



Centre for International  
Economic Studies

Discussion Paper  
No. 0150

**Economic Globalization and Asia:  
Trade, Finance and Taxation**

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**December 2001**

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Adelaide 5005 Australia**

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ISSN 1444-4534 series, electronic publication

**CIES DISCUSSION PAPER 0150**

**ECONOMIC GLOBALIZATION AND ASIA:  
TRADE, FINANCE AND TAXATION**

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**December 2001**

# **ECONOMIC GLOBALIZATION AND ASIA: TRADE, FINANCE AND TAXATION**

by

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Paper prepared as an Introduction to a Special issue of *ASEAN Economic Bulletin*, R. Rajan (ed.)

January 2001

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*Comments on an earlier draft of this paper by Mukul Asher and Alaka Rajan are appreciated. Excellent editorial assistance by Supriti Bezbaruah and Harminder Chyle in the preparation of the manuscripts in this issue of the journal is gratefully acknowledged. The usual disclaimer applies.*

## 1. Introduction

Economic globalization, broadly defined as the shrinkage of economic distances (i.e., costs of doing business) between nations, is more accurately seen as consisting of two separate but not necessarily mutually exclusive trends: *globalization of production and trade* and *globalization of finance and capital flows*. Both aspects of globalization have been aided and abetted by three factors. First, are the innovations and advances in transportation, information and communications technologies such as the Internet (Baldwin and Martin, 1999). Second, is the push by the various international institutions towards global economic liberalization (i.e., reduced policy barriers to trade and investment) through the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) in the case of world trade in goods and services, and the International Monetary Fund (IMF) in the case of global finance and capital flows. Third, is the shift in perceptions about the appropriate role of government and near-global consensus on the need for extensive, albeit judicious use of market incentives for economic success<sup>1</sup>.

As we enter the new millenium, this special issue of the *ASEAN Economic Bulletin* brings together papers by various academics on specific aspects of economic

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<sup>1</sup> Note that the use of markets does not by any means imply complete *laissez faire*. As Dani Rodrik (2000) has noted:

(t)he idea of a mixed economy is possibly the most valuable heritage that the twentieth century bequeaths to the twenty-first in the realm of economic policy...(W)e enter the twenty-first century with a better understanding of the complementarity between markets and the state--a greater appreciation of the virtues of the mixed economy. That is the good news. The bad news is that the operational implications of this for the design of development strategy are not that clear. There remains plenty of opportunity for renewed mischief on the policy front..(T)he state and the market can be combined in different ways. There are many different models of a mixed economy. The major challenge facing developing nations in the first decades of the next century is to fashion their own particular brands of the mixed economy (pp.1 & 3).

According to him, the five essential functions that public institutions must serve for adequate functioning of markets are: protection of property rights, market regulation, macroeconomic stabilization, conflict management, and social insurance. We revisit the issue of social insurance in the concluding section.

globalization relating to trade, finance and taxation, with reference to Southeast Asia and the larger Asian region.

The first paper by Kym Anderson, provides an overview of the general issue of economic globalization, a process that, though having intensified since the second World War, is by no means unprecedented. In fact, the world economy is no more, and, in some instances, is actually *less* integrated than it was at its peak in 1913 at a time when cross-border transactions costs were significantly reduced by the advent of the railroad, steam ship and the telegraph in the 19<sup>th</sup> century and by the automobile and airplane in the early 20<sup>th</sup> century. However, while technological progress continued unabated, the “triple whammy” of World War I (1914 to 1918), the Great Depression (1929 to mid 1930) and then World War II (1939 to 1945) effectively halted the initial upward trend in economic globalization that took place under the gold standard until the 1970s. In other words, an index of the intensity of globalization over the last century would reveal a U-shape, with a trough - an elongated one - being the period from about 1914 to 1960. Anderson also discusses the GATT’s/WTO’s roles in facilitating the process of globalization of production and international trade.

