1 Introduction and overview

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1 Introduction

In 2020, the coronavirus disease (COVID-19) pandemic changed the world so remarkably that few believe a return to the pre-COVID-19 economic and social situation is possible. Since January 2020, when the first COVID-19 infection was officially detected in Wuhan, China, more than 49.0 million cases – including more than 1.2 million deaths – have been reported worldwide as of 7 November 2020. The economic impacts of the COVID-19 pandemic have been devastating; various lockdown and stay-at-home policies, implemented by many countries to deal with the situation, have virtually stopped economic activities for several months. Indeed, the International Monetary Fund (IMF) projected global economic growth rate for 2020 is –4.4%, down from 2.8% for 2019 (IMF, 2020). This marks the worst economic situation since the Great Depression of the 1920 and 1930.

A view has emerged that globalisation, which brought high economic growth before the pandemic, will be reversed. Indeed, governments around the world have intervened in the market to secure sufficient supplies of medical and health products, such as face masks and medical gowns, by restricting exports and by promoting domestic production of these goods, against the recommendations of international organisations such as the World Trade Organization (WTO) and international fora such as the G20. Moreover, it is undeniable that the rapid and sizeable movement of people, which became possible thanks to globalisation, has contributed to the spread of the coronavirus.

Anti-globalisation views did not emerge as a result of the COVID-19 pandemic, however; protectionist movements began to trend after the Global Financial Crisis in 2008 and 2009. The pace and magnitude of protectionism then grew after United States (US) President Donald Trump began to apply such measures mainly by raising import tariff rates. It has been argued that an increasing number of his constituents, such as unemployed workers who did not benefit from globalisation, are supporting this trend.

It has been well-established, however, that globalisation, which had been propelled by the liberalisation of trade and foreign direct investment (FDI) policies as well as technological progress that reduced trade and FDI costs, has

contributed to rapid global economic growth – especially in East Asia, which has grown more rapidly compared to the rest of the world. Protectionism, therefore, could have serious impacts on this region, as important engines of economic growth (i.e. trade and FDI expansion) could be slowed or stopped.

In light of protectionist policies resulting from the growing anti-globalisation sentiment, the Japan Institute of International Affairs (JIIA), with financial assistance from the Economic Research Institute for ASEAN and East Asia (ERIA), conducted a study of the economic consequences of globalisation for eight selected members of the Asia-Pacific Economic Cooperation (APEC) – Australia, China, Indonesia, Japan, Malaysia, Thailand, the US, and Vietnam – in 2018–19. As there are many lessons to be learned from these countries that have experienced globalisation through trade and FDI liberalisation, the study aimed to deepen the understanding of the benefits and costs of globalisation to provide insight for policy makers in formulating foreign economic policy. Today, as many countries are rapidly adopting protectionist policies in response to the COVID-19 pandemic, it is hoped that this study brings about new insights that will help overcome the economic crisis spurred by the pandemic as well as achieve economic growth in the post-pandemic era.

As many studies already exist on this subject, it was decided that this study would collate and analyse important findings and lessons from past literature rather than conduct original research. The authors of each chapter have aimed to draw policy implications from examining past studies, focusing on impacts on productivity, employment, inequality, and innovation.

This chapter is organised as follows. Section 2 presents a brief overview of globalisation, with a focus on the study's sample countries. Section 3 reviews previous studies on the economic impacts of globalisation in the forms of trade and FDI. Section 4 presents major findings from this study, while Section 5 provides policy implications. Section 6 presents a synopsis of each chapter.

2 Economic globalisation: an overview

Several indicators can be used to examine the extent of economic globalisation, a phenomenon in which economic activities, such as trade and investment, are conducted on a global basis to result in active cross-border movement of goods, services, capital, people, and data. The most popular indicators are trade and FDI, because they have been important international economic activities for decades, and data on these activities are generally collected. The international movement of people, labour, capital other than FDI, services, and data are also important activities contributing to globalisation, but they suffer from a lack of reliable data.

Figures 1.1 and 1.2 show the changes in trade–gross domestic product (GDP) and inward FDI stock–GDP ratios for the world and APEC member economies from 1989 (i.e. the year of APEC establishment) to 2018 (i.e. the year for the most up-to-date available at the time of writing). The upward trend of these indicators shows the advancement of globalisation of the world economy and

Figure 1.1 Trade–GDP Ratios of Selected APEC Member Countries and the World (%). Source: APEC, *StatsAPEC*, <http://statistics.apec.org/> (accessed 7 November 2020). Note: APEC = Asia-Pacific Economic Cooperation, GDP = gross domestic product.

APEC member economies, because international economic activities indicated by trade and FDI increased faster than domestic economic activities indicated by GDP. Both indicators declined in 2008–09, however, because of the Global Financial Crisis. It should also be pointed out that the trade–GDP ratio did not increase after 2011, with only a slight increase after 2016. This was due to several reasons, including growing protectionism, the reshoring of Chinese production, the global shift in demand away from goods and towards less tradable services, and the possible saturation of the development of global value chains (GVCs) (Rodrik, 2018). Moreover, the level of globalisation for APEC member economies is lower compared to that of the rest of the world, because the three largest economies in the world – China, Japan, and the US – are APEC members and exhibited relatively low levels of globalisation. Generally speaking, dependence on international economic activities is low for large economies, although trade and FDI have made significant contributions to these countries’ economic growth.

In recent decades, there has been an active interaction amongst – and rapid expansion of – different types of international economic activities, especially regarding trade and FDI. A typical pattern of their interaction may be described as follows. Think of a multinational corporation (MNC) that is operating various activities, processes, or tasks in an integrated form in the same location. Faced with a reduction in transport and communication costs, it recognises the benefit of breaking up the operation into various tasks, putting them in different locations through FDI, and linking these production bases by trade in components

Figure 1.2 Inward FDI Stock–GDP Ratios of Selected APEC Member Countries and the World (%).

Source: APEC, *StatsAPEC*, <http://statistics.apec.org/> (accessed 7 November 2020).

