The Contradictions of Globalization

Whereas in ***Global Trends 2015*** we viewed globalization—growing interconnectedness reflected in the expanded flows of information, technology, capital, goods, services, and people throughout the world—as among an array of key drivers, we now view it more as a "mega-trend"—a force so ubiquitous that it will substantially shape all of the other major trends in the world of 2020.

"[By 2020] globalization is likely to take on much more of a 'non-Western' face…"

The reach of globalization was substantially broadened during the last 20 years by Chinese and Indian economic liberalization, the collapse of the Soviet Union, and the worldwide information technology revolution. Through the next 15 years, it will sustain world economic growth, raise world living standards, and substantially deepen global interdependence. At the same time, it will profoundly shake up the status quo almost everywhere—generating enormous economic, cultural, and consequently political convulsions.

Certain aspects of globalization, such as the growing global inter-connectedness stemming from the information technology revolution, are likely to be irreversible. Real-time communication, which has transformed politics almost everywhere, is a phenomenon that even repressive governments would find difficult to expunge.

- It will be difficult, too, to turn off the phenomenon of entrenched economic interdependence, although the pace of global economic expansion may ebb and flow. Interdependence has widened the effective reach of multinational business, enabling smaller firms as well as large multinationals to market across borders and bringing heretofore non-traded services into the international arena.

Yet the process of globalization, powerful as it is, could be substantially slowed or even reversed, just as the era of globalization in the late 19th and early 20th centuries was reversed by catastrophic war and global depression. Some features that we associate with the globalization of the 1990s—such as economic and political liberalization—are prone to "fits and starts" and probably will depend on progress in multilateral negotiations, improvements in national governance, and the reduction of conflicts. The freer flow of people across national borders will continue to face social and political obstacles even when there is a pressing need for migrant workers.

"India and China probably will be among the economic heavyweights or 'haves.'"

What Would An Asian Face on Globalization Look Like?

Rising Asia will continue to reshape globalization, giving it less of a “Made in the USA” character and more of an Asian look and feel. At the same time, Asia will alter the rules of the globalizing process. By having the fastest-growing consumer markets, more firms becoming world-class multinationals, and greater S&T stature, Asia looks set to displace Western countries as the focus for international economic dynamism—provided Asia’s rapid economic growth continues.

Asian finance ministers have considered establishing an Asian monetary fund that would operate along different lines from IMF, attaching fewer strings on currency swaps and giving Asian decision-makers more leeway from the “Washington macro-economic consensus.”

- In terms of capital flows, rising Asia may still accumulate large currency reserves—currently $850 billion in Japan, $500 billion in China, $190 billion in Korea, and $120 billion in India, or collectively three-quarters of global reserves—but the percentage held in dollars will fall. A basket of reserve currencies including the yen, renminbi, and possibly rupee probably will become standard practice.

- Interest-rate decisions taken by Asian central bankers will impact other global financial markets, including New York and London, and the returns from Asian stock markets are likely to become an increasing global benchmark for portfolio managers.

As governments devote more resources to basic research and development, rising Asia will continue to attract applied technology from around the world, including cutting-edge technology, which should boost their high performance sectors. We already anticipate (as stated in the text) that the Asian giants may use the power of their markets to set industry standards, rather than adopting those promoted by Western nations or international standards bodies. The international intellectual property rights regime will be profoundly molded by IPR regulatory and law enforcement practices in East and South Asia.

Increased labor force participation in the global economy, especially by China, India, and Indonesia, will have enormous effects, possibly spurring internal and regional migrations. Either way it will have a large impact, determining the relative size of the world’s greatest new “mega-cities” and, perhaps, act as a key variable for political stability/instability for decades to come. To the degree that these vast internal migrations spill over national borders—currently, only a miniscule fraction of China’s 100 million internal migrants end up abroad—they could have major repercussions for other regions, including Europe and North America.

An expanded Asian-centric cultural identity may be the most profound effect of a rising Asia. Asians have already begun to reduce the percentage of students who travel to Europe and North America with Japan and—most striking—China becoming educational magnets. A new, more Asian cultural identity is likely to be rapidly packaged and distributed as incomes rise and communications networks spread. Korean pop singers are already the rage in Japan, Japanese *anime* have many fans in China, and Chinese kung-fu movies and Bollywood song-and-dance epics are viewed throughout Asia. Even Hollywood has begun to reflect these Asian influences—an effect that is likely to accelerate through 2020.

Moreover, the character of globalization probably will change just as capitalism changed over the course of the 19th and 20th centuries. While today's most advanced nations—especially the United States—will remain important forces driving capital, technology and goods, globalization is likely to take on much more of a "non-Western face" over the next 15 years.

- Most of the increase in world population and consumer demand through 2020 will take place in today's developing nations—especially China, India, and Indonesia—and multinational companies from today's advanced nations will adapt their "profiles" and business practices to the demands of these cultures.

- Able to disperse technology widely and promote economic progress in the developing world, corporations already are seeking to be "good citizens" by allowing the retention of non-Western practices in the workplaces in which they operate. Corporations are in the position to make globalization more palatable to people concerned about preserving unique cultures.