## **2. Globalization of Production and Trade**

An analysis of the globalization of production and trade should take into account not merely rising trade-to-GDP ratios - as the growth of world trade has consistently outpaced the growth of global output (Table 1) - but, more so, the type and rationale for this increased trade. Specifically, international trade is increasingly characterized by “intraproduct specialization”, broadly defined as the fragmentation of the process of

production of a good into its sub-component parts and processes, which in turn are distributed across countries on the basis of comparative advantage<sup>2</sup>.

The second paper by Sven Arndt stresses how intraproduct specialization enables cross-border production networks to develop. As he notes, the “basic idea is to think of the region rather than the nation as the production base and to spread component production around the region in accordance with comparative advantage.” Arndt assesses the welfare gains from such production networks and parts and component specialization, and discusses the pre-requisites needed to facilitate their development on a regional basis in Asia.

Continuing with the theme of globalization and trade, in the third paper, Richard Pomfret analyzes the progress of the reintegration of the formerly centrally planned economies, following their transition to market-based economic systems, into a multilateral trading system. Recognizing that a liberal trading regime per se is no guarantee of good trade performance, he contrasts China’s experience with rapid export and GDP growth with the difficulties faced by most other transition economies. He further discusses the attraction of the transition economies to regionalism, with particular reference to the Southeast Asian economies of Vietnam, Cambodia, Laos and Myanmar<sup>3</sup>.

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<sup>2</sup> The term “intraproduct specialization” has been coined by Sven Arndt (1996, 1998). He also uses the term “super-specialization” to describe this phenomenon. Other terms sometimes used in the literature to describe this phenomenon include “international product fragmentation” (Jones and Kierzkowski, 2000), “disintegration of production” (Feenstra, 1998), “Heckscher-Ohlin (HO)-plus-production fragmentation” (Knetter and Slaughter, 2000), and “slicing the value chain” (Krugman, 1995).

### 3. Globalization of Finance and Capital Flows

The 1990s have seen accelerated progress towards the liberalization and integration of global financial markets, a process that began in earnest in the 1980s. According to the World Bank data on capital flows, developing economies have enjoyed a surge in capital inflows, with institutional investors (i.e., pension funds, mutual funds, hedge funds and the like) contributing to an all-time high of almost US\$300 billion in long term private inflows in 1997. This was almost seven times the figure in 1990 (Table 2). The World Bank data referred to above exclude short-term flows (especially debt) or asset transactions (such as changes in foreign deposits held by developing country residents). In light of this, Table 3 provides IMF data on capital flows. While the FDI and portfolio data are in line with those of the World Bank, of significance is the component termed “other investment”. Broadly, this category includes short and long term credits (including use of IMF credit) as well as currency and deposits and other accounts receivable and payable. Not surprisingly, it is this component that has shown the greatest degree of variability (Bird and Rajan, 2001)<sup>4</sup>.

The increase in global foreign currency (forex) transactions has been even more dramatic. Daily global forex trades (i.e. traditional instruments of spots, swaps and forwards) increased from US\$18.3 billion in 1977 to nearly US\$1.5 trillion by 1998 (BIS, 1996, 1998).

The potential benefits due to *globalization of finance and capital flows*, assuming that the necessary pre-conditions are met (see next section), include<sup>5</sup>: i) static resource

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<sup>3</sup> Kym Anderson's paper also provides a broad-brush discussion of the issue of the WTO, transition economies and development strategies open to them.

<sup>4</sup> This component turned sharply negative in 1994 and in 1997-1998, periods corresponding to the Mexican-Tequila crisis and the turmoil in East Asia, respectively.

<sup>5</sup> For elaborations of these benefits, see Mathieson and Rojas-Suarez (1993). Also see Bayoumi (1998) and Obstfeld (1998) for comprehensive surveys of financial globalization and international capital mobility.

allocation gains through international specialization in the production of financial services; ii) static financial gains through appropriate portfolio diversification internationally; iii) dynamic or x-efficiency gains through the introduction of competition in the financial sector; iv) gains from intertemporal trade through access to global financial markets; v) absence of rent-seeking and other costs of capital restraints; and vi) imposition of market discipline on policy makers by ensuring that profligate policies, such as unsustainable external or fiscal imbalances and debt accumulation, trigger capital outflows and balance of payments/currency crises.

