

ESRI POLICY DIALOGUE MEETING: MAKING THE BEST OF GLOBALISATION

SUMMARY



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SUMMARY

The Economic and Social Research Institute, Dublin, 26th June 2008

Introduction

1. This Policy Dialogue Meeting was organised by the ESRI in the framework of an European project funded under the European Union's RTD 7th Framework Programme (PLATON+ <http://www.platonplus.net/>) which aims to strengthen the role of Socio-Economic Sciences and Humanities on the development of the European Research Area through the dissemination of relevant research results.

2. The meeting agenda (see Annex I) focused on recent trends and new challenges arising from the intensification of the globalisation process in recent years and was based on policy relevant research results from an ongoing research project "Dynamic Regions in a Knowledge-Driven World Economy: Lessons and Policy Implications for the European Union", funded under the European Union's RTD 6th Framework Programme (<http://www.esri.ie/dynreg>).

3. The meeting brought together researchers, policy decision-makers from government departments and agencies, representatives of the business community, and NGOs from Ireland as well as representatives of the PLATON+ consortium from Austria, Estonia, France, Germany, Greece, Hungary, Italy, Poland, and Turkey. The list of participants is shown in Annex II.

4. Dr Iulia Siedschlag, ESRI welcomed the participants and highlighted the key issues and policy challenges to be discussed. Three short presentations by leading experts followed which framed the discussions on key dimensions of globalisation, namely:

- 1) increased internationalisation of production and shifting comparative advantages in the world economy;
- 2) the effects of increased relocation of production driven by foreign direct investment;
- 3) the effects of increased migration flows on trade patterns. The text of presentations and research papers were distributed to the participants. Short summaries of the presentations were sent to the participants together with the invitation to the meeting.

Making the Best of Globalisation: Key Issues and Policy Challenges

Dr Iulia Siedschlag, ESRI

5. This introduction highlighted key issues and policy challenges of globalisation in recent years and set out the context for the discussions.

Key issues

- Globalisation, broadly defined as an increased integration of product, capital and labour markets has been on the rise since the middle of the 19th century driven mainly by technological change and policy initiatives.
- The new phase of globalisation experienced since the 1990s is distinct from the previous phases by its size and speed. In particular, the falling transportation and communication costs and the integration in the world economy of new players such as China, India, Central and Eastern Europe and former USSR countries have led to a significant acceleration of international integration of product, capital and labour markets along the following dimensions:
 - Increased internationalisation of production due to increased tradability of tasks and the creation of global supply chains
 - Increased ICT-enabled trade of services
 - Globalisation of financial markets
 - Increased migration flows including migration of highly skilled workers
- The new challenges from the intensification of globalisation include:
 - The intensification of competition from low-wage countries, between workers performing similar tasks
 - Cost-induced ICT-enabled acceleration of relocation of production driven by multinational enterprises
 - The new competitors have comparative advantages in a wide number of industries (China) and in high value added services (India)
- These challenges raise important policy questions:
 - How is globalisation affecting growth and trade patterns?
 - What is the role of “new players” in emerging global production structures?
 - How well are the EU countries prepared to cope with these challenges from a rapid changing environment?

Internationalisation of Production: How is Ireland Coping with the New Challenges?¹

Dr Iulia Siedschlag, ESRI

6. Ireland is one of the most globalised economies in the world and an example of a country which has turned globalisation to its national advantage. This short presentation focused on two key issues: 1) How is globalisation affecting trade specialisation patterns? 2) How well is Ireland placed to cope with the new challenges?

Key issues

Ireland and global trade integration

- The evidence indicates that over the past decade trade with intermediate goods and services has increased. Ireland is a net exporter of intermediate goods while China and India are net importers which suggests that while Ireland is specialised in the upstream stages of production, China and India are specialised in the processing and assembly of products- the downstream stages of production.
- Over the past decade Ireland has been a net importer of services. However, the trade deficit in services has narrowed in recent years in particular with respect to trade with computer services, insurance and financial services.
- The export specialisation of Ireland is in high and medium-high technology products which is to a large extent complementary to patterns of export specialisation of countries in Central and Eastern Europe and dynamic Asia.
- Over the past decade, competition from China in the ICT sector has intensified
- Over the past decade, Ireland has experienced an increasing specialisation in trade with financial and business services.
- Competition from India in trade with computer services has intensified.