- New or expanding corporations from countries lifted up by globalization will make their presence felt globally through trade and investments abroad.

- Countries that have benefited and are now in position to weigh in will seek more power in international bodies and greater influence on the "rules of the game."

- In our interactions, many foreign experts have noted that while popular opinion in their countries favors the material benefits of globalization, citizens are opposed to its perceived "Americanization," which they see as threatening to their cultural and religious values. The conflation of globalization with US values has in turn fueled anti-Americanism in some parts of the world.

"…the world economy is projected to be about 80 percent larger in 2020 than it was in 2000, and average per capita income to be roughly 50 percent higher."

Currently, about two-thirds of the world's population live in countries that are connected to the global economy. Even by 2020, however, the benefits of globalization won't be global. Over the next 15 years, gaps will widen between those countries benefiting from globalization—economically, technologically, and socially—and those underdeveloped nations or pockets within nations that are left behind. Indeed, we see the next 15 years as a period in which the perceptions of the contradictions and uncertainties of a globalized world come even more to the fore than is the case today.

An Expanding and Integrating Global Economy

The world economy is projected to be about 80 percent larger in 2020 than it was in 2000 and average per capita income to be roughly 50 percent higher. Large parts of the world will enjoy unprecedented prosperity, and a *numerically* large middle class will be created for the first time in some formerly poor countries. The social structures in

What Could Derail Globalization?

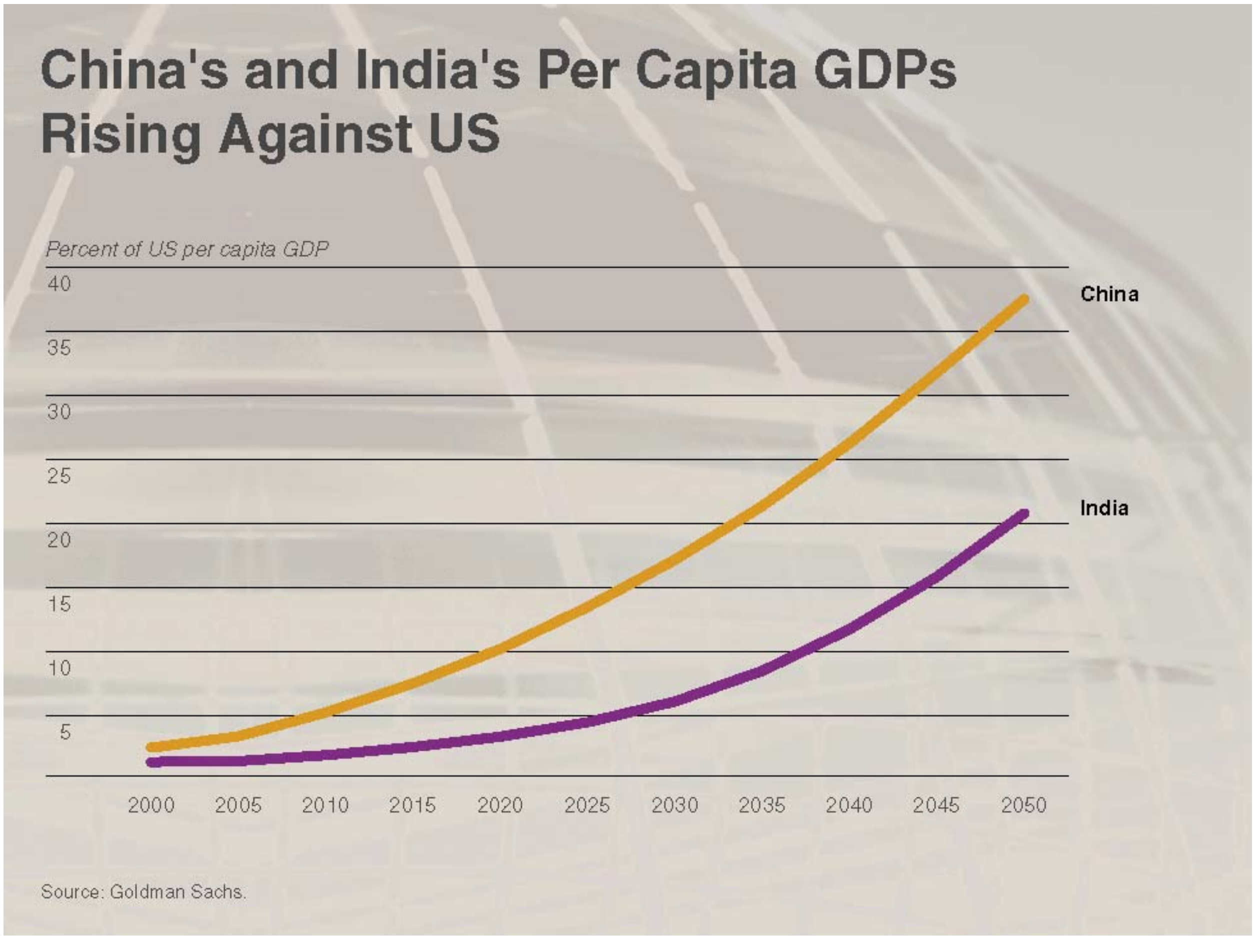
The process of globalization, powerful as it is, could be substantially slowed or even stopped. Short of a major global conflict, which we regard as improbable, another large-scale development that we believe could ***stop*** globalization would be a pandemic. However, other catastrophic developments, such as terrorist attacks, could ***slow*** its speed.