Note: APEC = Asia-Pacific Economic Cooperation, FDI = foreign direct investment, GDP = gross domestic product.

to achieve efficient production systems. Adoption of such a fragmentation strategy leads to the formation of a GVC, promoting trade in components between the affiliates set up by FDI. Indeed, as noted earlier, the rapid economic growth of East Asian economies can be attributed to the remarkable expansion of trade and FDI.¹ Other international economic activities also interact with trade and FDI; for example, a Chinese student in Japan finds a business opportunity in exporting high-quality Japanese products to China, and sets up a trading company. This is a case where movement of people results in FDI and trade.

Several factors have contributed to the rapid expansion of globalisation. One was a sharp reduction in the cost of undertaking trade and FDI.² Many countries – especially developing countries – undertook trade and FDI liberalisation unilaterally during economic difficulty under the pressure of international organisations, such as the IMF and World Bank, to receive financial assistance. Some countries liberalised trade and FDI regimes bilaterally and regionally with like-minded countries in the form of free-trade agreements (FTAs) to promote economic growth. In addition, the members of the General Agreement on Tariffs and Trade (GATT) and WTO carried out trade and FDI liberalisation multilaterally by implementing commitments made under various international agreements. A reduction in trade and FDI costs occurred through decreasing transport and communication costs, which, in turn, resulted from rapid technological progress and deregulation in such services.

Table 1.1 Trade and FDI for Sample Countries

	<i>Exports/GDP</i>		<i>Imports/GDP</i>		<i>Outward FDI Stock/GDP</i>		<i>Inward FDI Stock/GDP</i>	
	1989	2018	1989	2018	1989	2018	1989	2018
Australia	12.4	17.9	15.0	16.4	11.3	34.1	24.0	47.4
China	15.1	18.3	17.0	15.7	0.8	14.3	3.8	12.0
Indonesia	23.5	17.3	17.4	18.1	0.1	6.9	6.4	21.7
Japan	9.0	14.8	6.9	15.1	5.1	33.4	0.3	4.3
Malaysia	64.5	69.0	57.9	60.7	2.5	33.6	20.8	43.0
Thailand	27.8	50.1	35.7	49.1	0.3	24.0	7.4	44.1
US	6.4	8.1	8.7	12.7	14.7	31.4	9.4	36.2
Vietnam	30.9	99.4	40.8	96.6	--	4.4	1.0	59.3
APEC	10.7	18.7	11.3	19.3	10.3	32.2	8.7	32.9
World	15.4	22.7	16.0	23.1	--	36.7	9.0	37.9

Note: APEC = Asia-Pacific Economic Cooperation, FDI = foreign direct investment, GDP = gross domestic product, US = United States. Source: APEC, *StatsAPEC*, <http://statistics.apec.org/> (accessed 7 November 2020).

Most countries saw the acceleration of globalisation in the forms of trade and FDI, as trade–GDP and FDI stock–GDP ratios increased from 1989 to 2018 (Table 1.1). Two exceptions are Indonesia in its export–GDP ratio and China in its import–GDP ratio. Indonesia’s export–GDP ratio fell due to the declining value of oil exports, partly due to a drop in oil prices. In China, the import–GDP ratio did increase from 17.0% in 1989 to 28.9% in 2005 but then declined to 15.7% in 2018, due to a shift in the country’s development strategy from an outward to an inward orientation, reflecting the government’s attempt to reduce external dependence. Trade friction with the US also caused a substantial decline in imports from that country. It must be noted, however, that the presence of foreign companies increased in China from 1989 to 2018, indicating their growing importance in China’s economic activities. Based on these findings, it is not clear if external dependence declined for the Chinese economy.

The extent of globalisation widely varies amongst the eight countries examined in this study. The degree of globalisation is high in Malaysia, Thailand, and Vietnam; amongst these three countries, all of which are ASEAN members, Vietnam globalised its economic activities at a remarkably high rate, transforming its economic system from a centrally planned to a market economy. However, Australia, China, Indonesia, Japan, and the US show low trade ratios, mainly because of their large economic size.

The patterns are different for FDI stock–GDP ratios. All eight countries, except Indonesia and Vietnam, increased outward FDI stock–GDP ratios, indicating that firms in these countries were active in expanding their operations in foreign countries, also reflecting that the number of successful firms with capable management increased in these countries. Regarding the inward FDI stock–GDP ratio, China and Japan are exceptions with low ratios – despite an increase in

these ratios. As noted earlier, adaptation of an inward-oriented development strategy may be behind China's low ratio; for Japan, multiple factors, including high wages and office rental costs, have discouraged FDI by foreign companies there, despite the fact that the government has been eager to promote inward FDI.

3 Economic impacts of globalisation: a brief literature review

This section reviews previous studies on the economic impacts of globalisation. It is divided into two sections: economic growth, and unemployment and inequality. Within the discussion of the impacts of globalisation on economic growth, trade and FDI are examined separately.

3.1 *Economic growth*

3.1.1 *Trade*

Expansion of trade can contribute to economic growth by improving resource allocation, known as the resource allocation effect, which may be realised at the sector and firm levels. At the sector level, foreign trade leads to a shift of resources, such as labour and capital, from low-productivity sectors (i.e. those with a comparative disadvantage) to high-productivity sectors (i.e. those with a comparative advantage), resulting in improved use of resources (Alessandrini et al., 2011; McCaig and Pavcnik, 2018). At the firm level, trade-induced competition forces low-productive firms to contract or to exit from the market, reshuffling resources to more productive ones (Pavcnik, 2002; Ha and Kiyota, 2014). For a multi-product firm, trade can also trigger resource reallocation within the firm through adjustment of product structure (Goldberg et al., 2010; Bernard, Redding, and Schott, 2011; Lopresti, 2016).

An expansion of trade, both exports and imports, is also likely to improve the productivity of the countries involved. Exporting firms are shown to have higher productivity compared to domestic firms (Melitz, 2003). Exporting requires firms to overcome various barriers or fixed costs, such as obtaining market information and setting up distribution channels, which may be overcome by high-productivity firms (i.e. a self-selection effect). In addition, exporting firms improve productivity if they acquire technical and managerial knowledge by being exposed to foreign markets and competition (i.e. a learning-by-exporting effect). A similar argument on a productivity-enhancing export effect has been made; exporting enables firms to exploit a benefit-of-scale effect, as exporting leads to expanded production (i.e. a scale effect).

