New Impacts of Globalization
Introduction to a Selection of Papers Presented at the 66th Annual Congress of the French Economic Association

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Abstract – This special thematic feature on “New impacts of globalization” was developed, in partnership with the French Economic Association (Association française de science économique, AFSE), from the contributions presented at its 66th annual congress which took place in Nice in June 2017. The four articles published here illustrate the different channels by which a country’s international openness impacts its wealth, employment and subnational inequalities. This introduction builds on these works to present some recent avenues of research for modelling and quantifying the impacts of globalization.

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Reminder:
The opinions and analyses in this article are those of the author(s) and do not necessarily reflect their institution’s or Insee’s views.
Ten years ago, the crisis of 2008 exposed the flaws in some of our most well-established economic theories and sparked productive, in-depth scientific debate on macroeconomic and financial regulatory policies. Today, it is the challenge to free trade agreements, particularly by the United States, and the threat of blocks to the World Trade Organisation (WTO) that are prompting reflection on the limitations of our theories in the face of the new challenges of globalization in the 21st century.

This special thematic feature on the “New impacts of globalization” is the result of a partnership between the Association française de science économique (AFSE) and the journal Économie et Statistique / Economics and Statistics. This partnership aims to publish a selection of articles presented at the AFSE’s annual congress on one key topics discussed during the congress; these articles were selected jointly by the association and the journal.

During the AFSE’s 66th Congress which took place in Nice on 19-21 June 2017 under the aegis of the Université Côte d’Azur research group on Law, Economics and Management (Groupe de Recherche en Droit, Économie et Gestion, GREDEG) and the French national centre for scientific research (CNRS), the topic of the new impacts of globalisation was chosen primarily due to the number of papers directly or indirectly dealing with this issue. Out of the 300 scientific papers presented at the congress, some were directly associated with international economics and many others, focusing on different topics (labour economics, banking and financial economics, industrial economics, development and growth economics, etc.), referred to the present state of globalisation as one of the key factors in the mechanisms being studied.

The compilation featured here brings together a selection of contributions that each highlight a specific dimension of these new globalisation challenges. Issues concerning the impact of globalisation on employment conditions and wages in developed countries are examined first, before turning to emerging and developing countries to look at the extent to which financial globalisation creates new growth opportunities for these countries, but also new sources of instability.

The first article, by Philippe Frocrain and Pierre Noël Giraud, looks more specifically at the sensitive issue of the impact of globalisation on employment in the context of the French economy. It looks at how new trends combined with technological progress and lower transport costs are linked with changes in the employment structure in France. More specifically, the authors apply Jensen and Kletzer’s (2005) methodology to classify business sectors, and the corresponding jobs, into “tradable” and “non-tradable” categories. The article studies the developments in these two types of employment in France over the 1999-2015 period, first at aggregate level and then at employment region level. It also explores how the skill-based structure has developed in these two employment categories, and how relative wages have been impacted, particularly by the significant gains in labour productivity achieved in the tradable sectors over the period.

The findings of Philippe Frocrain and Pierre Noël Giraud are extremely interesting as they run counter to certain received ideas about employment developments in France. For example, while one might think that job growth is stronger in the tradable sectors than jobs in the non-tradable sectors, with an increasingly internationalized economy, the reverse can actually be seen in France with a significant decline in tradable jobs.
In terms of wage dynamics, a comparison between the tradable and non-tradable sectors also shows remarkable developments, particularly when contrasted with labour productivity dynamics.

The respective roles of trade openness and technological progress in these dynamics is not analysed causally in the article. However, it invites to continue the analysis in line with recent works. It also prompts reflection on the future transformations that lay in store, driven by advances in artificial intelligence and the growth in teleworking and remote robotisation. These two future trends in the digital revolution should in fact radically change the boundary between tradable and non-tradable goods and services (Baldwin, 2016).

