

### **Potholes in the global road**

Camilla Cavendish

Globalization has been a great liberator — but it also poses a threat to Western professionals

I HESITATE to challenge a sacred text, but is a flatter world better for everyone? Or will globalization turn out to be another concept that has been mis-sold to the same old group of decent, unremarkable people whom you never hear about until they get shafted by a system they trusted? Even to pose this question scores an admonitory “tsk” from most economists, who are prone to inquire from which tin-pot establishment one acquired one’s economics degree. But the economic models they sold us aren’t working out quite as billed. Most CEOs and politicians I talk to are sanguine about the greatest transformation of trade that we have ever seen. But they’re virtually the only people who aren’t due to be outsourced. If they underestimate the social strains of economic transformation, we will all be in trouble.

The flattening of the world is lifting millions of people out of poverty, particularly in China and India. Free trade has proved a far greater liberator than any aid program. And in the West, it is lifting an educated elite to new heights of possibility. But for their middle-ranking, middle-aged and middle-class peers, the flat world looks full of potholes.

“Losing jobs is painful,” George Bush said in India on Friday. “Let’s make sure people are educated so they can fill the jobs of the 21st century.” Well, sure. Gordon Brown has frequently said the same. But some people who thought they were already in high-end, 21st-century jobs are starting to face competition from clever graduates in India who are just as good, if not better.

The original argument for globalization was that everyone would gain. Rich countries would lose market share in manufacturing to low wage competitors, but they would get to buy cheaper TVs, clothes, toys from needy developing nations. The rich countries could retrain their blue-collar workers, and they would gain new markets for high-value services. That is essentially the Ricardian thesis of comparative advantage, which has held sway for almost 200 years. But the thesis is being sorely tested.

In the past five years, technology and the Internet have accelerated change way beyond call centers dealing with computer glitches or lost luggage. Services assumed to be impervious to global competition have become tradeable. So investment banks are hiving off high-intellect equity research and high-end development work to Budapest, South Africa and India. In 2003 about 25,000 American tax returns were done in India. Now it is closer to half a million. Back in London the top accountant knows he or she still has the edge in the face-to-face meetings with the client. But the average

accountant down the hall may soon face early retirement — along with the average engineer and the average software designer and perhaps even the average lawyer.

Thomas Friedman, in his book *The World Is Flat*, notes that the Indian branches of Cisco, Intel, IBM, Texas Instruments and General Electric have already filed 1,000 patents for everything from new microprocessors to aircraft engines. That's a long way from data processing: it is innovation. Clever graduates in Bangalore and Bombay are designing software and carrying out research and development for companies like GE. Good on them. But that's the stuff we were supposed to be doing, to ease us through this transition. True, we will keep on inventing. Ten years ago credit derivatives didn't exist: now they drive a whole industry. Western economies will not remain static. But in terms of growth, they are already a sideshow compared with Asia.

Western wage rates have started to reflect these pressures. Steve Roach, chief economist for Morgan Stanley, finds that American wage rates have stagnated in the past four years despite productivity growth. Recent economic recoveries have produced relatively few new jobs and negligible real wage rises.

Of course skilled Western workers can turn their hands to new things, but perhaps not as readily as the evangelists believe. India looks in good shape to win the race to provide high-intellect services. True, its legacies of Empire include poor transport infrastructure and frustrating bureaucracy. But it also has widespread command of the English language, and it is an open society. While China's rise continues to be extraordinary, there may be real limits to the capacity for innovation in a society that is still essentially a closed culture. The view in Western business circles is that there are fewer than 100 Chinese executives who are capable of running a truly international business. These people are hot property: one has just been poached from Deutsche Bank to Lehman Brothers, another bank, for a salary around \$2 million higher. In India, such people are said to number in the thousands. For now, India simply has more people with the requisite skills and sensibilities to work across borders at the very top level.

Those people are joining the highly educated global elite that moves seamlessly between countries. An elite that has studied at the same business schools, worked for the same consultancy firms and even skied the same glaciers. They speak a language of tolerance, opportunity and performance indicators. For them, globalization offers tremendous career possibilities — and for scientific and business advances that could benefit all nations. Yet they have more in common with each other than with most of the people in their country of origin. As this group continues to accelerate away from the rest, their less fortunate peers may find it hard to swallow.

The stage is set for an ugly clash within countries, as well as between them. I do not advocate protectionism — I'd like hard-working Indians to reap their reward. But our political discourse seems strangely complacent. And a political debate largely about micromanaging public services, that cannot even face introducing radical reforms into education, seems to miss the point. Keynes thought that "practical men . . . are usually the slaves of some defunct economist". It's time to ask economists some tricky questions.

### Questions

1. Highlight every economic word in the reading. Highlight in **yellow** if you know the meaning of the word; highlight in **blue** if you do NOT know the meaning of the word.
2. Provide the definition of the following words:
  - a. Ricardian-
  - b. Protectionism-
3. Identify three additional words from the reading and define them below.
  - a.
  - b.
  - c.
4. Provide 8 annotations in the reading that focus on either summarizing the main point of a paragraph OR providing a question that comes up in your mind as a result of the reading.
5. What is the main argument(s) from the author?
6. Provide evidence from the article that supports the author's arguments.
7. Do you agree or disagree with the author? Why or why not?