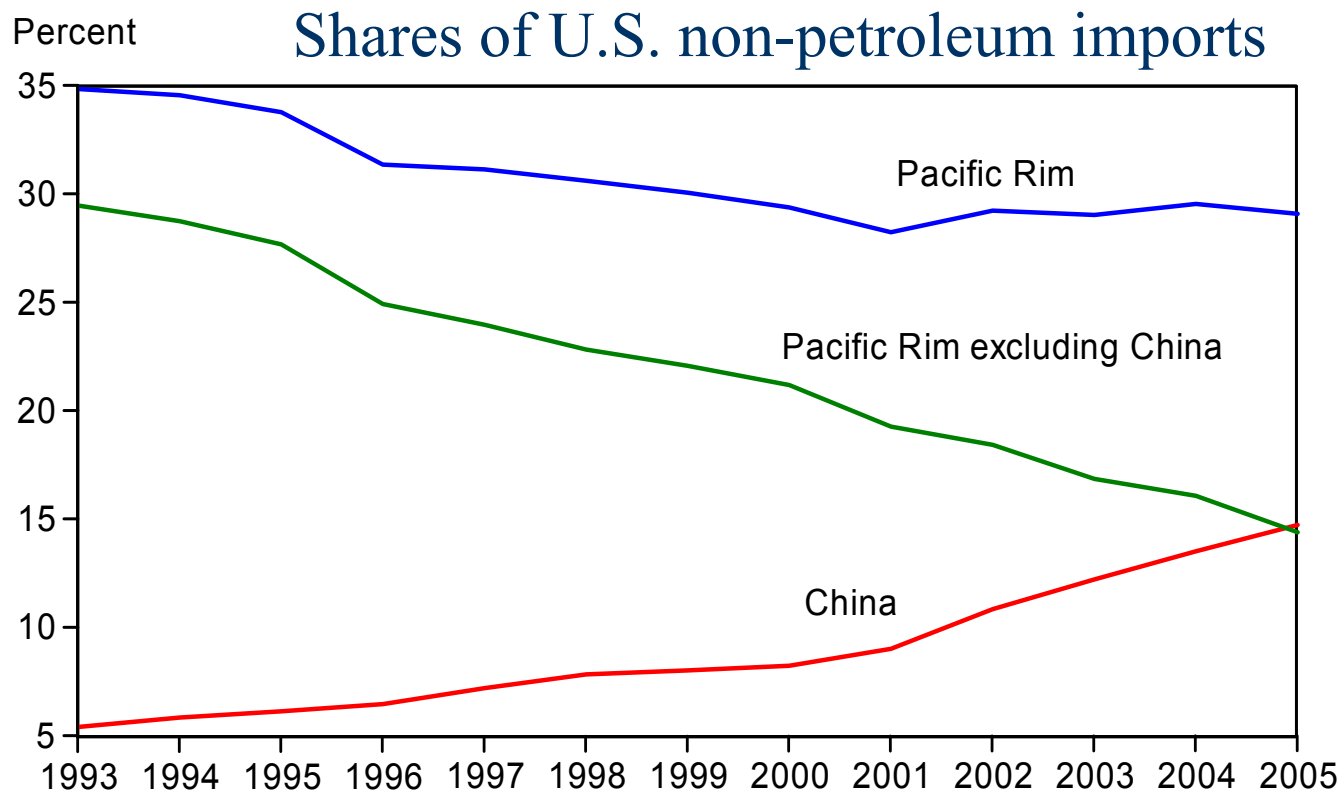
But so far, effects are overstated



Note: Pacific Rim includes Japan, Hong Kong, Republic of Korea, Singapore, Taiwan, and China ¹²