Of course, the problem arises when an economy suffers from such crises even when the macroeconomic imbalances are not necessarily unsustainable. There is a class of models which allows for multiple equilibria and show how currency runs may be “self-fulfilling”. The focus of these models is of the trade-off faced by policymakers between the benefits of retaining a pegged exchange rate, on the one hand, and the costs of doing so, on the other. This set of models stresses that while speculative attacks are not inevitable (based on underlying bad fundamentals), neither are they arbitrary or random (i.e., unanchored by fundamentals). Rather, there must exist some weaknesses in the economic fundamentals of the country for an attack to occur, as the credibility of the fixed exchange rate regime is less than perfect (Obstfeld, 1996 and Rajan, 2001)<sup>6</sup>. Thus, referring to the East Asian crisis of 1997-98, Rodrik (2000) has noted that:

(o)ne lesson of the crisis was that international capital markets do a poor job of discriminating between good and bad risks. It is hard to believe that there was much collective rationality in investor behavior during and prior to the crisis: financial markets got it badly wrong either in 1996 when they poured money into the region, or they got it badly wrong in 1997 when

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<sup>6</sup> For a recent formalization of a model along these lines with particular reference to East Asia, see Rajan and Sugema (2000).

they pulled back en masse. The implication is that relying excessively on liquid, short-term capital..is a dangerous strategy. (pp.8-9)<sup>7</sup>.

The East Asian debacle was one of many crises to have affected global financial markets in the 1990s, attesting to the severe costs of financial globalization. As the turmoil in international financial markets appears to have receded, it is appropriate that the research focus shift from short-term crisis *management* to crisis *prevention*. Among the many important policy issues under discussion with regard to crisis prevention are<sup>8</sup>: the choice of an appropriate exchange rate regime for small and open economies; the role of and rationale for central bank intervention in foreign exchange markets; the timing and sequencing of financial liberalization; and the role of and scope for regional financial and monetary cooperation in Southeast Asia and the broader Asian region. The next five papers touch on each of these issues.

The fourth paper by Ramon Moreno explores the perennial issue of the exchange rate policy options for small and open developing economies in East Asia. As he notes - and as shown by Calvo and Reinhart (2000), McKinnon (2000) and others - the East Asia economies have, by and large, reverted to *de facto* US dollar pegged exchange rates arrangements following the breakdown of the pegs in 1997-98<sup>9</sup>. Moreno explores the relative merits of pegging in East Asia and reviews the experiences of the regional economies over the last twenty-five years (1974-99). While a pegged exchange regime is generally associated with low inflation, he does not find this to be the case in East Asia. While he finds some evidence that average growth is higher under a pegged

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<sup>7</sup> Also see Willett (2000) who emphasizes that while markets are disciplining devices, they tend to react "too late", and when they do finally react, tend to "overreact" or "overshoot".

<sup>8</sup> See Rajan (1999) for a discussion of crisis management issues with reference to the East Asian crisis.

<sup>9</sup> Similarly, a recent IMF report on exchange rate regimes has rightly cautioned that:  
(t)here is an important danger, however, in slipping back into *de facto* pegging of exchange rates against the U.S. dollar. While this may be sustainable for some

regime, this may not hold once the period following a sharp devaluation is excluded from consideration. Indeed, sharp devaluations appear to be contractionary in the short and medium terms in many emerging economies<sup>10</sup>.

