Globalization: The New Economy and Social Impacts, and Impacts after the Storm

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What is “globalization”? 

Globalization involves:

- Movement of people from one location to another
- Flow of goods and services from one country to another

Globalization has already made profound positive impacts on:

- Global economy, and produced an unprecedented global peace and prosperity in human history
A major paradigm shift began in 1990 with:

Global cooperation and collaborations in “Industrial productions,” “Business operations” and “Distribution of goods and services” among the nations in the world.

This new wave of globalization is possible with technology advances in:

- Advances in transportations and low-cost telecommunications
- Rapid advancing in Information Technology (IT)

Other major factors:

- Prolonged peace in the world has cultivated prosperity in affluent countries with fast expansion of middle class demanding more and better consumer goods and services
- Creation of generations of better educated and skilled workforce in developing countries, e.g., China, India, Korea, etc.
- Liberal immigration practice for freer movement of people and goods and services, e.g., the European Union
- Liberal trade policies by nations, e.g. NAFTA, EU, WTO, etc.
The Birth of New Global Economy –

by Outsourcing

and Insourcing
OUTSOURCING has become a common practice adopted by industries and business in major industrialized nations (Canada, USA, Germany, Japan, France, etc.)

Outsourcing has already made major impacts on the US economy, and it has been the driving force for the New Economy of the Global Village.

“Cost-effective resources” is the fundamental reason for US industry and business to outsource their productions and operations to offshore low-labor cost countries, such as China and India.

Other reasons for outsourcing include:

(1) Availability of Low-cost (but qualified) workers in countries like India and China. Not only wages are low in these countries, but there is no expensive fringe benefit packages involving health care, injury compensation insurance and other fringe benefits to workers, and with no powerful trade unions for costly and time-consuming collective bargaining as in the US, Canada and other Western European countries
(2) Countries like India, China and Mexico have lax restrictions in environmental controls. This reduces production costs for some industries.

(3) Outsourcing industrial productions and business operations to countries in different parts of the world allow round-the-clock operations on design and manufacturing of high tech products in particular:

<table>
<thead>
<tr>
<th>USA-California</th>
<th>China, Japan, Korea, Hong Kong, Singapore, Taiwan (+ 16 hours)</th>
<th>France, Germany, Italy (+9 hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 AM (Monday)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 PM (Monday)</td>
<td>9 AM (Tuesday)</td>
<td></td>
</tr>
<tr>
<td>5 PM (Tuesday)</td>
<td>10 AM (Tuesday)</td>
<td></td>
</tr>
<tr>
<td>8 AM (Tuesday)</td>
<td></td>
<td>5 PM (Tuesday)</td>
</tr>
</tbody>
</table>

These Round-the-clock operations allow US companies to solve a critical problem in “Time-to-Market” (TTM), and catch up with the narrow window of marketing for high tech products.
(4) Outsourcing allows US industry and business to **create** vast new markets in countries like India and China.

Because the “Receiving countries” of outsourcing will become rising economic powers years later, and they will be major customers of US industry and business.

(5) Reversed outsourcing, or **“Insourcing”** is likely (and it has already happened) as current receiving outsourcing countries become the new rising economic powers.

They will be in positions to invest in new US industry and business, and thus create new jobs for American workers, and

**It’s happening now**
### Outsourcing Goes Global

- A slightly outdated information, but it is a revealing list describing the ongoing and future trend in global economic development

<table>
<thead>
<tr>
<th>REGION</th>
<th>CENTRAL AND EASTERN EUROPE</th>
<th>CHINA AND SOUTHEAST ASIA</th>
<th>LATIN AMERICA AND CARIBBEAN</th>
<th>MIDDLE EAST AND AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Size</td>
<td><strong>$3.3 BILLION</strong></td>
<td><strong>$3.1 BILLION</strong></td>
<td><strong>$2.9 BILLION</strong></td>
<td><strong>$425 MILLION</strong></td>
</tr>
<tr>
<td>Top-Ranked* Countries</td>
<td>Czech Republic, Bulgaria, Slovakia, Poland, Hungary</td>
<td>China, Malaysia, Philippines, Singapore, Thailand</td>
<td>Chile, Brazil, Mexico, Costa Rica, Argentina</td>
<td>Egypt, Jordan, United Arab Emirates, Ghana, Tunisia</td>
</tr>
<tr>
<td>Up-and-Comers</td>
<td>Romania, Russia, Ukraine, Belarus</td>
<td>Indonesia, Vietnam, Sri Lanka</td>
<td>Jamaica, Panama, Nicaragua, Colombia</td>
<td>South Africa, Israel, Turkey, Morocco</td>
</tr>
<tr>
<td>Emerging Local Providers</td>
<td>Luxoft (Russia), EPAM Systems (Belarus), Softline (Ukraine), DataArt (Russia)</td>
<td>NCS (Singapore), Bluem, Neusoft Group, BroadenGate Systems (China)</td>
<td>Softtek (Mexico), Neoris (Mexico), Politec (Brazil), DBAccess (Venezuela)</td>
<td>Xceed (Egypt), Ness Technologies (Israel), Jeraisy Group (Saudi Arabia)</td>
</tr>
</tbody>
</table>

Source: BusinessWeek, August, 2005
Globalization in:

- Industrial production,
- Business operations and
- Services

in the last 2 decades has resulted in:

a major shift in global economy
Global Economic Powers in 1980s

- World’s richest countries, the G-7 countries:
  USA, Japan, Germany, United Kingdom, France, Canada, Italy

Japan was the only Asian country in the G7 Club then
## 2008 List of GDP and PPP of Countries

### Top 10 producing countries:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (PPP), $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>14,264,600</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>4,923,761</td>
</tr>
<tr>
<td>3</td>
<td>China*</td>
<td>4,401,614</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3,667,513</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>2,865,737</td>
</tr>
<tr>
<td>6</td>
<td>United Kingdom</td>
<td>2,674,085</td>
</tr>
<tr>
<td>7</td>
<td>Italy</td>
<td>2,313,893</td>
</tr>
<tr>
<td>8</td>
<td>Russia*</td>
<td>1,676,586</td>
</tr>
<tr>
<td>9</td>
<td>Spain</td>
<td>1,611,767</td>
</tr>
<tr>
<td>10</td>
<td>Brazil*</td>
<td>1,572,839</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (PPP), $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Canada</td>
<td>1,510,957</td>
</tr>
<tr>
<td>12</td>
<td>India*</td>
<td>1,209,686</td>
</tr>
</tbody>
</table>

### The second tier countries:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (PPP), $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Mexico</td>
<td>1,088,128</td>
</tr>
<tr>
<td>15</td>
<td>Korea</td>
<td>947,010</td>
</tr>
</tbody>
</table>

### Countries in waiting:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (PPP), $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Poland</td>
<td>525,735</td>
</tr>
<tr>
<td>40</td>
<td>Czeck Republic</td>
<td>219,077</td>
</tr>
<tr>
<td>43</td>
<td>Romania</td>
<td>199,673</td>
</tr>
<tr>
<td>45</td>
<td>Ukraine</td>
<td>179,725</td>
</tr>
<tr>
<td>49</td>
<td>Egypt</td>
<td>162,164</td>
</tr>
<tr>
<td>52</td>
<td>Hungary</td>
<td>156,284</td>
</tr>
<tr>
<td>58</td>
<td>Slovakia</td>
<td>95,404</td>
</tr>
<tr>
<td>60</td>
<td>Vietnam</td>
<td>89,829</td>
</tr>
</tbody>
</table>

### Notes:

1. Gross domestic products
2. Purchasing power parity
3. Out of 179 countries as reported by the International Monetary Funds (IMF)

* The BRIC countries - the emerging world economic powers

The BRIC Countries – The emerging new world economic powers

**BRIC countries** = Brazil, Russia, India and China  
Combined population: 2.767 billion (41.3% of World population)  
Combined GDP (PPP) in 2008: US$8,860,725 million (14.6% of World total)
China and India – The Two Shining Stars in BRIC Countries (CHINDIA)

<table>
<thead>
<tr>
<th>Country</th>
<th>Land Area (10^6 sq.km)</th>
<th>Population (billion)</th>
<th>GDP/Capita (2008) (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINA</td>
<td>9.60</td>
<td>1.32</td>
<td>$3315 (Ranked 104/179)</td>
</tr>
<tr>
<td>INDIA</td>
<td>3.28</td>
<td>1.12</td>
<td>$1016 (Ranked 142/179)</td>
</tr>
</tbody>
</table>

GDP Growth in China

GDP Growth in India

A steady growth

A fluctuating growth
Observations:

- Experts predict significant shifting of global economy in the next 40 years.
- China will surpass the US to be the largest economy in the World in Year 2050.
- India will continue its economic growth to become the 3rd largest economy in the World in 2050.
- A major assumption on these bold predictions is based on the extrapolation of the global economic growth in the past 10 years.

**Outsourcing** of US manufacturing and servicing to offshore countries has caused the following short-term pains:

- Massive job losses to offshore countries
- Technology transfer to potential competing countries

**But outsourcing has resulted in significant growth in the US economy as shown in the next slide:**
The Impact of **India** and **China**

As they get richer, they’ll increase consumption...

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**Consumer Spending, Adjusted for Inflation**

- **India**
- **China**

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimate</th>
<th>Year</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>'05</td>
<td>EST.</td>
<td>'15</td>
<td>EST.</td>
</tr>
<tr>
<td>0.3</td>
<td></td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>0.6</td>
<td></td>
<td>1.2</td>
<td></td>
</tr>
</tbody>
</table>

**U.S. Exports of Goods and Services**

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimate</th>
<th>Year</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>'05</td>
<td>EST.</td>
<td>'15</td>
<td>EST.</td>
</tr>
<tr>
<td>0.75</td>
<td></td>
<td>3.0</td>
<td></td>
</tr>
</tbody>
</table>

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Data: Global Insight Inc.
The New Economy of the Global Village

- Gradual removal of national boundaries in economic development
- Gradual removal of trade barriers among nations (e.g., EU, NAFTA, 10+3)
- **Productivity** and **Efficiency** are the two key factors for industry and business to survive and succeed in the global marketplace
- Outsourcing of industrial productions and business operations to countries of low-cost labor will become a well-established global strategy for industry and business
- The roles of “Providing” and “Receiving” countries in outsourcing will vary as individual nation’s economic wellbeing change with time
- **Multinational corporations** will be the norm of business operations in the New Global Economy
- Inter-cultural communications and inter-personal management skills will be major factors for industry and business to succeed in the New Global Economy
The Making of Emerging Global Economic Powers

As “Receiving” Countries in Outsourcing

- High quality human resources – Good public school system from K-16, with strength in math, science, and English
- Stable political system
- Government policy and lucrative incentive packages for foreign investments
- Efficient government operations and regulations
- Sound banking systems
- Low cost but good quality workforce with high standard in work ethics
- Infrastructure supports in energy and transportation: Reliable electric power and water supplies; Modern sea and airports; Networks of rail and freeways; Reliable telecommunication facility
- Domestic market potentials – proven to be a necessary safe nest in economic down-turns

As “Providing” Countries in Outsourcing

- Rich in venture capital investments
- Superior business management skill and global marketing expertise
- Superior graduate schools and research institutes in science and technologies
- Culture of innovation and risk-taking entrepreneurship, e.g., the Silicon Valley
Socio-Economic Consequences of New Global Economy

- Major shifting of workforces and **massive unemployment** in “providing” countries due to outsourcing, but in return with low price consumer goods (Walmart)
- **Major challenges to “Receiving” countries of outsourcing**
  - Widening the gap between the rich and the poor - creating major social problems
  - Rapid rising of middle-class in the society, demanding better goods and services for life, and with stronger buying powers
  - Rapid urbanization outpaces public supports and services – creation of ghettoes
  - Rapid deterioration in environment due to over-consuming, cost-cutting in industrial production, outpaced government regulation and inspection, and lax in government restrictions
  - Substandard labor practices – sweat shops in some “receiving” countries
  - Outpaced government planning, e.g., water supply and sewage treatment
  - Nurturing corruptive government officials and banking systems

New urban development

Polluted air
The Unprecedented Global Economic Tsunami
Triggered by the failure of major financial institutions in the US: Lehman Brothers, AIG, Merrill Lynch, Freddie Macs and Fanny Mae, in late 2008

Domino effect on the fall of subsequent 90 plus banks, melt-down of real estate industry, and bankruptcy of major manufacturing industry, e.g., GMC and Chrysler - an unseen economic depression since the Great Depression of America in the 1930s.

The unprecedented economic depression in the US triggered a global economic down-turn – an economic Tsunami to the global village.
A vicious cycle that has caused global economic depression

- Tight consumer spending & business investment
- Massive unemployment
- Shrinking tax revenue to government, leading to cutback of public works & services
- Business failures
- Tight credits
- Shrinking stock market

Failure of Financial institutions
We have seen the world exports plunged

Source: IMF 2/26/09

Courtesy of Prof. Richard Dasher of Stanford University
World export growth has been dreadful since Late 2008

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>From advanced economies</td>
<td>5.9%</td>
<td>3.1%</td>
<td>(-3.7%)</td>
</tr>
<tr>
<td>From emerging and developing</td>
<td>9.6%</td>
<td>5.6%</td>
<td>(-0.8%)</td>
</tr>
<tr>
<td>Source: IMF 2/26/09</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IMF 2/26/09

Courtesy of Prof. Richard Dasher of Stanford University
US Government’s Short-term Rescue Actions

● **Provide economic stimulus**
  with $730 billions borrowed money by the US Federal government in late 2008 for bail-out of major financial institutions and corporations

● **Tighter control of fiscal management of financial institutions**
  e.g., compensations for senior executives

● **Develop domestic market for goods and services**
  e.g. spent $2 billion for the clunker car deals

● **Encouraging R&D on activities leading to economic “recovery”**

● **Reforms on mitigating “wasteful expenditures”**
  e.g., reform the nation’s health care system
Developing domestic demand – a medicine to current economic malaise
- The China example

Figure 6. Consumption is decelerating to still robust rates

- Retail sales of large retailers (blue line) is still growing 12% year-on-year, end 2008
- Consistently greater than GDP growth (est. Q4 @ 6.5%, not shown) – IMF reports 8.5% for 09

Source: NBS, staff estimates
1/ Retailers with annual sales larger than 5 million RMB.

World Bank, CQR 3/17/09

Courtesy of Prof. Richard Dasher of Stanford University
Global Village after the Economic Tsunami

Signs have shown the US is recovering for the devastating tsunami:
- Financial institutions appear stable now after 90 plus bank failures in the past 12 months
- The stock market is on its way up (Dow Jones index has risen close to 10,000 points)
- Real estate market has stabilized

Global Economic Recovery by Leading Countries (IMF 10/1/09)

<table>
<thead>
<tr>
<th>Country</th>
<th>2009 GDP</th>
<th>2010 GDP (predicted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>8.5%</td>
<td>9.0%</td>
</tr>
<tr>
<td>India</td>
<td>5.4%</td>
<td>6.4%</td>
</tr>
<tr>
<td>USA</td>
<td>-2.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>European Union</td>
<td>4.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Japan</td>
<td>-5.4%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

- The recovery will be slow and painful with high unemployment rates for the next 3 years or longer
Impacts of the Global Economy after the Tsunami

On the geopolitical scene:

- A good lesson learned by Global citizens is that issues such as:
  - Global warming,
  - Drug traffic,
  - Pandemic diseases,
  - International terrorism, and
  - Global economic depression have no national boundaries

- The only way to resolve these issues is through cooperation and collective efforts by all nations on the GLOBE

- Global economic problems can no longer be resolved by rich developed countries such as the G7 or G8 countries

- It requires participations of many developing nations like, China, India, etc. - the birth of G20 finance forum

- There will be increased focus on domestic market demand leading to:
  Increased protectionism - Expect more disputes resolved by the WTO
Impacts of the Global Economy after the Tsunami

On the socio-economic scene:

- The dominance of world economy by the US appears eroding faster after the economic tsunami

- USA becomes the largest debt-ridden country in the world, and China becomes the largest creditor of the US – an unusual new economic alliance

- A significant re-alignment of global economic powers is already in the process:

### The New Top 10 Richest Countries in the World

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP in 2009 ($trillion)</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>14,003</td>
<td>-1.8</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>4,993</td>
<td>+1.4</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>4,833</td>
<td>+9.8</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3,060</td>
<td>-16.6</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>2,499</td>
<td>-12.8</td>
</tr>
<tr>
<td>6</td>
<td>United Kingdom</td>
<td>2,007</td>
<td>-24.9</td>
</tr>
<tr>
<td>7</td>
<td>Italy</td>
<td>1,988</td>
<td>-14.1</td>
</tr>
<tr>
<td>8</td>
<td>Spain</td>
<td>1,397</td>
<td>-13.3</td>
</tr>
<tr>
<td>9</td>
<td>Brazil</td>
<td>1,269</td>
<td>-19.3</td>
</tr>
<tr>
<td>10</td>
<td>Canada</td>
<td>1,229</td>
<td>-18.6</td>
</tr>
</tbody>
</table>

Source: http://global-economy.suite101.com
Impacts of the Global Economy after the Tsunami

On industrial productions:

● Countries survived the current economic tsunami are now at the same starting point of an increasingly stiff competition for their goods and services.

● There will be increased focus on domestic market in the early stage of recovery - leading to trade protectionism, and change in the directions of the flow of the global supply chain

● Efficient overseas business operations will become the key to recovery for American industry. There will be more effort in supporting sales in overseas market and more local procurements to improve company’s efficiency

● There is a need to develop new value / cost constraints:
  A quote from Prof. Richard Dasher of Stanford University
  ● Japan, Europe (and somewhat in US): add extra features for extra value
  ● China, India and other emerging countries: think of price point first and ways to include more features without raising price
  ● More bottom-up design from local considerations, rather than localization of products developed elsewhere
The Role of R&D in Globalization for US Business and Industry
- will thrive after the storm

- Gradual shift in the mindsets of advanced researchers
  - More early R&D focus on developing world needs

- Support product localization

- Support development of original products for local markets

- Support global efforts in earlier stage research
  - Use of experts where experts are located
  - Supply chain elements
    - e.g. machine tools
    - Medical: clinical trials

- Flex US muscle in unique strength in R&D in micro- nano- and green technologies in applications of:
  - Biomedicine
  - Energy
  - Information and communications
  - Environmental protection and urbanization

Courtesy of Prof. Richard Dasher of Stanford University
Summary and Conclusion

- There has been major paradigm shifts in global economy in the past 2 decades. This shift was driven by the needs of industrialized countries to maintain high living standards and market competitiveness with low-cost goods and services provided by offshore countries.

- Cooperation and collaborations in “Industrial productions,” “Business operations” and “Distribution of goods and services” among nations in the world appears a viable way of achieving this goal.

- Outsourcing is made possible with advancing Information Technology and gradual removal of trade barriers among countries in the global village.

- Outsourcing will continue to be practiced by the US and other multinational corporations well in the future. It creates serious socio-economic problems in the US in the short-term, but it will benefit the country in the long run.
Summary and Conclusion – cont’d

- There are major socio-economic impacts on all countries involved in outsourcing processes.

- There has been significant shifts in global GDP in recent years due to outsourcing of industrial production and business operations by affluent countries.

- The new global economy has been built on the dynamics of outsourcing – i.e., today’s “receiving countries” can be tomorrow's “providing countries.” There will be changing roles taking place at all times.

- The current global economic down turn has resulted in major re-distribution of wealth among the nations. Swift and decisive Governments’ interventions have averted a major melt-down of the global economy.

- It has changed the economic order of the global economy- No longer can the rich nations solve global economic problems without active participations and cooperation of other emerging nations.

- