Globalization: How to Maximize Gain and Minimize Pain
An Online Course Review

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This summary presents issues addressed during the online course *Globalization and the New Global Economy*, moderated by Linda Yueh, Fellow in Economics, Pembroke College, The University of Oxford, from September 2003 to October 2003.

Globalization: A Longstanding Process

Globalization is the process of growing connectivity and integration among countries.[1] Globalization includes more than just the trading of goods and services; it includes the sharing of ideas and cultures as well.

Globalization is not a new phenomenon; published works about the advantages of removing U.S. trade restrictions date back to 1776. During the late 1700s, the U.S. began opening its markets by removing tariffs, customs duties and bans on imports. And from the 1870s until 1913, immigration and international trade between the U.S. and other countries occurred quite freely. Between 1914 and 1945, wars and protectionism drastically reduced trade and it took decades to resume pre-war trading levels. In fact, "world trade as a share of world production did not return to its 1913 level until about 1970."[2]

Since about 1980, advances in telecommunications infrastructure and the Internet have increased the pace of globalization. Internet access provides the user with a wealth of information about events, people and goods around the world.

Benefits of Globalization

Some of the effects of the growing interconnectedness between nations have been positive. It has reduced the sense of isolation for many as a result of increased access to knowledge available primarily through the Internet. Foreign aid, even though delivery can be flawed, has brought millions of dollars to developing nations. In addition, foreign companies have brought new technologies, access to new markets and new industries

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[1] www.investorwords.com (Accessed 11/10/03).
[2] Paul Krugman, *Pop Internationalism*, page 208.

to the recipient countries.[3] Higher standards of living have occurred because there are more jobs introduced by the new markets, and scientific and medical technologies have improved quality of life.

Trade benefits a country because it does not have to produce all of the goods and services that its citizens need, for the country specializes in production of certain goods and trades them for others. Allowing trade increases the nation's overall level of goods and services, because specialized production improves efficiency (by exporting efficient goods and importing less efficient goods), and productivity gains eventually raise a nation's standard of living.

Contrary to popular belief, a country that does not have any goods or services that it can produce more efficiently than any other country (absolute production advantage), can still benefit from trade.[4] The benefits accrue from utilizing comparative advantage, which occurs when a nation specializes in producing a good or service in which its gap in productivity between itself and another nation is the smallest. Using a combination of comparative advantage and lower wage rates, the nation will be able to trade with other countries.

Controversy and Confusion

However, many people are frustrated with the globalization process, particularly with the economic aspects.[5] Some warn that growth in the Third World is threatening growth in the developed world. Others, along with the media, discuss how the United States has to increase its "competitiveness." While most refer to "competitiveness" as a definition of "productivity," the term promotes the idea that countries are competing like corporations. If a company is uncompetitive, it can become unsustainable and eventually go out of business, which is something that would not happen to a country.[6] Even though major industrial companies sell products that compete with each other, the nations are each other's export markets and suppliers of imports. If a country performs well, it does not necessarily cause the detriment of another country. On the issue of productivity, an

[3] Joseph Stiglitz, *Globalization and its Discontents*, pages 4-5.
[4] Paul Krugman, *Pop Internationalism*, page 80.
[5] Joseph Stiglitz, *Globalization and its Discontents*, page 10.
[6] Paul Krugman, *Pop Internationalism*, page 6.

increase in one country's productivity should not affect another country's wages, which is what the term "competitiveness" alludes.[7] Competitiveness and trade theory are often confused and are not easily understood. Mutually beneficial trade, and not competition, will further a country's economic growth.

In some developing countries, foreign aid and investments are not relieving widespread poverty, and policies forced by global institutions like the International Monetary Fund (IMF) and World Bank have created more harm than good, because the policies are based on models constructed by the developed countries and are not customized for each developing country's situation.

New trade theory also confuses matters, which allows for qualifications to free trade. New trade theory consents that trade reflects a country's resources and character[8] and also allows for a government to create comparative advantage[9] by lending financial support to certain industries. Industries in the same country compete with each other for government support to more easily compete with foreign competition. However, this takes resources away from other industries.[10]

For developed countries, local industries have seen drastic reductions in jobs as companies move to other locales. In the United States, local workers, particularly in manufacturing industries, have seen their previously well-paid and stable jobs leave for factories built in low-cost areas. Companies want to take advantage of low-cost labor, but many workers are left with few opportunities for jobs with similar pay.

The U.S. Manufacturing Experience

Recent U.S. manufacturing losses have been significant—2.2 million jobs, or 13 percent of the sector, have been lost since 1998.[11] Media coverage in the U.S. over the past few years has focused primarily on only one of the reasons for the losses—outsourcing, and in particular outsourcing to China.