The second article, by Gilbert Cette, Jimmy Lopez and Jacques Mairesse, looks at the impacts of labour market regulations, and more specifically the impacts of legislation concerning employment protection, on the choice of combination of production factors in a context of globalisation. The analysis was carried out on sector-based data using both the OECD STAN database and EU-KLEMS which make it possible to precisely differentiate between different categories of employment according to their skills level, and different categories of investment, particularly investments in information and communication technologies (ICT) and, for the first time in this literature, R&D investments. The link with the issue of globalisation is the fact that the authors study to what extent an industry’s level of international openness is a key factor, that conditions the expected effect of variations in the level of employment protection on firms’ organisational choices of substitution between different categories of capital and labour. The authors’ guess is that the degree of employment protection has a greater impact in terms of reducing R&D and ICT investments in the sectors that are more open to international competition. Interestingly, the findings only partly match those expected. On the one hand, the authors show that a high level of employment protection tends to significantly reduce ICT investments in sectors that are more open internationally (whereas this impact was not found significant for the industries considered as a whole). On the other hand, the authors do not find any greater reduction in R&D investments.

As regards economic policy, the authors defend the view that promoting higher flexibility in labour markets in OECD countries should be an effective measure to boost both R&D and ICT investments and the employment of unskilled workers, all the more so in sectors that are subject to intense international competition. While their findings are not fully supportive of this view, they do show that reforms in labour market legislation can have highly varied impacts depending on an industry’s level of openness. Here, several avenues for taking the study further come to mind. Firstly, a distinction could be made between industries according, not just to their average level of openness, but rather to their level of exposure to the penetration of imports, and their export opportunities. It would also be worthwhile developing these analyses at country-industry level rather than using as a benchmark the degree of openness of the U.S. industries. This would allow to take into account the specific competitive advantages/disadvantages of each country. Another extension would be to use corporate data to explore whether companies at different stages of internationalisation adapt differently to legislative restrictions concerning employment protection.

The next two articles look at emerging and developing countries. For these countries, more so than for industrialised countries, globalisation in the 21st century has unique characteristics that bring new opportunities and new challenges. Of the new opportu-

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4. Gilbert Cette, Jimmy Lopez and Jacques Mairesse justify their decision of basing their study on the rate of openness of American industries in relation to the potential bias of endogeneity that would be associated with the use of the same measures developed at the level of each country-industry. An interesting potential extension would be to look for estimation strategies using instrumental variables that would make it possible to limit such bias, without however losing the benefit of measures specific to each country-industry.
nities, the first is the ease of international technology transfers brought about by the digital revolution (Baldwin 2016). Among the greatest challenges are the difficulty of transferring governance rules that are complementary to the implementation of certain technologies (Romer, 2010) and the significant vulnerability of emerging economies to international capital movements in the new era of financial globalisation (Ocampo & Stiglitz, 2008; Jeanne & Korinek, 2010; Butzen et al., 2014; Blanchard et al., 2017). The two articles presented here look at the latter area of thinking. Neither comprehensively addresses the challenges associated with international capital flows, but each sheds light on a different aspect of the new sources of financing open to developing countries in 21st century globalisation.

The article by Imad El Hamma looks first at the impact of migrants’ remittances on economic growth in developing countries. The increase in remittance flows is one of the unprecedented features of the current phase of globalisation. For certain countries, migrants’ remittances have become the leading source of external funding, before international assistance to developing countries and before private investment flows from foreign companies. In this article, the author studies the role of structural factors, such as the degree of financial development and the level of institutional quality, which condition the impact of migrants’ remittances on the economic growth of the beneficiary countries. The analysis specifically focuses on countries in the MENA region (Middle East and North Africa) for which the author uses unbalanced panel data for the period 1985-2015.

This study is one of many empirical works that focus on both the external and internal sources of economic development. In this literature, the impact of migrants’ remittances has already been the focus of particular attention and a review of these previous works is proposed by the author. Imad El Hamma’s contribution raises several points. Firstly, existing research had not yet looked at the case of countries in the MENA region, as they mostly focused on the case of Latin American and Sub-Saharan African countries. Secondly, previous studies had not reached a consensus, particularly as regards knowing whether migrants’ remittances played a substitution role or, on the contrary, a supplementary role as regards sources of domestic financing.

In the fourth article, Ramona Jimborean looks at the factors that explain the significant increase, over the last two decades, in bank loans to the private sector in emerging countries. The author assesses the risks of this increased debt in light of the present growth slowdown in emerging countries and American monetary policy tightening measures.

The article’s contribution to the literature is the analysis that simultaneously considers domestic and international explanatory factors, whereas existing works look at these two types of factors separately. This joint analysis is made possible by using consolidated banking statistics provided by the Bank for International Settlements (BIS) for the 1993-2014 period. The findings support the fact that, in emerging countries, growth in private debt is linked with credit demand, real exchange rate appreciation, monetary policy changes, control of macroeconomic vulnerabilities and the soundness of the domestic banking system. Added to this are global factors with a negative impact on the volatility of the global financial market and a positive impact on the interest rates of the U.S. Central Bank. It would be worthwhile continuing the study to understand the connection between the determinants of growth in private sector debt in emerging countries and the level of vulnerability of these economies. We lack theoretical and empirical studies on these connections, which could enable us to provide better recommendations on fiscal and macroprudential policies and on the international coordination of policies in each country.

To conclude, the articles compiled in this special feature show the different channels by which the international openness of countries can impact their wealth, both in terms of volatility and long-term growth, their employment, and their subnational
inequalities. They also remind us that the mechanisms conceptualised in a framework of relatively closed economies can have different impacts in more open economic environments. As regards economic policy, they show that economists need to rethink all of their areas of work in view of the new challenges of globalisation, from trade and integration policies to macroeconomic and structural policies, and industrial and innovation policies.

More generally, the research programme that is starting to look at the new impacts of globalisation should help us to renew significantly our teaching on trade gains. Until now, we have been too limited to teaching from static international trade theories and from macro-economic and financial theories that are focused on the short-term. However, combined advances in endogenous growth theory and new international trade and localization theories have already shown that, for a given economy, the long-term impacts of more ambitious trade openness could be, not just significant, but also positive or negative. In these dynamic analysis frameworks, the impacts of trade integration on growth in a given economy depends on many factors, including 1) the technological advantages and disadvantages initially acquired by the country, 2) the relative size of its trade partners, 3) the relative significance of the cost of transport and the cost of knowledge transfers, and lastly 4) the relative degree of the intra-sector, inter-sector and international mobility of resources. Overall, these new models show that trade gains analysis must take better account of the role of the forces of economic agglomeration and dispersion within countries and between countries, that have a direct impact on the distribution of those gains.

The literature has, however, still not thoroughly explored all the scenarios of interest that would help better focus countries’ competitiveness strategies according to their own geographic, historical and institutional environments. Moreover, the works that look at the impacts of countries’ trade integration are still too disconnected from those that deal with the impacts of financial globalisation. Lastly, as regards the regulation of real and financial international flows, major economic institutions are increasingly inclined to recognise that they must be more proactive in their analyses and more innovative in their recommendations. The challenge is to have better tools to forecast and quantify the impacts of changes in bilateral or multilateral trade agreements, not just on the participating economies, but also on third-party economies. It is also a question of improving economies’ vulnerability to international capital movements. Finally, it is a question of providing countries with the best tools for establishing their own competitiveness diagnostic according to their unique position in the world’s economic geography.

5. A particular example are the divergence scenarios with disadvantageous specialisations explored by Grossman and Helpman (1991, Chapter 8), Redding (1999), Baldwin, Martin and Ottaviano (2001), Bellone and Maupertuis (2003).

6. See Bellone and Chiappini (2016) for a review of this literature.

7. Awareness by major institutions of the new challenges of globalization can be illustrated by the new foreign trade strategy for 2011-2021 recommended by the World Bank (World Bank, 2011) and by the opening statement of the OECD Secretary General in September 2017 based on the OECD report (2011).


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