How well is Ireland placed to cope with the new challenges?

- Ireland has successfully achieved technological development through the acquisition of foreign technology and foreign direct investment.
- With respect to product and labour market flexibility Ireland compares favourably with other EU and OECD countries.
- Existing evidence based on firm-level data suggests that Ireland has been successful at adopting new technology.
- Ireland compares less favourable with EU and OECD countries in certain areas which are essential for a modern knowledge-based economy and benefiting from globalisation such as investment in knowledge (the combined expenditure on R&D, software, higher education), research personnel, patent intensity.
- A potential source of innovation and productivity growth is deregulation in services and network industries where the record of Ireland is better only in comparison to Greece among OECD countries.

¹ Presentation based on joint research with Gavin Murphy, ESRI, prepared for the ESRI Policy Dialogue Meeting “Making the Best of Globalisation”, as part of the PLATON+ project <http://www.platonplus.net> Financial support from the European Union’s RTD 7th Framework is gratefully acknowledged.

Discussion

7. The discussion related to this presentation highlighted the following points:
 - The good performance of Ireland with respect to the light product market regulation and labour market flexibility is seen by trade unions as a weakness rather than a strength in particular with respect to the need to have tighter health regulations and a better employment protection.
 - The good performance of Ireland with respect to product market regulation is related to the lack of anti-competitive barriers to firm entry and other business regulations which are essential for the attracting new business including foreign direct investment and the relocation of economic activity across sectors.
 - Coping with globalisation is essentially about coping with rapid change. To seize opportunities and minimise adjustment costs related to globalisation, flexibility in the relocation of resources across sectors is key. In this context, increased competition from low-wage countries requires an adequate protection of employees rather than protection of jobs.
 - A strong domestic R&D base is essential to attract further foreign investment in Ireland and to generate new knowledge and innovation.
 - While R&D expenditure appears correlated positively with innovation intensity, the absorption capacity including skilled human capital and a high-quality innovation system – is an important factor for a successful science and innovation policy.
 - To stay competitive in the face of increased competition from low-wage countries, creating and sustaining innovation is key to improved competitiveness.

Is Foreign Direct Investment to China Crowding Out Foreign Direct Investment to the European Union Countries?²

Dr Laura Resmini, University Valle d'Aosta and University "Luigi Bocconi", Milan

8. The success of China in attracting foreign direct investment (FDI) has raised concerns that this has come at the expense of other countries and regions. This short presentation focused on the following policy relevant questions: 1) Has the surge in the FDI into China in recent years come at the expense of FDI inflows into European Union countries? 2) Has this impact changed over time? 3) Are spillover effects from FDI to China different for horizontal and vertical FDI?

Key issues

- FDI is not a “zero-sum” game.
- On average, FDI inflows into China are found to be complementary to FDI inflows into other countries.
- On average, both horizontal (“market-seeking”) and vertical (“efficiency-seeking”) FDI appear positively affected by FDI inflows into China.
- In comparison to other non-EU recipient countries, on average, EU15 show a lower complementarity in horizontal FDI and a higher complementarity in vertical FDI.
- On average, the effects of FDI into China on horizontal and vertical FDI in the new EU countries in Central and Eastern Europe are not significantly different in comparison to the effects on non-EU countries.
- With respect to country specific effects, FDI inflows into China appear to have diverted horizontal FDI from small economies and vertical FDI from low-cost countries.
- Complementarity between FDI to China and FDI to other recipient countries are due to integrated production networks established by multinational enterprises in order to exploit cost-advantages in different locations all around the world.
- To take advantage of benefits from the internationalisation of production and comparative advantages policy should focus on increasing the attractiveness of countries to FDI by improving the quality of institutions, macroeconomic conditions, skills and productivity.

² Presentation based on research paper “Is FDI into China Crowding Out the FDI into the European Union?”, by Laura Resmini and Iulia Siedschlag, ESRI Working Paper No. 231/2008, www.esri.ie

Discussion

9. The discussion related to this presentation highlighted the following points:
 - The methodology used in the analysis of FDI outflows accounted for country specific unobserved characteristics such as corporation tax differentials.
 - The analysis covered the period 1990-2004 and results proved to be very stable over the whole period. FDI is associated with a long lasting interest in the foreign affiliates, therefore it takes time to disinvest or build up different production networks.
 - Changes in the integrated production networks depend on resource endowments and China is relatively more abundant in labour than in capital. Therefore, its role on production networks is likely to change slowly.
 - In order to exploit complementarities with FDI flows into China, EU15 countries attracting mainly vertical FDI should enter in the same integrated production network as China but at different stages of the production chain. Given the relative position of China, more technological intensive phases, where productivity matters more than labour costs, should be preferred.
 - In order to improve market potential and hence attract horizontal FDI, small economies should aim to develop export platforms, i.e. attract affiliate production for sales in third countries rather than in the parent or host countries. This would overcome the limitations due to their small domestic markets and therefore increase market potential. The discussed research results indicate that an increase in market potential would make the China effect positive, because this would offer horizontal FDI another opportunities to increase profits, regardless of the cost advantages *vis à vis* China.

The Impact of Migrants on Trade³

Dr Edgar Morgenroth, ESRI

10. Immigrant links to their home country can exhibit a positive externality in reducing the costs of trade between home and host countries and thus lead to an increase in bilateral trade between home and host. Thus immigration could be thought of as a globalising force. This short presentation discussed the impact of different migrant groups on the bilateral imports and exports between their host country and their origin country.

Key issues

- One aspect of globalisation is the increase in migration - between 1995 to 2004 16 out of the 21 OECD countries the immigrant share of the labour force increased.
- The relationship between immigration and trade is likely to be non-linear with a saturation effect.
- Trade and migration are complements up to a point - the degree is dependant on the size and origin of the immigrant community.
- The effect on imports diminishes rapidly but is initially higher than that for exports.
- The immigrant stock is found to stimulate imports more than exports and thus impacts negatively on the trade balance.
- As the immigrant stock is found to be endogenous in the analysis one can conclude that immigration is both a cause and a consequence of globalisation.
- Surprisingly immigrants originating in Africa were found to have the largest impact.

Discussion

11. The discussion related to this presentation highlighted the following points:
- It would be useful to identify whether the effect of immigrant stock has a differential impact on producer or consumer goods.
 - Immigration, at least in the Irish context, has been a significant source of skilled labour. It would be interesting to consider whether the impact of migrant groups differs according to skill level.
 - Immigration has also added some flexibility to at least the Irish labour market
 - Further research is needed to identify the impact of immigrants on trade in producer and consumer products separately.
 - It is likely that different skilled groups have a differential impact on trade. For example by reducing skilled wage inflation in Ireland the high level of skilled immigration is likely to have supported the competitiveness of skill intensive industries.

³ Presentation based on the research paper "Some Further Results on the Impact of Migrants on Trade", by Edgar Morgenroth and Martin O'Brien, DYNREG Working Paper No. 26/2008 www.esri.ie/dynreg

ANNEX I

ESRI Policy Dialogue Meeting: Making the Best of Globalisation

Meeting Agenda

ESRI Policy Dialogue Meeting: Making the Best of Globalisation

Venue: The ESRI, Whitaker Square, Sir John Rogerson's Quay, Dublin 2

Date and Time: Thursday 26th June 2008, at 4.00 p.m.

This round table is organised in the framework of an European project funded from the European Union's RTD 7th Framework Programme (PLATON+ <http://www.platonplus.net/>) which aims to strengthen the role of Socio-Economic Sciences and Humanities on the development of the European Research Area through the dissemination of relevant research results.

The discussion will contribute to the current research and policy debate about the new opportunities and challenges arising from the intensification of the globalisation process in recent years and it will be based on policy relevant research results from an ongoing research project "Dynamic Regions in a Knowledge-Driven World Economy: Lessons and Policy Implications for the European Union", funded from the European Union's RTD 6th Framework (<http://www.esri.ie/dynreg>).

Internationalisation of Production: How is Ireland Coping with the New Challenges?

Dr Iulia Siedschlag, ESRI

Ireland is one of the most globalised economies in the world and an example of a country which has turned globalisation to its national advantage. What factors drive the recent intensification of the globalisation process? How is globalisation affecting trade specialisation patterns? How well is Ireland placed to cope with the new challenges?

Is Foreign Direct Investment to China Crowding out Foreign Direct Investment to the European Union Countries?

Dr Laura Resmini, University Valle d'Aosta and University "Luigi Bocconi", Milan

The success of China in attracting foreign direct investment (FDI) has raised concerns that this has come at the expense of other countries and regions. We discuss research results that answer the following policy relevant questions: Has the surge in the FDI into China in recent years come at the expense of FDI inflows into European Union countries? Has this impact changed over time? Are spillover effects from FDI to China different for horizontal and vertical FDI?

The Impact of Migrants on Trade

Dr Edgar Morgenroth, ESRI

Immigrant links to their home country can exhibit a positive externality in reducing the costs of trade between home and host countries and thus lead to an increase in bilateral trade between home and host. Thus immigration could be thought of as a globalising force. We discuss the impact of different migrant groups on the bilateral imports and exports between their host country and their origin country.

ANNEX II

LIST OF PARTICIPANTS

Name	Affiliation
Louis Brennan	Professor, Trinity College Dublin
Annelies Bruhne	LUH, Germany. PLATON+
Nicola Commins	Research Assistant, Economic and Social Research Institute Dublin
Thomas Conefrey	Research Assistant, Economic and Social Research Institute Dublin
Niamh Crilly	Research Intern, Economic and Social Research Institute Dublin
Michael Curran	Research Intern, Economic and Social Research Institute Dublin
Iakovos Delioglans	Q-Plan, Greece. PLATON+
Adrian Devitt	Department Manager, National Competitiveness Council, Ireland
Roger Fox	Planning & Research, FAS-Training and Employment Authority, Ireland
Jean Goggin	Research Assistant, Economic and Social Research Institute Dublin
Patrick King	Dublin Chamber of Commerce, Ireland
Breda Lally	National University Ireland, Galway
Monique Longo	APRE, Italy. PLATON+
Ronan Lyons	IBM, Ireland
Marie Mackle	Department of Finance, Ireland
Adam Molnar	TETALAP, Hungary. PLATON+
Edgar Morgenroth	Senior Research Officer, Economic and Social Research Institute Dublin, DYNREG
Donal McCarthy	Research Intern, Economic and Social Research Institute Dublin
Gavin Murphy	Research Assistant, Economic and Social Research Institute Dublin DYNREG, PLATON+
Nikos Mylonopoulos	ALBA, Greece. PLATON+
Ian Nash	Research Intern, Economic and Social Research Institute Dublin
Maria Papadaki	Q-Plan Greece. PLATON+
Anna Penne	H&K, Estonia. PLATON+
Ronald Pohoryles	ICCR, Austria. PLATON+
Silver Pukk	H&K, Estonia. PLATON+
Andreas Schadauer	ICCR, Austria. PLATON+

Laura Resmini	Professor, University Valle d'Aosta, University "Luigi Bocconi", Italy. DYNREG
Frances Ruane	Professor, Director, Economic and Social Research Institute Dublin
Marie Sherlock	SIPTU The Services, Industrial, Professional and Technical Union (SIPTU)-, Ireland
Iulia Siedschlag	Senior Research Officer, Head of the Centre for International Macroeconomic Analysis, Economic and Social Research Institute Dublin, DYNREG, PLATON+
Sue Scott	Senior Research Officer, Economic and Social Research Institute Dublin
Paul Sweeney	Economic Adviser, Irish Congress of Trade Union, Ireland
Jane Sweetman	Higher Education Authority, Ireland
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Colm Walsh	Professor, University College Dublin