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[7] Ibid.
[8] Paul Krugman, *Pop Internationalism*, page 108.
[9] Paul Krugman, *Pop Internationalism*, page 109.
[10] Paul Krugman, *Pop Internationalism*, page 124.
[11] U.S. Bureau of Labor Statistics, www.bls.com

The importance of the Chinese economy as an exporter and importer has increased substantially in the past decade, so the economies of the U.S. and China have become intertwined. Chinese exports to the U.S. have increased from $30 billion to $103 billion during the past decade,[12] while U.S. exports to China are currently about $25 billion.[13] These statistics show that the entrance of China into the realm of international trade has greatly altered trading patterns. When trading patterns change, so, too, does the income distribution within nations. Since other countries, such as China, are able to sell goods to the U.S. at lower costs, then consumers benefit because they do not have to pay as much, but the U.S. producers are upset because demand for their relatively expensive products decreases. So even though there are benefits to free trade (lower consumer costs for goods), the mature industries can have trouble remaining competitive.[14]

The growing U.S. trade deficit with China worries many, but China is a growing economy with the potential to demand a variety of goods and services in the future. However, since 1994, 65 percent of the growth in Chinese exports was from foreign countries exporting from China, not because of Chinese companies. And of China's top 40 exporters, ten are U.S. companies.[15]

Changing trading patterns account for some of the troubles in the U.S. manufacturing sector, but it is surely not the only reason. In fact, only about 12 percent of U.S. output is traded internationally.[16] Therefore domestic changes, such as productivity and structural issues, affect the sector as well. What seems like a strange statement, even though it is true, is the jobs "that grow over time are not the things we do well but the things we do badly."[17] The U.S. is quite efficient at producing goods like food and cars, but it still takes about the same number of people to serve a meal in a restaurant. Productivity has soared in manufacturing, so it requires fewer people to create the same value of goods, while for the services sector, productivity has not grown by nearly as

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[12] Gene Koretz, "China Isn't Hijacking Jobs," *Business Week*, October 6, 2003, page 40.
[13] Rich Miller, Pete Engardio, Dexter Roberts, Michael Arndt, "Is it China's Fault?" *Business Week*, October 13, 2003, page 34.
[14] Paul Krugman, *Pop Internationalism*, page 95.
[15] Rich Miller, Pete Engardio, Dexter Roberts, Michael Arndt, "Is it China's Fault?" *Business Week*, October 13, 2003, page 34.
[16] Paul Krugman, *Pop Internationalism*, page 99.
[17] Paul Krugman, *Pop Internationalism*, page 212.

much. Over the past two decades, service jobs have grown substantially as a share of total U.S. employment while manufacturing jobs have declined.[18]

Paul Krugman summarizes the losses in U.S. manufacturing jobs as substantially domestic:

> The sources of U.S. difficulties are overwhelmingly domestic, and the nation's plight would be much the same even if world markets had not become more integrated. The share of manufacturing in GDP is declining because people are buying relatively fewer goods; manufacturing employment is falling because companies are replacing workers with machines and making more efficient use of those they retain. Wages have stagnated because the rate of productivity growth in the economy as a whole has slowed, and less skilled workers in particular are suffering because a high-technology economy has less demand for their services.[19]

Neither a Good Nor a Bad

It is important to note that every country gains from free trade, but every person does not. For developed countries with mature economies, free trade can affect income distribution and lower wages for workers in the industries being traded. For developing countries that are just opening their markets to trade, the pacing and sequencing of liberalization, privatization and stabilization is essential to prevent crises. Realizing the benefits of globalization is gradual and the benefits differ for countries in various stages of development.

Vision for Globalization: Maximize Gain and Minimize Pain

Ideally, the globalization process should be more fairly run, with all countries having a voice in policies and benefits being more equally shared.[20] So how do countries get to this point?

When former President Bill Clinton visited the Yale campus on October 31, 2003, he talked about the interdependence of nations. Since we live in world in which nations

[18] Paul Krugman, *Pop Internationalism*, page 213.
[19] Paul Krugman, *Pop Internationalism*, page 48.
[20] Joseph Stiglitz, *Globalization and its Discontents*, page 22.

"cannot escape each other,"[21] nations should strive to enhance the good of interdependence while minimizing the bad. Creating a global community with "shared responsibilities, shared benefits and shared values" along with developing global institutions to create and enforce fairness standards are steps in the right direction.[22]

Since globalization is good for each nation as a whole even though some local industries lose, policymakers should work on strategies that minimize the pain caused and take into account the social adjustment speed of the process of structural change. Also, policymakers have to balance the ability to save jobs with increasing overall living standards. There are so many dimensions to the issue of globalization, it is easy to see why there is so much debate on the topic. However, it is an issue worth debating, because it has the potential to harm or help many, depending on how it is handled.

[21] Dorie Baker, "Clinton Asserts 'Shared Responsibilities' Among Nations Are Key to Creating a 'Genuine Global Economy,'" *Yale Bulletin*, November 7, 2003, page 1.
[22] Dorie Baker, "Clinton Asserts 'Shared Responsibilities' Among Nations Are Key to Creating a 'Genuine Global Economy,'" *Yale Bulletin*, November 7, 2003, page 3.