Speculative attacks in emerging economies have usually been preceded by very large private capital inflows into the country (Dooley, 2000). More specifically, Radelet and Sachs (1998) have observed that, “at the core of the (East) Asian financial crisis were the massive capital inflows that were attracted into the region during the 1990s” (p.8). The thinness of the regional foreign exchange markets makes the role of central bank intervention particularly important. The fifth paper by Shen Chung-Hua and Wang Lee-Rong focuses on the issue of capital inflows and the concomitant reactions by the central banks - i.e.. foreign exchange intervention - in East Asia. Their empirical analysis suggests that while the primary focus of central banks is on inflation, at least two other factors are also of importance: export competitiveness and the sources of inflation (i.e. demand-induced or productivity-driven).

Recent empirical studies have confirmed that ill-timed and inappropriately sequenced financial liberalization has been an important contributory factor to the boom and crash in emerging economies (Williamson and Mahar, 1998). For instance, in a recent study using a broad sample of lending boom episodes across 91 countries during

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considerable period, this may well eventually contribute to recreating the problems that led up to the Asian crisis.” (Mussa et al., 2000, p.59).

<sup>10</sup> This point is easy enough to develop within a “bank-centred” Mundell-Fleming framework (see Krugman, 1999a and Rajan and Sugema, 1999). Specifically, let the trade balance,  $T = T(Y_t, RER_t)$ , where:  $Y_t$  = output and  $RER_t$  refers to real exchange rate (price of tradables to nontradables) and  $T_{RER} > 0$ . Also let domestic absorption,  $A_t = A(\beta_t, RER_t)$ , where:  $\beta_t$  = vector of all variables other than real exchange rates that affect domestic absorption  $A_{RER} < 0$ . Thus, a real exchange rate depreciation (i.e.  $RER_t > 0$ ) will boost the exportables sector, on the one hand (competitiveness channel), while contracting domestic demand by lowering the net value of leveraged, bank constrained firms, on the other (Fisherian balance sheet effects). Thus, the net impact of a real devaluation on aggregate demand depends on the relative magnitudes of the two effects. To the extent that the competitiveness channel tends to take some time to materialize (given the “J curve” effects, etc), while the balance sheet effects are immediate, it is likely that a devaluation could have potentially large contractionary effects at least in the short run. The

the period 1960-96, Gourinchas, et al. (1999) conclude that the probability of experiencing a currency crisis is significantly greater following a lending boom, linking this to financial liberalization. Empirical investigations of a panel of 53 countries for the period 1980-95 by Demirguc-Kent and Detragiache (1998) and of 97 countries for the period 1975-97 by Hutchison and McDill (1999) reveal that a banking crisis is more likely in a liberalized financial system, particularly when the institutional support is weak. The oft-cited study by Kaminsky and Reinhart (1999) concludes that in 18 of the 26 banking crises in their sample, the financial sector had been liberalized some time during the previous five years.

In view of the importance of the financial sector, or, more specifically, the banking system, in the sixth paper, Pradeep Agrawal estimates econometrically the main factors affecting financial deepening in selected East Asian economies (South Korea, Malaysia, Thailand and Indonesia). He finds that financial deepening (as proxied by M2/GDP) generally increases with real interest rates and real currency depreciation. He also finds that foreign assets seem to have become important in the regional economies, signifying the possibility that some of the assets attracted into the banking system in response to higher interest rates might be at the expense of foreign assets held by domestic residents. Insofar as this implies that higher real interest rates are likely to increase an economy's investment ratio, this suggests the importance of a policy of interest rate liberalization in stimulating overall economic growth. However, as Agrawal notes, such liberalization must be done in a "controlled and gradual fashion to minimize the potential for financial distress".

The next two papers, which are closely related, shift focus to the question of regional monetary and financial cooperation. In the seventh paper, George Manzano

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possibility that devaluation can be contractionary is of course not a new issue. Bird and Rajan (2000) review the older literature in their discussion of the Thai crisis and collapse.

explores the rationale for and progress towards an ASEAN Surveillance Process (ASP), an initiative by ASEAN members in response to the 1997-98 financial crisis<sup>11</sup>. According to him, the potential benefits of a *well-functioning* ASP are: i) promotion of greater transparency; ii) internalization of the effects of the policies of individual ASEAN members on regional economies; iii) promotion of ownership of individual country reforms to enhance the robustness of economic and financial system; and iv) enhancement of the quality of policy analysis. However, the key point here is “well-functioning”. Manzano highlights gaps in the ASP that might preclude it from performing its role satisfactorily.