Some experts believe it is only a matter of time before a new ***pandemic*** appears, such as the 1918–1919 influenza virus that killed an estimated 20 million worldwide. Such a pandemic in megacities of the developing world with poor health-care systems—in Sub-Saharan Africa, China, India, Bangladesh or Pakistan—would be devastating and could spread rapidly throughout the world. Globalization would be endangered if the death toll rose into the millions in several major countries and the spread of the disease put a halt to global travel and trade during an extended period, prompting governments to expend enormous resources on overwhelmed health sectors. On the positive side of the ledger, the response to SARS showed that international surveillance and control mechanisms are becoming more adept at containing diseases, and new developments in biotechnologies hold the promise of continued improvement.

A slow-down could result from ***a pervasive sense of economic and physical insecurity*** that led governments to put controls on the flow of capital, goods, people, and technology that stalled economic growth. Such a situation could come about in response to terrorist attacks killing tens or even hundreds of thousands in several US cities or in Europe or to widespread cyber attacks on information technology. Border controls and restrictions on technology exchanges would increase economic transaction costs and hinder innovation and economic growth. Other developments that could stimulate similar restrictive policies include a popular backlash against globalization prompted, perhaps, by white collar rejection of outsourcing in the wealthy countries and/or resistance in poor countries whose peoples saw themselves as victims of globalization.

those developing countries will be transformed as growth creates a greater middle class. Over a long time frame, there is the potential, so long as the expansion continues, for more traditionally poor countries to be pulled closer into the globalization circle.

Most forecasts to 2020 and beyond continue to show higher annual growth for developing countries than for high-income ones. Countries such as China and India will be in a position to achieve higher economic growth than Europe and Japan, whose aging work forces may inhibit their growth. Given its enormous population—and assuming a reasonable degree of real currency appreciation—the dollar value of China's gross national product (GNP) may be the second largest in the world by 2020. For similar reasons, the value of India's output could match that of a large European country. The economies of other developing countries,



such as Brazil and Indonesia, could surpass all but the largest European economies by 2020.[4]

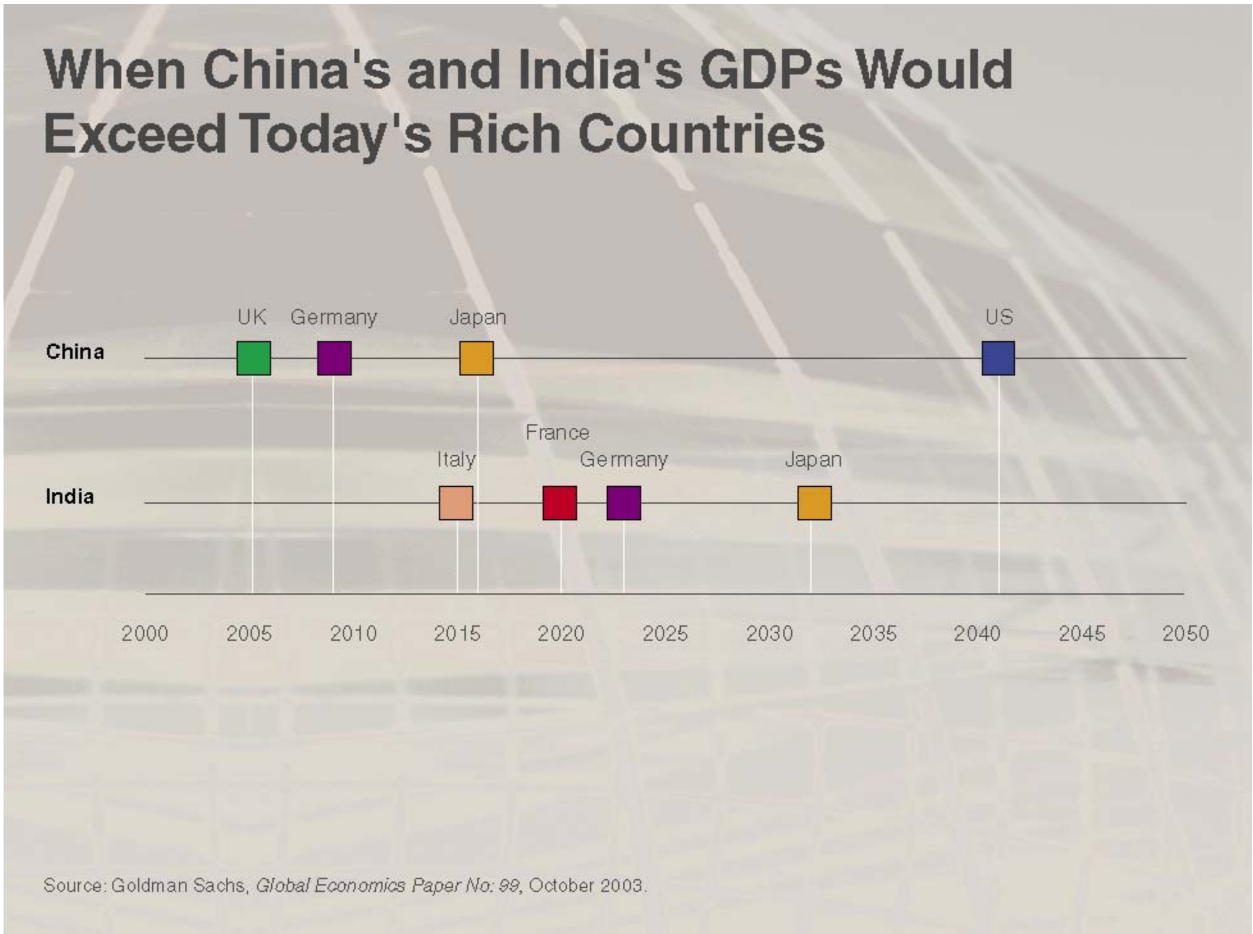
- Even with all their dynamic growth, Asia's "giants" and others are not likely to compare qualitatively to the economies of the US or even some of the other rich countries. They will have some dynamic, world-class sectors, but more of their populations will work on farms, their capital stocks will be less sophisticated, and their financial systems are likely to be less efficient than those of other wealthy countries.