Empirical evidence supports these predictions. For example, Bernard and Jensen (1999) found robust evidence of a self-selection effect for US exporters, although the learning impact was less clear. Alvarez and Lopez (2005) found supporting evidence for both self-selection and learning-by-exporting hypotheses

amongst Chilean firms. Using data from Slovenia, De Loecker (2013) showed substantial productivity gains associated with export entry, ranging up to 7.35%. Kim (2000) found that trade liberalisation improved productivity performance, increased competition, and promoted scale efficiency in Korean manufacturing industries.

Increased imports can contribute to the improved productivity of importing and import-competing firms. For importing firms, an increase in imported intermediate goods may improve their productivity, because this enables them to use high-quality intermediate goods (i.e. a high-quality import input effect), especially in developing countries. This effect was observed by Amiti and Konings (2007), who showed that input tariff reduction increased productivity in Indonesia.

An increase in final good imports can lead to improved productivity of import-competing domestic firms, as they face greater competitive pressure from increased imports (i.e. the import-discipline effect). Increased imports may force out inefficient domestic firms, which cannot compete against increased imports. The exit of inefficient firms from the market is, of course, undesirable from the exiting firm's point of view, but it leads to improved productivity for the industry and economy. The negative impacts of increased imports on importing countries can occur through declining employment and incomes. Two studies, de Melo and Urata (1986) and Levinsohn (1993), found support for the import-discipline hypothesis in Chile and Turkey, respectively.³

Although the role of innovation in promoting productivity is implicitly assumed in the discussions of the impacts of trade on productivity, some studies have emphasised the importance of a trade–innovation link for promoting productivity. Specifically, a firm may acquire technological knowledge through its international contacts and demand–supply links with foreign firms through trade. In addition to opportunities to learn from foreign firms, a firm exposed to foreign competition through trade faces competitive pressure, providing an incentive to carry out innovation. Damijan and Kostevc (2015) found that firms, learning from both imports and exports, innovated in Spain. Furthermore, they found a sequence in the relationship between trade and innovation to follow from imports to innovation to exports.

3.1.2 Foreign direct investment

FDI is shown to have different impacts on investing (i.e. home) countries and receiving (i.e. host) countries in a simple static theory. In the home country, the amount of capital declines, leading to a drop in output, while in the host country, the opposite situation arises, leading to economic growth. The host country can achieve additional economic growth if technology is transferred from foreign investors or MNCs to the host country.

For a host country of FDI, successful technology transfer from MNCs is key to achieving economic growth. Technology transfer takes place in two steps: (i)

intra-firm technology transfer, where technology is transferred from MNCs to their foreign affiliates in the host country by on-the-job training and the exchange of workers between the parent office and affiliates; and (ii) inter-firm or technology spillover, where technology is transferred from foreign affiliates to domestic firms through the business environment, such as sales and procurement. Domestic firms may also obtain technology by hiring workers who used to work for foreign affiliates.

Horizontal technology spillover takes place within the same industry, while vertical technology spillover takes place between different sectors. Vertical technology spillover is further divided into backward and forward technology spillover, depending on the nature of inter-industry relationships. Backward technology spillover takes place through procurement of intermediate goods from the procurer (i.e. buyer) to the supplier, while forward technology spillover occurs from the supplier to the buyer. The success or failure of technology acquisition by domestic firms largely depends on their absorptive capability. Specifically, domestic firms can successfully acquire technology if they have capable workers and conducive environments for adopting new technology.

Early empirical studies of the impacts of FDI on economic growth have been conducted using country- and sector-level analyses. Many studies found positive impacts of FDI on economic growth. By analysing 124 cross-country data sets for 1971–2010, Iamsiraroj (2016) found that FDI and economic growth positively affect each other. Several studies also found that FDI contributes to the economic growth of FDI-receiving countries when certain conditions, such as the availability of human resources and openness in trade, are satisfied (Borensztein, De Gregorio, and Lee, 1998; Balasubramanyam, Salisu, and Sapsford, 1996). Unfortunately, country- and sector-level studies did not explicitly consider technology transfer in their analyses of the impacts of FDI on economic growth.

Few studies have been conducted on intra-firm technology transfer, although several exist on inter-firm technology transfer. Some studies also did not distinguish between these two types of technology transfer. Urata and Kawai (2000) studied intra-firm technology transfer using data on parent firms and foreign affiliates of Japanese firms. They found that, on average, approximately 89% of technology was transferred from parent firms to their foreign affiliates, and that absorptive capability was most important for obtaining technology.

Regarding technology spillover, empirical findings showed positive, neutral, and negative effects. According to Rojec and Knell (2018), in a comprehensive survey of the literature on technology spillover, this lack of a consensus is due to a variety of reasons. They pointed out possible problems in the empirical studies, which include inappropriate methodology and lack of adequate data. They found greater similarity in the results from the studies; backward vertical technology spillover was found in many but not horizontal or forward vertical technology spillovers.

As discussed above, outward FDI may have a negative impact on economic growth of the home country as capital moves out. However, outward FDI may

contribute to economic growth of the home country, particularly in the medium to long term, if outward FDI improves the productivity of FDI firms or MNCs. Possible reasons for productivity improvement for MNCs are similar to those discussed for exporting, such as acquiring technology and management know-how from recipient countries. This impact is significant, particularly when outward FDI takes the form of acquisition of foreign companies owning high-quality technology.

Empirical analyses of the impacts of outward FDI on MNCs and home countries showed mixed results.⁴ Based on the literature survey, Hayakawa, Kimura, and Machikita (2010) argued that such results can be attributed to the differences in the types of outward FDI, which were not considered in many studies. When classifying outward FDI into vertical and horizontal types, previous studies only found a positive impact on the productivity of vertical FDI. Vertical FDI is undertaken to seek efficiency, while horizontal FDI captures the market. These differences in motives or mechanisms can lead to different impacts.