Taking a broader view of the region, in the eighth paper Chang Li Lin and Ramkishan Rajan discuss the politics and economics of an Asian Monetary Fund (AMF). The Japanese government first proposed an AMF on September 19, 1997 in Bangkok. As they note, while one might find fault with the timing and manner in which Japan initially tabled the AMF proposal, this ought to be kept quite distinct from the question of its potential effectiveness. They highlight the economic rationale for the establishment of such a geographically concentrated facility. However, recognizing that the issue is inherently a political one, they also discuss the political context surrounding Asian monetary regionalism (the AMF for specifically). Recent initiatives towards enhanced regional monetary and financial cooperation, such as the Chiang Mai Initiative, are also discussed.

#### **4. Globalization and Taxation**

In the ninth and final paper, Mukul Asher and Ramkishan Rajan discuss the impact of economic globalization and taxation with reference to Southeast Asia. Table 4, borrowed from Hufbauer (2000), succinctly summarizes the effects of globalization on

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<sup>11</sup> See Chang and Rajan (1999) for a discussion of regional response to the East Asian crisis.

the mobility of various tax base items. The general conclusion is that, given the need to maintain a certain amount of public spending, particularly in open economies, globalization may lead to reduced progressivity (increased inequity) of tax structures<sup>12</sup>. Thus, taxes levied directly on relatively immobile factors would be welfare-enhancing in the sense of having the same incidence as taxes on the mobile factors, without necessarily leading to flight of the latter to *evade/avoid* the burden of the tax. Given the increased mobility of various sources of the tax base, along with other developments that might reduce government revenues - “fiscal termites” *a la* Tanzi (2000) - the implication is intensified dependence on a narrow base consisting of immobile factors such as the less-educated workforce and the rural sector. To the extent that these may be the groups most vulnerable to the effects of globalization, Vito Tanzi has noted that “(a)lthough the economics of this conclusion is right, the politics of it is surely worrisome” (Tanzi, 1998).

## 5. Concluding Observations

The term “economic globalization” has been the buzzword of the 1980s and more so the 1990s. This special issue of the *ASEAN Economic Bulletin* has attempted to contribute to the stock of knowledge on the economics of globalization, with particular reference to Southeast Asia and the larger Asian region. As the title suggests, no attempt has been made to provide a comprehensive discussion of *every* aspect of economic globalization, let alone globalization as a whole. Some important omissions (which have been extensively discussed elsewhere) include globalization, labor mobility and inequality (see Bhagwati, 1999b and selected papers in Siebert, eds., 1999);

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<sup>12</sup> It is interesting to note in this regard that Rodrik (1998) finds that open economies tend to have larger government sectors, suggesting to him that government consumption plays a risk-reducing role in economies exposed to external risks. We come back to the issue of social insurance in the next section.

globalization and environmental sustainability (see Chang and Rajan, 2001); and globalization and foreign direct investment (see Feldstein, 2000). Bhagwati (1999a) provides a useful overview of some of these issues.

Possibly, the most obvious omission has been that of a systematic and detailed discussion of the social and political economy dimensions of globalization and its governance requirements. Public protests during recent WTO, IMF, World Bank and World Economic Forum (WEF) meetings and industrial country summits suggest that the road towards further globalization may be rocky. Indeed, the possibility of a backlash actually stalling the road toward an integrated world economy cannot be entirely discounted. What needs to be done to pre-empt this?

First, it would be a mistake to arbitrarily dismiss the recent anti-globalization protests and the *legitimate* social concerns that might have been raised<sup>13</sup>. Arguably, among the most important concerns as an economy liberalizes and integrates with the world economy, is the need for adequate social insurance to protect the most vulnerable in society. Rodrik (2000) has underscored this point better than most and we quote him at some length.

A modern market economy is one where change is constant and idiosyncratic (i.e., individual-specific) risk to incomes and employment is pervasive. Modern economic growth entails a transition from a static economy to a dynamic one where the tasks that workers perform are in constant evolution and movement up and down in the income scale is frequent. One of the liberating effects of a dynamic market economy is that it frees individuals from their traditional entanglements--the kin group, the church, the village hierarchy. The flip side is that it uproots them from traditional support systems and risk-sharing institutions. Gift exchanges, the fiesta, and kinship ties -- to cite just a few of the social arrangements for equalizing the distribution of resources in traditional societies -- lose much of their social insurance functions. And the risks that have to be insured against become much less manageable in the traditional manner as markets spread...

Social insurance need not always take the form of transfer programs paid out of fiscal resources...The East Asian model,

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<sup>13</sup> Lal (1999) highlights some of the fears and dangers associated with globalization.

represented well by the Japanese case, is one where social insurance is provided through a combination of enterprise practices (such as lifetime employment and enterprise-provided social benefits), sheltered and regulated sectors (mom-and-pop stores), and an incremental approach to liberalization and external opening. Certain aspects of Japanese society that seem inefficient to outside observers - such as the preference for small-scale retail stores or extensive regulation of product markets - can be viewed as substitutes for the transfer programs that would otherwise have to be provided (as it is in most European nations) by a welfare state...

Social insurance legitimizes a market economy because it renders it compatible with social stability and social cohesion (pp.17-19).

Second, is the need for policy makers to ensure that the pace of liberalization is undertaken in a controlled and cautious manner, so as to ensure an appropriate fit between the market-oriented reforms and existing institutional capabilities. Once again we quote heavily from Rodrik (2000).

(T)he experience with development during the last half century reveals another striking fact: the best performing countries are those that liberalized partially and gradually. China, of course, stands out in this respect, as its astonishing success since 1978 is due to a strategy based on dual tracks, gradualism and experimentation. Save for Hong Kong, which has always been a laissez-faire haven, all the other East Asian success cases have followed gradualist reform paths. India, which has done very well in the 1990s, has also liberalized only partially. All these countries unleashed the energies of their private sectors, but did so in a cautious, controlled manner.

An important reason why gradualist strategies worked in the cases mentioned is that they were better tailored to pre-existing institutions at home. They therefore economized on institution building...

Compare these instances with the wholesale reforms implemented in Latin America and former socialist countries. Because the latter were so radical and borrowed en masse from other countries, their success hinged on the creation of a wide range of new institutions in short order and from scratch. This was a Herculean task. It is perhaps not surprising that the transition has proved more difficult than many economists had anticipated. Indeed, the most successful cases have been those where capitalist institutions had not been entirely destroyed or their memory was recent (as in Poland).

Therefore market-oriented reform strategies must recognize not only that institutions matter, but that it takes time and effort to alter existing institutions. The latter fact presents both a constraint and an opportunity. It is a constraint because it implies first-best price reforms may not be feasible. It is an opportunity because it allows imaginative policy makers to try profitable alternatives...

Whatever shape the evolving architecture of the international economy takes, therefore, an important goal should be to leave space for developing countries to experiment with their own strategies (pp.23-4 & 27).

Third, while some of the so-called “globaphobia” undoubtedly lacks intellectual basis (Smadja, 2000), policy makers need to be sensitive to and address any possible disconnect between the actual and perceived costs of globalization. Fareed Zakaria (2000) articulates the issues at hand most unequivocally and bears quoting in full:

The advocates of globalization - and I am one of the loudest - have relied too much on economic necessity and too little on persuasion. Why bother patiently explaining the virtues of policies when you can instead threaten a country with the wrath of the markets? Often we simply cheered as countries were forced to abandon foolish policies under the pressure of global capitalism. As a result, we have not yet fashioned a political, cultural, and moral case for globalization, one that resonates with the average citizen. However powerful it may be, the bond market cannot do this. It is a task for human leadership - for politicians, businessmen, writers, activists and anyone else who believes that globalization has been, on the whole, a force for human progress and liberty (p.17).

In short, constituencies in favor of globalization must continuously and consciously be built<sup>14</sup>. Noted economists such as Jagdish Bhagwati and Paul Krugman have been at the forefront of doing just that (for instance, see Bhagwati, 1998 and Krugman, 1999b).

Indeed, the Internet has proved to be the biggest boon and bane of globalization. At the same time that it has furthered the process of economic integration worldwide, it has also provided a powerful mechanism for the consolidation and organization of the efforts of anti-globalizational groups. Herein lies one of the many ironies of the modern age.

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<sup>14</sup> The *Newsweek* (December 2000-February 2001), the *Economist* (September 23, 2000) and the *Business Week* (November 6, 2000) carry special reports on the issue of economic globalization, anti-global sentiments and possible remedies.

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**Table 1**  
**World Trade and Output Growth, 1971-96**  
**(Annual average in percentage)**

	1971-85	1986-90	1991-93	1994-96
Trade Growth <sup>a</sup>	3.7	6.1	4.1	8.7
Output Growth	3.2	3.3	1.1	2.9
Trade Elasticity <sup>b</sup>	1.2	1.8	3.7	3.0

Notes: a) refers to merchandise export plus imports; b) trade elasticity = (trade growth/output growth)

Source: Otsubo (1996)

**Table 2**  
**Net Long-term Capital Flows to Developing Economies<sup>a,b</sup>, 1990-97**  
**(US dollar billions)**

Type of Flow	1990	1992	1994	1996	1997
Total Private Flows	43.9	98.3	178.1	275.9	299.0
Debt	15.7	38.1	54.4	100.3	105.3
Commercial Bank Loans	3.2	16.3	13.9	43.7	60.1
Bonds	1.2	11.1	36.7	53.5	42.6
Others	11.4	10.7	3.7	3.0	2.6
Foreign Direct Investment (FDI)	24.5	46.1	88.5	126.4	163.4
Portfolio Equity	3.7	14.1	35.2	49.2	30.2
Official Financing	56.9	54.0	45.5	32.2	39.1
Total Capital Flows	100.8	152.3	223.6	308.6	338.1

Notes: a) excludes short-term flows or asset transactions like changes in foreign deposits held by developing country residents; b) developing countries defined as low- and middle-income economies with 1995 per capita incomes less than US\$765 and US\$9385 respectively

Source: World Bank (1999)

**Table 3**  
**Net Capital Flows to Developing Countries (\$ billion), 1984-98**

	1984-89 <sup>a</sup>	1992	1993	1994	1995	1996	1997	1998
Private Capital Flows	17.8	106.9	128.6	142.3	211.4	224.7	115.2	66.2
Foreign Direct Investment	12.2	35.7	57.9	81.0	95.8	119.5	141.3	151.6
Portfolio Investment	4.9	62.7	76.8	105.0	41.4	79.6	39.4	0.3
Other Investment <sup>b</sup>	0.6	8.5	-6.1	-43.7	74.2	25.6	-65.6	-85.6
Official Flows	27.2	25.0	48.7	4.8	15.7	2.0	52.7	55.3
Change in Reserves <sup>c</sup>	5.1	-58.0	-62.7	-67.9	-117.5	-110.6	-62.9	-32.3

Notes: a) annual averages; b) may include official flows; c) – implies an increase  
Source: IMF (1998, 2000)

**Table 4**  
**Effects of Globalization on the Mobility of Tax Base Items**

Tax Base Item	Mobility in 1970	Mobility in 2000	Mobility in 2030
Wages and Salary Income	Low	Low	Moderate
Consumption of goods	Low	Moderate	Moderate
Consumption of services	Low	Low	Moderate
Investment income	Low	Moderate	High
Corporate profits	Low	Moderate	High

Source: Hufbauer (2000)

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