

Supplementary Reading for

Chapter 11 Is Globalization Slowing Down

Tenets of Global Growth and Prosperity

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The global mood is decidedly gloomy. War, threats of war, terrorism, corporate scandals, sinking equity markets and languid labour markets: all have taken a toll on economic activity. Sand has found its way into the wheels of globalisation, which many blame for the current worldwide malaise. This is unfortunate since, in an economic sense, globalisation has opened borders to ideas, investment and capital flows, as well as enabling the movement of people and production, according to basic market incentives. People and cultures have interacted in new and expanding ways. Importantly, social and cultural forces are becoming inseparable from business and economic interaction.

Market-based economies facilitate globalisation because of the quest for greater economies of scale and associated efficiencies, i.e. lower costs, scarce skills, and higher productivity and ultimately profit and other returns to entrepreneurship. In fact, globalisation transmits both good and bad pulses at rapid speed. At the moment, we are watching synchronous global economic stagnation being exacerbated by geopolitical events that seem to have no end in sight. This is why upcoming G-8 meetings should take a lead in formulating, co-ordinating and promoting imaginative economic policies to boost growth and productivity.

Globalisation is not new, but it has the potential to become a more continuous, smoother, process. Much of the rapid globalisation of the late 1990s resulted from the rapid spread of technology, in particular the opportunity to network the global economy. This, in turn, has enabled a steadier flow of innovation which stimulates further technology research and progress. With globalisation, the opportunities for realizing cost containment and economies of scale mushroomed. Moreover, public policies tended to accommodate the process.

The US economic model has emerged as the global paradigm of today, in part because it has been driven by information technology investment which has multiplied productivity gains, expanded job opportunities, and kept inflation in check.

The challenges to continued globalisation loom large. The will for further integration

of global economic activity rests on the economic and social returns of our actions. To this end, at least three issues come to the surface. First, trade liberalization offers steadier opportunity than protectionism and, yes, the US should lead by example, though there are powerful pockets of resistance. Second, the distribution of benefits within and between borders matters to sustained global expansion. And third, governments must invest in better data collection and dissemination, largely because the private sector cannot do so itself. Without good data, bad decisions will be made.

Save Doha

Trade liberalisation has been an early casualty of recent economic weaknesses and geopolitical uncertainties. The current Doha round of global trade talks has ground to a halt. While agricultural subsidies were the ostensible cause of the breakdown, there appears to have been neither the leadership nor the will to pursue the tough negotiations needed to tear down the trade barriers that inhibit growth. Worryingly, fresh new barriers have been erected, including in the US! These interfere not just with the free movement of goods, but undermine economic flexibility, too. There are incredible talents to be exploited on the global campus. Freeing up markets is a productive way to tap those resources, wherever they reside. Surely, the global economy's future lies in opening up markets to serve many uses, rather than restricting them to the few.

As for distributing the gains of growth more fairly, perception counts and income rules. Economic progress is ultimately constrained when advancement does not permeate all segments of society. A rising tide may lift all boats, but not necessarily equally. A worsening distribution of income within and between countries limits the gains from globalization because participation depends on relative income gains. The consequences may include backlash, resistance and regression. none of which would help efforts to advance global economic expansion. Governments, especially in emerging economies where the greatest disparities persist, must have the political will to disseminate the benefits of growth more widely.

In this regard, infrastructure is paramount including development of capital markets, roads and mass transportation, water supplies, sanitation and hygiene, housing and education ,and training. Consider India's case. Despite its renowned well of technically skilled workers, the overall economy has been nonetheless held back, in large part because of its limited physical infrastructure. India has far fewer paved roads than China, for instance. Attention to issues such as these can make quite a difference in spurring faster economic growth.

The technology exists to monitor and customise efforts to meet specific needs

practically anywhere. Basic education modules in native languages can now be delivered on demand to children and adults in the most remote part of countries, with handheld mobile devices. Given the necessary will tripartite linkages of governments, companies and non-governmental agencies can bridge the digital divide, spread global best practices and promote social inclusiveness.

While a seemingly mundane topic, good data availability is absolutely crucial to determining the state of the global economy and for projecting where it may be headed. Reliable data help to measure progress, and to confirm or deny hunches and preconceptions. In other words, good data improve our judgement. Otherwise, information flows are corruptible and can promote narrow, worthless endeavours that waste societies resources. And poor data seriously impede the development of focused policies to generate global growth.

After all, what is the true size of key domestic industries, including the IT industry, a major driver of productivity gains? In most countries, we simply do not know. Private data estimates, from banks to business consultants, vary widely. Some are available with great time lags, while sufficient and robust historical data are all too often lacking. Governments are the ones best able to marshal the resources to do the job properly. The paradox is that while good data are needed to make sound allocation and policy decisions, data collection is one of the first casualties of budget stringency. Clear-sighted political will can prevent this from happening.

Comprehension Questions:

1. What is your understanding of the meaning of the sentence "Sand has found its way into the wheels of globalization."?
2. What are the challenges to continued globalization?
3. Why does a worsening distribution of income limit the gains from the economic growth?
4. According to the article, what must be done to disseminate the benefits of the economic growth more widely?