3.2 Unemployment and inequality

Globalisation is often accused of creating unemployment and increasing inequality within countries. It has been argued that the inflow of imports that are in competition with domestic production replaces domestic production, which, in turn, leads to reduced employment. Moreover, outward FDI relocates production from the home country to a host (i.e. foreign) country, leading to reduced employment in the home country. These reasonings rest on the validity of certain assumptions, however, such as the perfect substitutability between imports or foreign production and domestic production.

Many empirical studies have examined the impacts of increased imports on unemployment. Autor, Dorn, and Hanson (2013) studied the impacts of increased imports from China on US employment (i.e. ‘the China shock’). By considering not only the direct effect but also the indirect effect through input–output links, Acemoglu et al. (2016) found that import growth from China between 1999 and 2011 reduced the employment of 2.4 million US workers.⁵ Similarly, Hayakawa, Ito, and Urata (2019) examined the impacts of increased Chinese imports on Japan’s labour market, finding that these imports had a negative impact on total employment, especially for industries that produced competing products, as well as a positive impact on industries that purchased Chinese imports as intermediate inputs.

Studies on the impacts of outward FDI on home employment exhibited mixed results. In one on US manufacturing firms, Harrison and McMillan (2011) showed how the motive of outward FDI and its location affected the impact of FDI on parent firms’ employment. Overseas operation in low-wage countries substituted for home employment, but overseas operation conducting different tasks from parent firms complemented home employment. They showed the net effect of FDI to only be a small decline in employment at home.⁶ Moreover, several studies on Japanese manufacturing firms, such as those by Ando and

Kimura (2015) and Kodama and Inui (2015), did not find negative impacts of outward FDI or foreign operations on employment in Japan. Indeed, many studies found positive impacts of outward FDI on home employment, particularly for MNCs that expanded their overseas operations.

Many studies have also been conducted on globalisation and inequality.⁷ An important theoretical explanation of the impacts of globalisation on income distribution is based on the Stolper-Samuelson Theorem within the Heckscher-Ohlin trade model. According to the Stolper-Samuelson Theorem, globalisation expands the production and exports of abundant factor-intensive products while reducing the production of scarce factor-intensive products by increasing imports of scarce factor-intensive products. Consequently, trade liberalisation leads to an increase in the price of abundant factors relative to the price of scarce factors. Assuming that skilled and unskilled labour exist and that developing (developed) countries are relatively well endowed with unskilled (skilled) labour, an application of this theorem indicates that an increase in trade by trade liberalisation leads to an improvement (deterioration) in income distribution or a narrowing (widening) of the wage gap between unskilled and skilled labour in developing (developed) countries.

A survey of empirical studies on the impacts of trade on inequality by Urata and Narjoko (2017) found that country and cross-country studies, conducted on the relationship between trade and income distribution, showed different patterns. Some country-level studies showed that an increase in trade-GDP ratios worsened inequality, while others did not detect significant impacts of trade on income distribution. Yet cross-country studies found that trade improved income distribution, although the impacts were small. These mixed results indicate the need for more analyses.

The impacts of FDI from developed to developing countries on income inequality are basically the same if FDI promotes trade. However, income inequality may deteriorate even in developing countries if the demand for high-skilled workers increases, because MNCs hire high-skilled workers to adopt to high-skilled worker-intensive management styles, for which they have an advantage. Few rigorous studies have been conducted on this issue, but Jaumotte, Lall, and Parageorgiou (2013) found an inequality-deteriorating effect of inward FDI in a cross-country econometric analysis.

Many empirical studies found that technological progress has negative impacts on income inequality as well. Specifically, Jaumotte, Lall, and Parageorgiou (2013) found that the introduction of skill-biased technologies, or labour-saving technologies, contributed to worsening income inequality. Having noted the negative impact of technological progress on income distribution, a bidirectional relationship between technological progress on one hand and trade and investment on the other should also be noted. For example, an exporting firm facing intensive competition in foreign markets will conduct research and development to create new technologies to improve competitiveness. Recognition of this point shows the difficulty in separating the impacts of trade and FDI as well as technological progress.

4 Major findings of this study

4.1 Foreign trade

Regarding the impacts of international trade on economic growth, all of the eight country studies find positive impacts, mainly attributable to the resource allocation and productivity-enhancing effects of international trade. A growth-enhancing resource allocation effect is evident as well because trade expansion was accompanied by structural changes from low value- to high value-added sectors in Australia, Malaysia, Thailand, the US, and Vietnam.

Moreover, all of the country studies find a productivity-enhancing effect of international trade. Export expansion is found to improve productivity in all of the sample countries. As to the mechanism behind the positive impacts of exports on productivity, the self-selection effect is identified for Australia, China, Japan, Malaysia, and the US, while the learning-by-exporting effect is found in Australia, Japan, Malaysia, and the US. For Australia, broad policy reform, under which trade liberalisation was pursued, played an important role in promoting productivity.

Ito (2021), in her study of Japan, makes two key observations: not all high-productivity firms exported, and new exporters had lower productivity compared to established successful exporters. She argues that the former finding indicates the lack of information on exporting opportunities for potential exporters and calls for policy support from governments in providing information on market opportunities and situations in foreign countries. She posits that the latter finding indicates the difficulty in continuing to export; thus, many new exporters stop exporting. She points out a need for the government to support new exporters to continue exporting in the long term to enjoy learning effects.

Lee (2021), however, observes the opposite in Malaysia; new exporters are more productive than surviving exporters. Based on this finding, Lee argues that the churning of exporters makes larger contributions to productivity growth. Although a comparative analysis of the reasons for the different outcomes is difficult due to, for instance, variances in the methodologies, these contrasting findings call for further analysis on the dynamic effects of exporting.

Yu and Zhu (2021) report another interesting finding on the relationship between exporting and productivity in China, inconsistent with findings from the previous studies. Processing trade was actively conducted by Chinese firms in the pre-millennium period. Usually, a Chinese firm obtained raw materials and parts from a foreign trading partner without any payment, and then sold its products to the same foreign trading partner by charging an assembly fee. Yu and Zhu, however, find that firms engaged in such processing trade had lower productivity compared to firms engaged in non-processing trade and those engaged only in the domestic market. Based on these findings, they argue that processing trade does not contribute to economic growth through improving productivity because of its unskilled labour-intensive operation. Yet it did enable Chinese firms to accumulate experience in international trade, probably contributing to the rapid expansion of trade in the succeeding periods.