But so far, effects are overstated

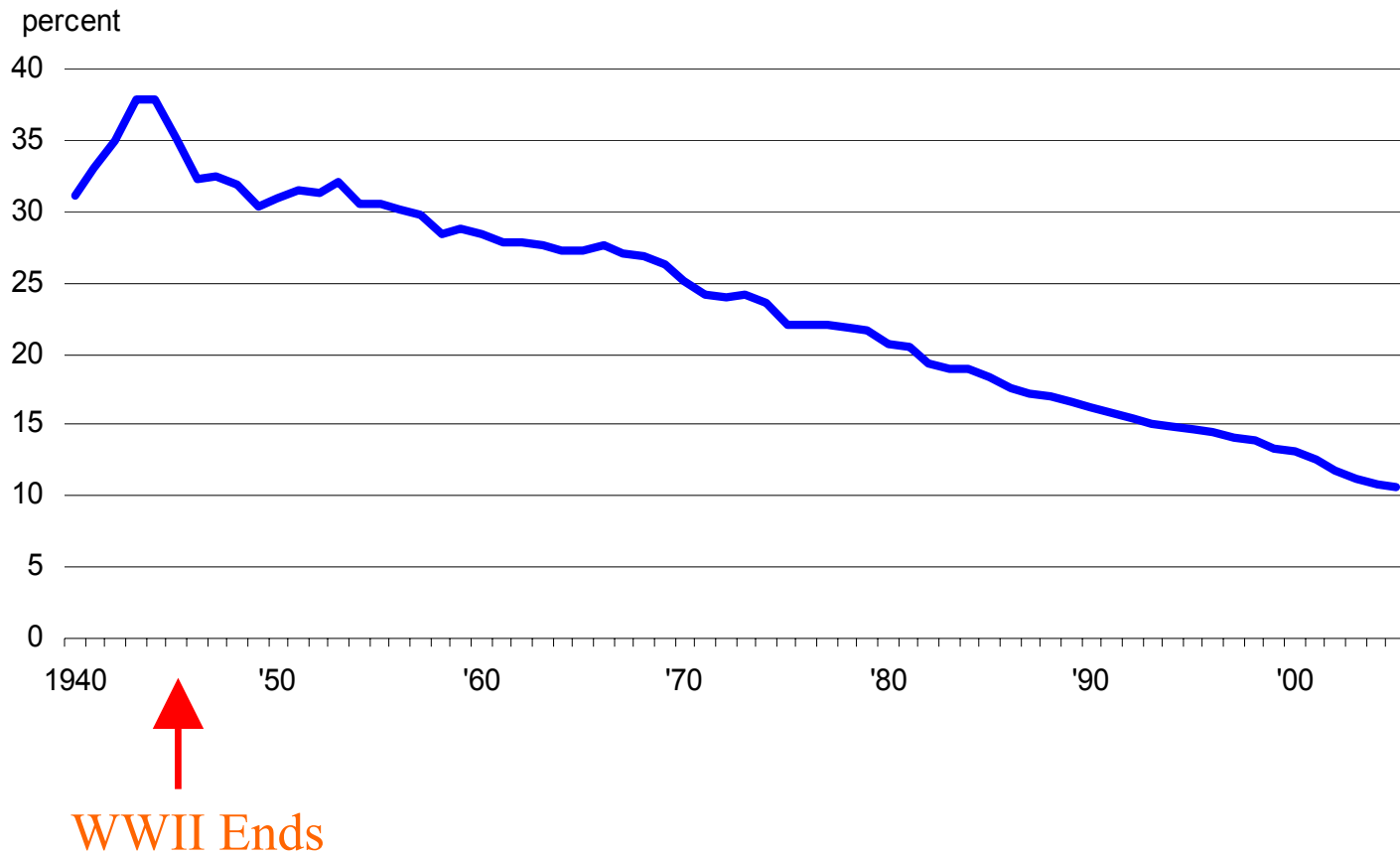
- Pacific Rim as a whole accounts for a lower share of US imports than in the early-1990s!



Note: Pacific Rim includes Japan, Hong Kong, Republic of Korea, Singapore, Taiwan, and China

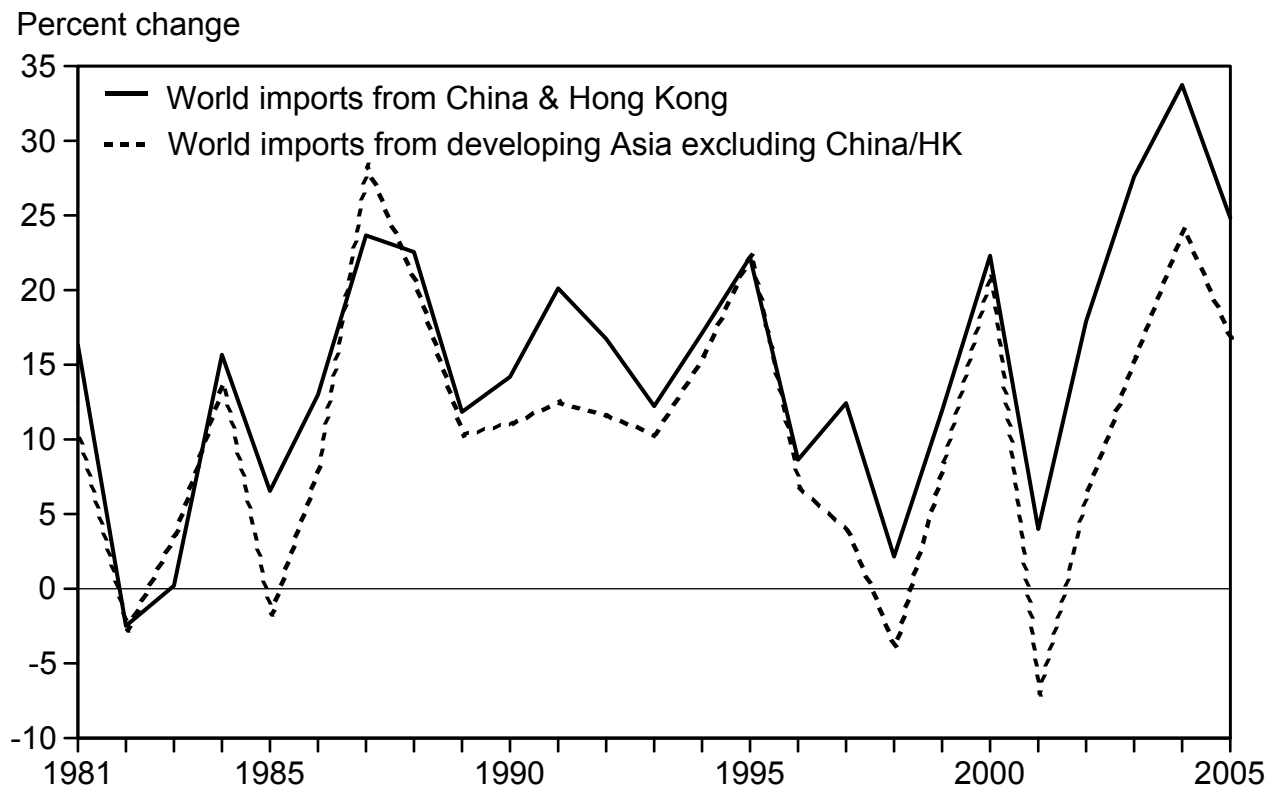
Structural transformation—shift away from manufacturing—is not new

Manufacturing share of total nonfarm employment



China's neighbors: Sitting ducks or flying geese?

- In aggregate, hard to find negative effect of China's exports on other Asian economies
 - (Ahearne, Fernald, Loungani, and Schindler, 2003, 2006)



Structural change and globalization driven by technological change

- Information technology as a “general purpose technology”
 - Can manage information much better
 - supply chain management
 - slicing up production
 - outsourcing customer service, HR, accounting, etc.
- Technological change is disruptive, even without international trade
 - Probably more disruptive in open economies

Stopping “globalization” would be hard, but stopping technological change is (near) impossible

- Benefits also differ
 - Open economies are more efficient...
 - ...but technological change is source of long run growth in living standards
- Discussion of how to mitigate costs of “globalization” applies more generally technological change
 - There are losers as well as winners

Conclusions

- Paper covers a lot of ground, documents important facts and trends
 - Much of it is focused on *symptom*—globalization
 - Policy analysis needs to focus on underlying causes—technological change
- Emergence of China and India is important but effects are often overstated
- Challenge: Policies to deal with technological change?
 - “Costs” of globalization understates disruptions caused by tech change
 - Benefiting requires reorganizing, which is costly