Continued Economic Turbulence. Sustained high-growth rates have historical precedents. China already has had about two decades of 7 percent and higher growth rates, and Japan, South Korea, and Taiwan have managed in the past to achieve annual rates averaging around 10 percent for a long period.

Fast-developing countries have historically suffered sudden setbacks, however, and economic turbulence is increasingly likely to spill over and upset broader international relations. Many emerging markets—such as Mexico in the mid-1990s and Asian countries in the late 1990s—suffered negative effects from the abrupt reversals of capital movements, and China and India may

---

[4] *Dreaming with the BRICS*, Goldman Sachs study, October 2003.



encounter similar problems. The scale of the potential reversals would be unprecedented, and it is unclear whether current international financial mechanisms would be in a position to forestall wider economic disruption.

"Competitive pressures will force companies based in the advanced economies to 'outsource' many blue- and white-collar jobs."

With the gradual integration of China, India, and other developing countries into the global economy, hundreds of millions of working-age adults will join what is becoming, through trade and investment flows, a more interrelated world labor market. World patterns of production, trade, employment, and wages will be transformed.

- This enormous work force—a growing portion of which will be well educated—will be an attractive, competitive source of low-cost labor at the same time that technological innovation is expanding the range of globally mobile occupations.

- Competition from these workers will increase job "churning," necessitate professional retooling, and restrain wage growth in some occupations.

Where these labor market pressures lead will depend on how political leaders and policymakers respond. Against the backdrop of a global economic recession, such resources could unleash widespread protectionist sentiments. As long as sufficiently robust economic growth and labor market flexibility are sustained, however, intense international competition is unlikely to cause *net* job “loss” in the advanced economies.

- The large number of new service sector jobs that will be created in India and elsewhere in the developing world, for example, will likely exceed the supply of workers with those specific skills in the advanced economies.

- Job turnover in advanced economies will continue to be driven more by technological change and the vicissitudes of domestic rather than international competition.

Mobility and Laggards. Although the living standards of many people in developing and underdeveloped countries will rise over the next 15 years, per capita incomes in most countries will not compare to those of Western nations by 2020. There will continue to be large numbers of poor even in the rapidly emerging economies, and the proportion of those in the middle stratum is likely to be significantly less than is the case for today’s developed nations. Experts estimate it could take China another 30 years beyond 2020 for per capita incomes to reach *current* rates in developed economies.

- Even if, as one study estimates, China’s middle class could make up as much as 40 percent of its population by 2020—double what it is now—it would be still well below the 60 percent level for the US. And per capita income for China’s middle class would be substantially less than equivalents in the West.

- In India, there are now estimated to be some 300 million middle-income earners making $2,000-$4,000 a year. Both the number of middle earners and their income levels are likely to rise rapidly, but their incomes will continue to be substantially below averages in the US and other rich countries even by 2020.

- However, a $3,000 annual income is considered sufficient to spur car purchases in Asia; thus rapidly rising income levels for a ***growing middle class*** will combine to mean a huge consumption explosion, which is already evident.

Widening income and regional disparities will not be incompatible with a growing middle class and increasing overall wealth. In India, although much of the west and south may have a large middle class by 2020, a number of regions such as Bihar, Uttar Pradesh, and Orissa will remain underdeveloped.

Moreover, countries not connected to the world economy will continue to suffer. Even the most optimistic forecasts admit that economic growth fueled by globalization will leave many countries in poverty over the next 15 years.

- Scenarios developed by the World Bank indicate, for example, that Sub-Saharan Africa will be far behind even under the most optimistic scenario. The region currently has the largest share of people living on less than $1 per day.

If the growing problem of abject poverty and bad governance in troubled states in Sub-Saharan Africa, Eurasia, the Middle East, and Latin America persists, these areas will become more fertile grounds for terrorism, organized crime, and pandemic disease. Forced migration also is likely to be an important dimension of any downward spiral. The international community is likely to face choices about whether, how, and at what cost to intervene.

"…the greatest benefits of globalization will accrue to countries and groups that can access and adopt new technologies."

The Technology Revolution

The trend toward rapid, global diffusion of technology will continue, although the stepped-up technology revolution will not benefit everyone equally.

- Among the drivers of the growing availability of technology will be the growing two-way flow of high-tech brain power between developing countries and Western countries, the increasing size of the technologically literate workforce in some developing countries, and efforts by multinational corporations to diversify their high-tech operations.

New technology applications will foster dramatic improvements in human knowledge and individual well-being. Such benefits include medical breakthroughs that begin to cure or mitigate some common diseases and stretch lifespans, applications that improve food and potable water production, and expansion of wireless communications and language translation technologies that will facilitate transnational business, commercial, and even social and political relationships.

Moreover, future technology trends will be marked not only by accelerating advancements in individual technologies but also by a force-multiplying convergence of the technologies—information, biological, materials, and nanotechnologies—that have the potential to revolutionize all dimensions of life. Materials enabled with nanotechnology's sensors and facilitated by information technology will produce myriad devices that will enhance health and alter business practices and models. Such materials will provide new knowledge about environment, improve security, and reduce privacy. Such interactions of these technology trends—coupled with agile manufacturing methods and equipment as well as energy, water, and transportation technologies—will help China's and India's prospects for joining the "First World." Both countries are investing in basic research in these fields and are well placed to be leaders in a number of key fields. Europe risks slipping behind Asia in creating some of these technologies. The United States is still in a position to retain its overall lead, although it must increasingly compete with Asia and may lose significant ground in some sectors.

To Adaptive Nations Go Technology 's Spoils. The gulf between "haves" and "have-nots" may widen as the greatest benefits of globalization accrue to countries and groups that can access and adopt new technologies. Indeed, a nation's level of technological achievement generally will be defined in terms of its investment in ***integrating and applying*** the new, globally available technologies—whether the technologies are acquired through a country's own basic research or from technology leaders. Nations that remain behind in adopting technologies are likely to be those that have failed to pursue policies that support application of new technologies—such as good governance, universal education, and market reforms—and not solely because they are poor.

Those that employ such policies can leapfrog stages of development, skipping over phases that other high-tech leaders such as the United States and Europe had to traverse in order to advance. China and India are well positioned to achieve such breakthroughs. Yet, even the poorest countries will be able to leverage prolific, cheap technologies to fuel—although at a slower rate—their own development.

- As nations like China and India surge forward in funding critical science and engineering education, research, and other infrastructure investments, they will make considerable strides in manufacturing and marketing a full range of technology applications—from software and pharmaceuticals to wireless sensors and smart-materials products.

Rapid technological advances outside the United States could enable other countries to set the rules for design, standards, and implementation, and for molding privacy, information security, and intellectual property rights (IPR).

- Indeed, international IPR enforcement is on course for dramatic change. Countries like China and India will, because of the purchasing power of their huge markets, be able to shape the implementation of some technologies and step on the intellectual property rights of others. The attractiveness of these large markets will tempt multinational firms to overlook IPR indiscretions that only minimally affect their bottom lines. Additionally, as many of the expected advancements in technology are anticipated to be in medicine, there will be increasing pressure from a humanitarian and moral perspective to "release" the property rights "for the good of mankind."

Nations also will face serious challenges in oversight, control, and prohibition of sensitive technologies. With the same technology, such as sensors, computing, communication, and materials, increasingly being developed for a range of applications in both everyday, commercial settings and in critical military applications the monitoring and control of the export of technological components will become more difficult. Moreover, joint ventures, globalized markets and the growing proportion of private sector capital in basic R&D will undermine nation-state efforts to keep tabs on sensitive technologies.

- Questions concerning a country's ethical practices in the technology realm—such as with genetically modified foods, data privacy, biological material research, concealable sensors, and biometric devices—may become an increasingly important factor in international trade policy and foreign relations.

Biotechnology: Panacea and Weapon

The biotechnological revolution is at a relatively early stage, and major advances in the biological sciences coupled with information technology will continue to punctuate the 21st century. Research will continue to foster important discoveries in innovative medical and public health technologies, environmental remediation, agriculture, biodefense, and related fields.

On the positive side, biotechnology could be a "leveling" agent between developed and developing nations, spreading dramatic economic and healthcare enhancements to the neediest areas of the world.

- Possible breakthroughs in biomedicine such as an antiviral barrier will reduce the spread of HIV/AIDS, helping to resolve the ongoing humanitarian crisis in Sub-Saharan Africa and diminishing the potentially serious drag on economic growth in developing countries like India and China. Biotechnology research and innovations derived from continued US investments in Homeland Security—such as new therapies that might block a pathogen's ability to enter the body—may eventually have revolutionary healthcare applications that extend beyond protecting the US from a terrorist attack.

- More developing countries probably will invest in indigenous biotechnology developments, while competitive market pressures increasingly will induce firms and research institutions to seek technically capable partners in developing countries.

However, even as the dispersion of biotechnology promises a means of improving the quality of life, it also poses a major security concern. As biotechnology information becomes more widely available, the number of people who can potentially misuse such information and wreak widespread loss of life will increase. An attacker would appear to have an easier job—because of the large array of possibilities available—than the defender, who must prepare against them all. Moreover, as biotechnology advances become more ubiquitous, stopping the progress of offensive BW programs will become increasingly difficult. Over the next 10 to 20 years there is a risk that advances in biotechnology will augment not only defensive measures but also offensive biological warfare (BW) agent development and allow the creation of advanced biological agents designed to target specific systems—human, animal, or crop.

Lastly, some biotechnology techniques that may facilitate major improvements in health also will spur serious ethical and privacy concerns over such matters as comprehensive genetic profiling; stem cell research; and the possibility of discovering DNA signatures that indicate predisposition for disease, certain cognitive abilities, or anti-social behavior.

At the same time, technology will be a source of tension in 2020: from competition over creating and attracting the most critical component of technological advancement—people—to resistance among some cultural or political groups to the perceived privacy-robbing or homogenizing effects of pervasive technology.

Lingering Social Inequalities
Even with the potential for technological breakthroughs and the dispersion of new technologies, which could help reduce inequalities, significant social welfare disparities within the developing and between developing and OECD countries will remain until 2020.

Over the next 15 years, illiteracy rates of people 15 years and older will fall, according to UNESCO, but they will still be 17 times higher in poor and developing countries than those in OECD[5] countries. Moreover, illiteracy rates among women will be almost twice as high as those among men. Between 1950 and 1980 life expectancy between the more- and less-developed nations began to converge markedly; this probably will continue to be the case for many developing countries, including the most populous. However, by US Census Bureau projections, over 40 countries—including many African countries, Central Asian states, and Russia—are projected to have a lower life expectancy in 2010 than they did in 1990.

Even if effective HIV/AIDS prevention measures are adopted in various countries, the social and economic impact of the millions already infected with the disease will play out over the next 15 years.

- The rapid rise in adult deaths caused by AIDS has left an unprecedented number of orphans in Africa. Today in some African countries one in ten children is an orphan, and the situation is certain to worsen.

The debilitation and death of millions of people resulting from the AIDS pandemic will have a growing impact on the economies of the hardest-hit countries, particularly those in Sub-Saharan Africa, where more than 20 million are believed to have died from HIV/AIDS since the early 1980s. Studies show that household incomes drop by 50 to 80 percent when key earners become infected. In “second wave” HIV/AIDS countries—Nigeria, Ethiopia, Russia, India, China, Brazil, Ukraine, and the Central Asian states—the disease will continue to spread beyond traditional high-risk groups into the general population. As HIV/AIDS spreads, it has the potential to derail the economic prospects of many up-and-coming economic powers.

[5] The OECD, Organization for Economic Cooperation and Development, an outgrowth of the Marshall Plan-era Organization for European Economic Cooperation, boasts 30 members from among developed and emerging-market nations and active relationships with 70 others around the world.

The Status of Women in 2020

By 2020, women will have gained more rights and freedoms—in terms of education, political participation, and work force equality—in most parts of the world, but UN and World Health Organization data suggest that the gender gap will not have been closed even in the developed countries and still will be wide in developing regions. Although women's share in the global work force will continue to rise, wage gaps and regional disparities will persist.

- Although the difference between women's and men's earnings narrowed during the past 10 years, women continue to receive less pay than men. For example, a UN study in 2002 showed that in 27 of 39 countries surveyed—both in OECD and developing countries—women's wages were 20 to 50 percent less than men's for work in manufacturing.

Certain factors will tend to work against gender equality while others will have a positive impact.

Factors Impeding Equality

In regions where high ***youth bulges*** intersect with historical patterns of patriarchal bias, the added pressure on infrastructure will mean intensified competition for limited public resources and an increased probability that females will not receive equal treatment. For instance, if schools cannot educate all, boys are likely to be given first priority. Yet views are changing among the younger generation. In the Middle East, for example, many younger Muslims recognize the importance of educated wives as potential contributors to family income.

In countries such as China and India, where there is a pervasive "son preference" reinforced by government ***population control policies***, women face increased risk not only of female infanticide but also of kidnapping and smuggling from surrounding regions for the disproportionately greater number of unattached males. Thus far, the preference for male children in China has led to an estimated shortfall of 30 million women.

Such statistics suggest that the global ***female trafficking industry***, which already earns an estimated $4 billion every year, is likely to expand, making it the second most profitable criminal activity behind global drug trafficking.

The feminization of ***HIV/AIDS*** is another worrisome trend. Findings from the July 2004 Global AIDS conference held in Bangkok reveal that the percentage of HIV-infected women is rising on every continent and in every major region in the world except Western Europe and Australia. Young women comprise 75 percent of those between the ages of 15 to 24 who are infected with HIV globally.

(Continued on next page…)

(continued…) **The Status of Women in 2020**

Factors Contributing to Equality

A broader reform agenda that includes **good governance** and **low unemployment** levels is essential to raising the status of women in many countries. International development experts emphasize that while good governance need not fit a Western democratic mold, it must deliver stability through inclusiveness and accountability. Reducing unemployment levels is crucial because countries already unable to provide employment for male job-seekers are not likely to improve employment opportunities for women.

The spread of information and communication technologies (ICT) offers great promise. According to World Bank analysis, increases in the level of ICT infrastructure tend to improve gender equality in education and employment. ICT also will enable women to form social and political networks. For regions suffering political oppression, particularly in the Middle East, these networks could become a 21st century counterpart to the 1980s' Solidarity Movement against the Communist regime in Poland.

Women in developing regions often turn to ***nongovernmental organizations*** (NGOs) to provide basic services. NGOs could become even more important to the status of women by 2020 as women in developing countries face increased threats and acquire IT networking capabilities.

The current trend toward decentralization and devolution of power in most states will afford women ***increased opportunities for political participation***. Despite only modest gains in the number of female officeholders at the national level—women currently are heads of state in only eight countries—female participation in local and provincial politics is steadily rising and will especially benefit rural women removed from the political center of a country.

Other Benefits

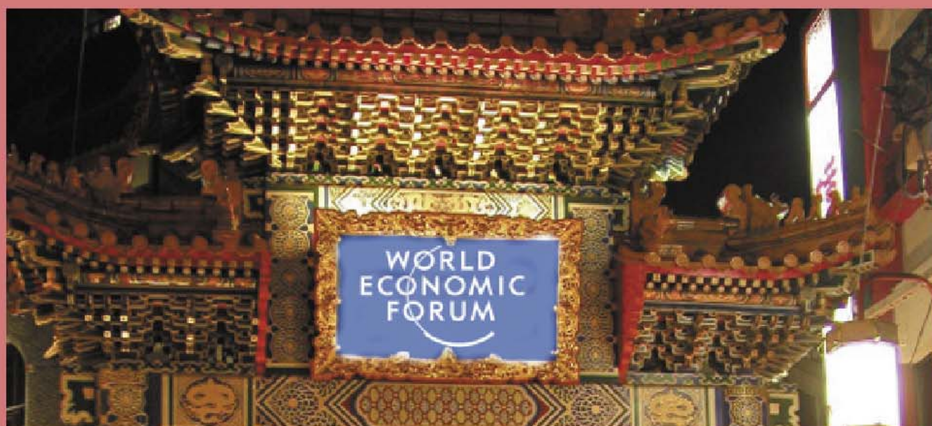
The stakes for achieving gender parity are high and not just for women. A growing body of empirical literature suggests that gender equality in education promotes economic growth and reduces child mortality and malnutrition. At the Millennium Summit, UN leaders pledged to achieve gender equity in primary and secondary education by the year 2005 in every country of the world.

- By 2005, the 45 countries that are not on course to meet the UN targets are likely to suffer 1 to 3 percent lower GDP per capita growth as a result.

Fictional Scenario: Davos World

This scenario provides an illustration of how robust economic growth over the next 15 years could reshape the globalization process—giving it a more non-Western face. It is depicted in the form of a hypothetical letter from the head of the World Economic Forum to a former US Federal Reserve chairman on the eve of the annual Davos meeting in 2020. Under this scenario, the Asian giants as well as other developing states continue to outpace most "Western" economies, and their huge, consumer-driven domestic markets become a major focus for global business and technology. Many boats are lifted, but some founder. Africa does better than one might think, while some medium-sized emerging countries are squeezed. Western powers, including the United States, have to contend with job insecurity despite the many benefits to be derived from an expanding global economy. Although benefiting from energy price increases, the Middle East lags behind and threatens the future of globalization. In addition, growing tensions over Taiwan may be on the verge of triggering an economic meltdown. At the end of the scenario, we identify some lessons to be drawn from our fictional account, including the need for more management by leaders lest globalization slip off the rails.

Letter from Head of World Economic Forum to a Former US Federal Reserve Chairman On the Eve of the Annual Meeting



January 12, 2020

Dear Mr. Chairman:

As you know, the last few years have been rough. I finally persuaded the Asians to drop their boycott, and this year we're meeting in China instead of Davos. From now on it will be Switzerland every other year and Asia in the alternate years. I thought at first that I could get the Asians to back down, but they are united. Even the Japanese were not willing to bend. I'm not convinced this was all one big Chinese plot as some are charging. I'm not even sure whether the Chinese were fully in favor of it. Once it caught hold, they had to show some leadership and support Asian claims, but I think they are so confident of their current status that meeting every year in Davos did not bother them. Hosting the sessions actually puts pressure on them to make concessions and deal with some of the complaints about how they do business.

This reminds me of a particular theme I've been developing in my mind as I reflect on how globalization has now evolved. At the turn of the century, we equated globalization with Americanization. America was the model. Now globalization has more of an Asian face and, to be frank, America is no longer quite the engine it used to be. Instead the markets are now oriented eastwards.

WORLD ECONOMIC FORUM
世界经济论坛

That's not to say that the system runs on its own. Only after learning a couple of tough lessons did we see how much management was involved or how easily globalization could come off the rails. We business leaders have had to learn to step in more aggressively.

The 9/11 tragedy was a wake-up call. Terrorism still poses a physical and strategic challenge. In order to protect ourselves, we had to put up barriers, but there was a danger that we would do so much that we would undermine the very basis of globalization—the free flow of capital, goods, people, etc. We tried to strike a delicate balance between security and openness. There's been a lot of criticism about US visa restrictions cutting back on the number of foreign students, and American scientists worried about the US's science and technology leadership slipping away to Asia.

This gets me to my second point. Ten or 15 years ago we did not realize the extent to which the Asian giants were ready to take up the slack. The Chinese and Indians have really maintained the momentum behind globalization. It started out as a US-China dynamic, but now the Asian market is self-generating and not so dependent on trade with the US. Moreover, the competition between China and India over energy supplies and markets has spurred further growth and innovation.

But we had a few sleepless nights over the years, particularly when China ran into financial problems. The fact that the recovery was quick was probably crucial. I think Beijing would have had trouble coping with a full-blown political crisis. Such turmoil could have stymied its economic rise for a decade or more. Fortunately that did not happen. Although the US helped, the really interesting thing was that China dug itself out without the kind of US or international help we thought it would need. Again we underestimated the extent to which China had created a domestic market that could jumpstart its economy.

WORLD
ECONOMIC
FORUM
世界经济论坛

What the downturn unfortunately did was ignite the latent nationalism that had been lurking below the surface, again increasing tensions over Taiwan. China has been "feeling its oats" and the risk of miscalculation is growing. I'm getting more and more worried as no one—government or private sector—is stepping into the breach to head off what could be a major security and business crisis.

Tensions were also on the rise between China and India and the other emerging states. The success of the Asian giants made it harder for the smaller guys to catch up. The huge pull from China and India on jobs was not just felt in the West. Now we see higher pay for China's workers finally leading to jobs being exported again to lower-wage economies. In part, this can be attributed to demographics—China is a country that is suddenly looking older, its one-child policy coming back to haunt it.

Early on, the outcry in the West over outsourcing and migration could have stalled globalization, but what can we really do—hold back the "tides" of progress in some rerun of Luddite madness? I detected below the surface a strong temptation in Washington and European capitals to play off the emerging countries against China and India by giving preference to non-Chinese products.

On the positive side, it was high-tech breakthroughs that put some countries on the road to sustainable economic growth. Expanded food production from biotechnology innovations and clean water from better filtration systems were boons that helped eliminate the direst poverty and start an export-driven agricultural sector. China and the US finally ganged up on Europe about GMOs.

Higher commodity prices also have been a godsend—much more so than any debt forgiveness scheme. A couple of the Asian-backed energy consortiums practically run two or three of the smaller states. They're popular because they provide not only their workers but all the surrounding communities with full heath-care. Malaria and TB—not

WORLD ECONOMIC FORUM
世界经济论坛

to mention AIDS—are being tackled. I'm reminded that businesses—if one thinks back to the East India Company's total rule over the subcontinent in the eighteenth century—were at the forefront when globalization first got going. Have we come full circle with business taking over again from government?

We've seen some progress in the Middle East with a couple countries actually undertaking market liberalization reforms, but others are still stuck in a rut. Palestine yearns for a George Soros figure who can inject a lot of capital and develop an export outlet, but I don't see anyone willing to make the investment.

Elsewhere, revenues generated by high oil prices have enabled the Saudis and others to stem what has been a plunging standard of living for most of them. That's not good in the long run. I fear there's more to this story that we may not like.

Davos has done a lot, I think, in opening up the old exclusive Western club. I admit at first I did not really see it coming—the fact that China and India with their burgeoning middle classes had begun to create such large markets. In the last few years, the whole balance—as I now realize—has been shifting. Asian consumers are setting the trends, and Western businesses have to respond if they want to grow. Fifteen years ago, few of us knew anything about Asian firms. Now we have Wumart. China also got Washington's attention when it started diversifying its foreign currency holdings and the US public awakened to the fact that it had been living way beyond its means.

By itself, Europe probably would have felt threatened by Asia's rapid rise, but—funny thing—a rising Asia was seen as a counterbalance to a dominant US. Asia's growth also helped Europe get out of its slump. The EU thinks it and China have a lot in common—reverence for regional institutions. China with its Shanghai Cooperation Organization, for example. I'm not so sure.

WORLD
ECONOMIC
FORUM
世界经济论坛

By the way, I heard that your granddaughter is also spending a semester in China, learning the language. Did you know that one of my grandsons is also there? Perhaps we can get the two of them together at the Davos-in-China meeting.

"Lessons Learned"

This scenario illustrates the vast changes that would be likely to result from continued robust economic growth and the stresses and strains that could derail it.

- Growth in Asian markets would force domestic adjustments on the US and other Western countries that would need to be managed.
- If the global trading system became more integrated and complicated, it would be important to bring China, India and other emerging states more inside the tent, but this would require patience and potential trade-offs.
- It is unlikely that the system would be self-regulating. A strong global economy, for example, would not lead automatically to a resolution of crises like Taiwan.