3 COMPETING IN A NEW ERA OF GLOBALIZATION

BROOKINGS GLOBAL EXPERTS

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Is the new episode of globalization just another wave or a seismic shift? Though individual elements feel familiar, the combined contours are unprecedented in scale, speed and scope.

THE GLOBAL CONTEXT

China is the single biggest—and to many the single—issue on the U.S. trade and competitiveness agenda today. When a U.S. lawmaker talks about unfair trade or exchange rates, it is a good bet that China is on their mind. Any discussion on the state of U.S. manufacturing quickly finds its way to China's growing prowess.

Because China is successfully pursuing—at a scale never seen before—a growth strategy that is export led and foreign direct investment fed, its rise is sending tsunami-like waves to the farthest reaches of the global economy, posing tough challenges to some and enticing opportunities to others. China's enormous appetite for energy and raw materials has strengthened commodity prices and put many resource-rich countries back on the map. But in manufacturing, where China is now deeply embedded in global supply chains, the story is more complicated. Higher wage economies competing in the same manufacturing export segments where China has established an edge are faced with the difficult choice of moving up the value chain or lowering costs.

India's concurrent economic emergence has multiplied the challenges and opportunities manifold. Integration of the combined low-wage labor forces of India and China into global labor markets means an expansion of roughly 70 percent—highly concentrated at the lower end of the wage scale. Just about any economic model would predict a squeeze on wage earners until capital and technology investments adjust. Indeed, the data suggests that inequality is once again on the rise in many of the world's richer economies. In the United States, profits are capturing a much larger share of national income, while wages command a lower share than at any time in the last 50 years.

Though India is pursuing a growth strategy more reliant on domestic consumption and investment than China, nonetheless its success in building export strength in higher skilled "knowledge" industries such as software programming has elicited concern among U.S. white-collar workers facing the prospect of low-wage foreign competition for the first time, as well as causing excitement among similarly placed developing countries looking to move up the value chain.

THE CHALLENGE

Although American multinationals and consumers are benefiting from new global opportunities, some American workers now face challenges in both manufacturing, where productivity is outpacing wage growth, and services, where offshoring is on the rise. Concern runs across political and demographic lines, with discussion of the "anxious middle" who seek safe harbor from the forces of globalization. How effectively the United States responds to this new competition will help to determine future living standards for the American middle class. It will also influence America's capacity to reassert leadership in the international arena and to address the needs of the world's poorest people.

To respond successfully will require that political leaders reject both the hollow cheerleading for a benign globalization that spreads benefits evenly, as well as the false comfort that they can shield their constituents from the forces of globalization and technological advance. It will require a proactive and sustained strategy that not only addresses trade rules but also vigorously implements the requisite domestic policies to ensure that a large majority of Americans thrive in the global economy.

RECOMMENDATIONS FOR ACTION

Though there is no single panacea to keep the United States or other nations competitive, a powerful set of policies can be employed to help navigate the new wave of globalization:

> **Invest in the foundations of future prosperity.** Critics of U.S. trade policy are right to protest that successive rounds of trade liberalization have been pursued with much greater vigor than critical domestic programs to equip a larger number of Americans to benefit and protect those who pay the greatest price. The key is to strengthen our comparative advantage in high-value-added, innovation-intensive industries and empower our citizenry through appropriate training and incentives to take on new high-skill jobs. This will require expanding the quality and accessibility of education and training, strengthening science and technology, and investing in infrastructure.

> **Provide social insurance to support mobility.** With globalization and innovation accelerating the pace at which workers' job specific skills lose value, it is critical to update a social insurance system that has not fundamentally changed since the introduction of Trade Adjustment Assistance in the 1960s. Such a program should aim to ease the economic dislocations and potential loss of health insurance and other benefits associated with permanent displacement in both the manufacturing and service sectors while helping affected workers to find new employment opportunities quickly.

> **Negotiate and enforce favorable rules.** U.S. interests in favorably shaping the rules governing international trade—and in vigorously pursuing enforcement of those rules—are greater than ever before. With other countries vigorously pursuing bilateral and regional trade agreements that may raise barriers against U.S. competitors, this is no time to sit on the sidelines. Though foreign policy has dominated U.S. trade policy for the past several years, it is time to once again focus on advancing and enforcing those rules that have the greatest consequences for American competitiveness—for instance, intellectual property theft in China and China's comprehensive subsidization of its exports.

> **Do no harm.** While economists can argue whether the nation as a whole benefits from the current episode of globalization, most would predict that some workers pay the costs disproportionately. Indeed, current data suggests that gains are increasingly concentrated at the upper end of the income spectrum with earnings at the middle falling behind. Politicians can hardly expect support for a policy of continued openness if they insist on pursuing tax cut policies that exacerbate these distributive trends and providing health and other benefits through the tax system in a manner that favors the already advantaged.

WANT TO READ MORE?

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