Imports of intermediate goods or inputs are found to promote the productivity of importing firms in China and Thailand. A similar finding is observed in Japan, as Ito (2021) reports positive impacts of offshoring on the productivity of such firms. The import discipline hypothesis, which is mainly applied to the import of final goods, is supported in Thailand, with a condition that the industries to which imported final goods belong were liberalised. An interesting relationship is found between increased imports and productivity in China; increased imports had positive impacts on productivity for firms producing complex goods, while they had the opposite effect for the producers of simple goods.

Several of the studies, including those on China, Japan, Malaysia, and the US, find a close, bidirectional relationship between trade and innovation, both of which are important sources of productivity and economic growth. Lee (2021) finds the innovation-inducing effect of exports in Malaysia, while Yu and Zhu (2021) and Ito (2021) report the innovation-inducing effect of both exports and imports in China and Japan, respectively. Exporting firms, which are faced with foreign competition and are knowledgeable about technologies and new products, were likely to increase innovative activities – a kind of learning by exporting. Yu and Zhu find that innovation in the pre-exporting period in China had a substantial, positive impact on productivity after a firm began exporting. Importing firms were also likely to increase their innovative effort to compete against import competition, likely improving productivity.

Unemployment and widening income inequality due to globalisation were reported in Australia and the US. Widening wage gaps were also reported in China and Malaysia, while unemployment in non-competitive sectors was seen in Indonesia. The study on the US (Petri and Banga, 2021) points out that there is no convincing evidence that trade increases unemployment or inequality in a long-term, economy-wide context; however, technological change, reflected in increased productivity, was shown to have more significant impacts on unemployment and inequality. Petri and Banga (2021) argue that even if technological change and globalisation have caused adverse labour market trends, it does not follow that the erection of barriers against them is a useful solution, as they reduce the size of the economic pie without necessarily improving its distribution. Instead, they recommend that the government focus on redistributing gains from growth, increasing the productivity of all workers, and helping affected communities adapt socially and economically to the rapid change.

On the benefits and costs of globalisation, Verico and Pangestu (2021), in their study of Indonesia, emphasise that the positive impact of globalisation is dynamic and only felt in the medium term, whereas costs and potential negative impacts are often felt more immediately. Since globalisation creates net benefits in the long run, managing the costs of globalisation during the transition process, before reaping long-term benefits, is a challenge.

4.2 Foreign direct investment

Beginning with inward FDI, all of the eight country studies find positive impacts on economic growth through its contribution to capital formation and/or productivity improvement. Findings on technology spillover, however, are mixed. Technology spillover is reported in Australia. For Malaysia, horizontal spillovers from FDI are found to be weak and backward, and forward spillovers are found to be negative. Regarding Thailand, a horizontal spillover is detected when industries operated under an open trade regime, while vertical backward spillover is found when the link was formed by economic concerns as well as motivated by the capability of domestic suppliers rather than by policy measures such as local content requirement. For Vietnam, mixed results are found, but a greater level of spillover is observed in the cases of joint-venture firms or firms partially owned by domestic firms than wholly foreign-owned firms.

Regarding outward FDI, the case studies of Australia, China, and Japan report positive impacts on the productivity of investing firms. One study on Chinese outward FDI found that Chinese MNCs without state ownership but with stronger absorptive capability gained higher and more sustainable productivity effects. Moreover, such gains were higher for MNCs investing in countries belonging to the Organisation for Economic Co-operation and Development (OECD). The studies in the Japanese case found the learning effect of outward FDI to be a source of high productivity of FDI firms but not the selection effect.

5 Policy recommendations

Several important policy recommendations can be drawn from the studies in this project.

First, on international trade, liberalisation policies should be pursued to achieve economic growth, as they promote both exports and imports. Trade liberalisation promotes exports, because it shifts firms' incentives from domestic sales to export sales, as increased imports from trade liberalisation reduce the profitability of domestic sales. In addition, firms have an incentive to expand exports, because they can benefit from economies of scale and market diversification.

Although trade liberalisation has an export-promoting effect, governments should also assist potential exporting firms, because exporting entails fixed costs such as obtaining market information in foreign countries. Government assistance, in the form of disseminating information on foreign markets (e.g. product standards), can be helpful for firms, particularly for small and medium-sized enterprises.

Increasing imports of both intermediate and final goods contributes to economic growth by improving productivity, as discussed in the previous section. Although most studies in this project examined reduced tariff rates in the discussion of trade liberalisation, non-tariff measures in various forms, such as technical barriers to trade and sanitary and phytosanitary measures, are becoming important. Application of these measures can be justified for safety purposes, but

they can be also used for protective purposes or in the form of ‘disguised’ protection. To avoid protection and to facilitate trade, mutual recognition or harmonisation of these measures should be pursued.

Measures should be adopted to deal with the opposition against trade liberalisation. One is assisting those negatively affected, known as trade adjustment assistance, which has been implemented in Australia and the US. This usually includes temporary income compensation and education or training programmes, which should be formulated to facilitate change to higher-paid jobs by improving workers’ skills. Theoretically, there is no reason to treat those negatively affected by trade liberalisation differently from those negatively affected for other reasons, such as technological progress. However, trade adjustment assistance may also be justified for promoting trade liberalisation, which would bring various economic and political benefits, as previously discussed. Other measures for dealing with the opposition to trade liberalisation include enacting bilateral or regional FTAs and/or promoting multilateral trade negotiations, which will not only open the market in the country in question but also markets in trading partners.⁸ A country can then expect to increase exports, which would grow job opportunities for the negatively affected workers.

Pursuing liberalisation, in the cases of both inward and outward FDI policies, is recommended. Many countries, especially developing countries, have restricted inward FDI due to a fear of dominance of MNCs over domestic firms; however, in recent decades, more have begun liberalising their inward FDI regimes to attract inward FDI as they realise the various benefits from hosting MNCs. Nevertheless, some continue to restrict activities of MNCs by applying various measures. Trade-related investment measures, such as local content requirements and export restrictions, are banned under the WTO, while other restrictions on MNC activities, such as repatriation of profits and employment of expatriates, are legal. Developing countries often restrict outward direct investment to save scarce investment funds or foreign exchange, whereas for developed countries maintaining job opportunities for local workers is a popular motive. These restrictions cannot be justified under the efficient use of investment funds and other resources, such as technology and management know-how. Countries should thus remove all restrictions to attract FDI, with exceptions for legitimate reasons, such as national security.

Liberalisation of FDI policies can be pursued more easily if liberalisation policies are implemented jointly with partner countries rather than unilaterally, as they expand opportunities for domestic firms to increase outward FDI. Specific forms of joint policies include bilateral investment treaties and FTAs with investment chapters. It should be noted that there are no multilateral rules on investment other than the Agreement on Trade-Related Investment Measures (TRIMs) Agreement under the WTO, which covers only a small part of FDI-related activities.

FDI should be attracted and promoted, but preferential measures, such as subsidies, are not recommended. Although preferential measures may be effective in attracting FDI, they create market distortions, possibly resulting in loss of

economic welfare. A case in point is ‘the race to the bottom,’ where competition between countries using subsidies for attracting FDI is bound to end up in a situation where both countries suffer from lost government revenue. Rather, countries should develop business environments under which MNCs can operate efficiently. Specifically, the development of hard (e.g. transport and communication networks and electricity generation) and soft (e.g. legal and education systems) infrastructure is crucial for attracting inward FDI; ensuring their effective functioning is also critical. For this, capable human resources must be developed.

Policies to improve technological capability should also be developed, which would contribute to the maximisation of benefits from trade and FDI expansion for firms and countries, including information on advanced technology and management know-how. To assimilate technology so that domestic firms can improve productivity, domestic firms must have the appropriate capacity to learn and to utilise technology and management know-how. To develop this capability, governments can help provide education and training.

Finally, governments should support innovation activities by firms. With successful innovation, firms can become involved in exporting and outward FDI by improving their competitiveness, so that they may enjoy the benefits from the interaction with foreign firms and countries. Improved competitiveness also helps firms become involved with MNCs operating in the domestic market through joint-venture partnerships, sales, and/or procurement partnerships so that firms can obtain technology and management know-how. To promote innovation, governments should ensure the protection of intellectual property rights in addition to provision of various support measures, such as technical and financial assistance. One effective way to provide intellectual property right protection is to participate in FTAs with intellectual property right provisions, because international agreements on intellectual property right protection, such as those provided by the WTO and World Intellectual Property Organization, are viewed as insufficient.

6 Synopses of chapters

6.1 Australia

Globalisation of the Australian economy has proceeded rapidly since the 1970, as the share of trade and FDI in GDP has increased substantially. According to Findlay, Mavromaras, and Wei (2021), rapid globalisation of the economy is attributed to the changes in international economic policy from inward-oriented protectionist policies to outward-oriented liberalisation policies, including reduced import tariffs and relaxed restrictions on inward FDI and the movement of people. The shift in international economic policies occurred as the government was trying to overcome unfavourable economic performance. A liberalisation of international economic policy was thus implemented as part of broader economic reform, comprising reforms in the labour market, financial

market, and tax system. A series of domestic reforms in various sectors, including the financial sector, labour market, as well as private and public sectors, also contributed to Australia's globalisation.

The economic impacts of globalisation have been both positive and negative in Australia. Globalisation has contributed to favourable economic performance; indeed, Australia is the only OECD country that has not experienced a recession in the last 27 years. Globalisation has also contributed to increased productivity through the expansion of trade and FDI as well as the promotion of innovation. Participation in trade contributed to increasing productivity through learning-by-doing channels and market-size effects. Trade has provided access to technology, and the competition associated with trade has added to incentives to innovate. FDI has improved productivity through the transfer of technology and the promotion of competition. Migrants are likely to have contributed to an increase in productivity with their skills as well.

A negative impact of globalisation in Australia, due to the expansion of trade and FDI, is unemployment resulting from increased imports and widening income inequality. Various labour-adjustment programmes have been implemented to deal with unemployment, but evaluation of the programmes is mixed. Increasing income inequality has been reduced by a progressive income tax system and transfer system.

The chapter provides important policy lessons from the Australia experience, referencing Banks (2005). First, 'external liberalisation' is a good manner in which to begin reform. Second, Australia reformed unilaterally in the 1980, and not in exchange for market access offered by trading partners. Third, reform did not follow a 'big bang' approach but an incremental one, and the reform programme was wide-ranging. Fourth, institutional reform was crucial to promote and to sustain the reform. Fifth, political leadership was critical for carrying out institutional reform and entrenching the right institutions.

6.2 *China*

China's rapid economic growth since 1978 is attributable to various factors, including globalisation of its economy. Yu and Zhu (2021) observe that the characteristics of China's involvement in international trade changed during its process of economic development. The chapter identifies four stages in China's engagement in international trade.

The first, an extensive margin of opening up, comparative advantage following, and processing trade, occurred from 1986 to 2001. After experiencing slow economic growth by adopting the comparative advantage-defying strategy of heavy industry promotion with import protection, the government implemented reform and an opening-up strategy in 1979, under which comparative advantage following processing trade was expanded through government policies such as the preferential trade policy of importing intermediate goods with zero tariffs. Through processing trade, China began integrating into GVCs by taking advantage of its abundant labour force.

The years 2001–08 then marked an intensive margin of opening up. In the process of and after WTO accession in 2001, China reduced import tariffs substantially, leading to improved productivity and promotion of innovation, which in turn contributed to increased productivity. Another important consequence was an increase in the wage gap between low- and high-skilled labour. Access to the WTO benefited Chinese exports, as it provided certainty in China's access to foreign markets.

The third period, from 2008 to 2017, demonstrated a deeper opening up against financial crisis. Triggered by the Global Financial Crisis, increasing labour costs, and renminbi appreciation, Chinese exporters were in a difficult situation for export expansion. Faced with an increasingly competitive export market, exporters adopted several strategies, including innovation, upgrading product quality, and outward FDI. Since 2017, faced with growing protectionist policies spearheaded by the US, China is introducing various measures, such as the construction of free-trade ports, introduction of the Belt and Road Initiative, internationalisation of the renminbi, and development of the Pearl River Greater Bay Area, with an objective of further opening up.

An important lesson from China's experience is that China's evolving comparative advantage must be fully exploited and its industry and trade policy be fully implemented to facilitate the exploitation.

6.3 Indonesia

Globalisation of the Indonesian economy has proceeded through the expansion of trade and FDI. An important factor has been the adoption of trade and FDI liberalisation, which was realised by implementing the commitments under multilateral frameworks of the GATT and WTO, regional and bilateral FTAs including the ASEAN Free Trade Area and ASEAN Plus FTAs, and obligations for obtaining economic assistance from international organisations such as the IMF and World Bank.

Verico and Pangestu (2021) find that globalisation generated a positive impact on Indonesia's economic growth through the trade and investment channel. Through the trade channel, globalisation contributed to Indonesia's productivity and structural economic transformation, benefited small and medium-sized enterprises, aided poverty alleviation, and reduced inequality. Trade liberalisation had a negative impact on employment in non-competitive sectors, however. Through the investment channel, there is evidence of a spillover effect of technology transfer, technology progress, improvement of the role of small and medium-sized enterprises, and poverty alleviation. They note that the positive impact of globalisation is felt in the medium term, whereas a negative impact is often felt more immediately.

A challenge for Indonesia is to ensure that its globalisation strategy stays focused on long-term net positive benefits, because in the past, its external economic strategies have swung between outward- and inward-looking policy, depending on economic circumstances. Towards this objective, Indonesia needs

public support for globalisation, which may be generated by presenting convincing narratives based on rigorous empirical research.

6.4 Japan

Globalisation of the economy has been attracting attention in Japan because it is discussed in relation to the prolonged sluggishness of the domestic economy. However, Ito (2021) finds that globalisation has contributed to economic growth through increased firm productivity. Indeed, Japanese firms that are engaged in international trade and FDI have higher productivity than domestic firms, although only a few firms are directly engaged in international business.

Two effects, the selection effect and learning effect, explain the high productivity of exporting firms. Not all highly productive firms are engaged in exporting, indicating the presence of obstacles such as difficulty in obtaining market information and uncertainty in overseas markets. This finding calls for government assistance in providing market information and mitigating risk.

As for the impact of globalisation on the labour market, many studies have shown that competition from imports as well as offshoring have shifted labour demand towards skilled workers, resulting in a widening wage gap between skilled and unskilled workers. However, the contribution of globalisation to this gap is limited in Japan.

To understand the impacts of globalisation on firm performance and the labour market, the close relationship between globalisation and innovation is identified. While innovative firms are more likely to become exporters, firms serving international markets are also more likely to increase innovation activities. Both globalisation and innovation tend to benefit skilled workers, while unskilled workers are likely to be worse off. Given that the importance of globalisation and innovation is likely to increase in the future, it is important for Japanese firms to invest in new technology and human capital to respond to the structural changes brought about by globalisation and technological change. Policy support should be provided to increase investment, particularly in intangible assets, for firms that are striving to succeed in the global market.

6.5 Malaysia

Globalisation in the forms of trade, FDI, and foreign workers has had significant impacts on Malaysia's economy and society. Lee (2021) posits that the impacts of globalisation on economic growth have been shown to be positive from macroeconomic as well as microeconomic studies. Macroeconomic studies, employing time-series econometrics, demonstrated the positive relationship between exports and economic growth, while microdata studies found that globalisation had positive impacts on productivity in Malaysia.

Foreign labour has had significant economic and social impacts in Malaysia. Before Malaysia's independence, the massive inflow of foreign workers from China and India contributed to the development of its export-oriented,

labour-intensive tin and rubber industries, as well as Malaysia's multi-ethnic society. Then, after the successful development of FDI-driven, export-oriented manufacturing in the 1980, the country began to experience labour shortages in the early 1990, leading to rapid growth in the number of foreign workers. Relatively cheap and low-skilled foreign labour helped sustain the country's manufacturing competitiveness in the 1990; however, this later became an obstacle to efforts to upgrade the manufacturing and other economic sectors.

Globalisation also contributed to the reduction of poverty and income inequality, as it enabled an expansion of labour-intensive, export-oriented manufacturing. However, there is growing concern that the country's addiction to cheap foreign labour could suppress the wages of low-skilled workers, possibly increasing income inequality. An important issue related to inequality in Malaysia is inter-ethnic income and wealth distribution. The government has thus introduced various policies, such as increasing government ownership in key sectors, on behalf of the Bumiputra (i.e. indigenous) community. These policies could limit the country's ability to deepen its participation in the GVC in manufacturing and services.

The negative impact of globalisation in Malaysia is its vulnerability to global economic shocks. Prior to the 1990, crises were mainly transmitted through the trade sector; however, since liberalising its financial sector in the 1990, the economy has become vulnerable to external shocks to both the trade and financial sectors.

An important policy issue related to globalisation is corruption in trading activities. If institutional reforms occur regarding corruption, Malaysia's competitiveness as an export-oriented manufacturing base and as a trading nation is likely to improve. Good governance is thus important for obtaining benefits from globalisation.

6.6 Thailand

Industrialisation in Thailand began with an import-substitution policy in the 1960, which comprised an escalating tariff structure that achieved relatively high economic growth but led to successive balance-of-payments problems due to increased imports of intermediate goods. Its trade policy gradually shifted towards an export orientation in the mid-1980, when tariff rates were relatively high compared to other Southeast Asian countries, but export promotion was pursued by policies such as import tariff-exemption schemes. During the past two decades, FTAs have played an important role in expanding export opportunities.

Thailand has always been open and successful in attracting FDI. As a consequence, the shares of trade and FDI in GDP have increased to relatively high levels. Labour mobility has also played an increasing role as a driver of economic globalisation. A large number of foreign workers have come to Thailand, which had been suffering from a labour shortage.

As the Thai economy has begun to slow down and fall into the 'middle-income trap,' the government has been formulating policies to achieve high

economic growth. Kohpaiboon and Jongwanich (2021) point to globalisation's potential to create a favourable economic impact. Opening up to international trade promotes productivity by improving resource allocation and encouraging research and development. Participation in GVCs and provision of a competitive market environment play key roles in the efficient use of resources. Large FDI inflows generate horizontal technological spillovers within a given industry, although vertical spillovers through links in Thailand are insignificant.

Studies examined also pointed to the importance of a liberal trade policy to promote technology spillovers. Another favourable impact of MNCs is to promote export and research and development by domestic firms. There is no evidence that employing foreign workers retards firm productivity, and global production sharing does not necessarily mean that participating countries are trapped at the low end of the quality ladder. Indeed, mutual benefits from participation in the GVC network can be shared between developed and developing countries. Thus, Thailand's past experience supports the case for further globalising its economy, as any possible side effects of globalisation can be mitigated by other policies such as strengthening the country's social safety net.

6.7 United States

Petri and Banga (2021) examine the consequences of globalisation in the US by focusing on three issues: (i) overall gains from trade, (ii) adverse labour market trends and causal effects of trade on the labour market, and (iii) the results of changes in trade policy.

The US has benefited from globalisation, as it has enhanced productivity by improving resource allocation, especially by participating in GVCs and by promoting innovation through the inflow of ideas and money. Indeed, Petri and Banga provide an estimate of gains from globalisation, accounting for 11%–19% of the country's GDP, comprising increased opportunities for purchasing a variety of imports and exporting US products to foreign markets. However, the general US public discussion does not fully recognise these benefits, and instead focuses on the costs in the form of job losses, which may be actually caused by trade or technological progress.

Labour market effects, which have dominated recent critiques of globalisation in the US, have focused on unemployment, wage inequality, and labour force participation. Some studies found significant impacts from trade on unemployment under specific circumstances, such as declining industries in some localities. However, there is no convincing evidence that trade increased unemployment in a long-term, economy-wide context. Indeed, an empirical study found that technological change, reflected in increased productivity, had much more significant impacts on unemployment. Regarding increased inequality, trade may have had a significant impact; as a high-wage country, the US tends to import products from countries with lower wages, but the evidence mainly pointed to technological change rather than import competition as the source of pressure.

The gains from trade likely exceed – potentially by orders of magnitude – the costs of fighting inequality attributable to trade. Nevertheless, the economic, as well as political, costs of worsening distributional trends are substantial and demand urgent solutions. Policies should focus on redistributing gains from growth, increasing the productivity of all workers, and helping affected communities adapt socially and economically to the rapid change.

6.8 Vietnam

Since Đổi Mới in 1986, Vietnam has gradually opened its economy to foreign trade and investment and has become integrated into the global economy. Its economic integration had four milestones: (i) accession to the ASEAN Free Trade Area in 1996 and an array of FTAs under ASEAN Plus frameworks; (ii) signing of the Vietnam–US Bilateral Trade Agreement in 2000; (iii) accession to the WTO in 2007; and (iv) signing of bilateral and multilateral FTAs, including those with Chile, the CPTPP, the Eurasian Economic Union, European Union, Japan, and Republic of Korea. Thanks to these milestones, trade and FDI in the Vietnamese economy became increasingly important.

Vo, Nguyen, and Do (2021) find that globalisation based on trade and FDI contributed to the rapid growth of the Vietnamese economy and expanded employment. However, they also find that the economy has not fully exploited globalisation's potential benefits. Mainly foreign firms, established in Vietnam through FDI, contributed to export expansion, but their presence has not contributed much to improved productivity nor the technological capability of domestic firms. One problem is poor links between foreign and domestic firms; as such, the technology spillover has been limited. Moreover, the inadequate ability of domestic firms has trapped them in low value-added production stages in GVCs.

Globalisation in the form of trade, however, has contributed to expanded employment and improved resource allocation. Trade has enabled Vietnam to exploit its comparative advantage, that is, its labour-intensive production. Indeed, its poverty situation has improved under the liberalised regime with the help of social programmes, although income inequality has not changed much in recent decades.

Vo, Nguyen, and Do present several policy recommendations for Vietnam to achieve deeper global integration and associated benefits, including implementing domestic economic reforms, building hard and soft infrastructure, and consulting actively with the business community.

Notes

- 1 See, for example, Urata (2012).
- 2 See, for example, Hummels (2007) on the decline in trade cost.
- 3 Although not directly investigating the increased impacts of imports on economic growth, several studies empirically examined the impacts of trade liberalisation,

which promote imports, on economic growth. Irwin (2019) provided a comprehensive survey of such studies and concluded that trade liberalisation, in the form of reduced import tariffs, has a positive impact on economic growth, on average, although the effect is heterogeneous across countries.

- 4 See Hayakawa, Kimura and Machikita (2010) for a survey of the literature on this point.
- 5 Autor (2018) provided a summary of the studies on the impacts of increased Chinese imports on the US employment.
- 6 Brainard and Riker (1997) obtained similar findings in the case of US MNCs. A study on Korean MNCs by Debaere, Lee, and Lee (2010) found that investment in less-advanced countries decreased companies' employment growth, especially in the short run.
- 7 Inequality is discussed from various perspectives, which include gender, generation, region, and others. See Urata and Narjoko (2017) for a review.
- 8 Regarding regional FTAs in the Asia-Pacific, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) are two important regional FTAs working towards the eventual establishment of the Free Trade Area of the Asia-Pacific (FTAAP), involving all APEC economies. The CPTPP entered into force in December 2018, and seven countries have joined. Expanding membership, however, is a major challenge. The RCEP negotiation, began in May 2013, is still under negotiation. First proposed by the US in 2006, the FTAAP has undergone a formal feasibility study, but negotiations have not yet started because of the differences in the opinions of the APEC members. The most important driving force for promoting FTAs is national leaders' determination, which comes from a strong belief in regional economic integration for achieving economic growth.

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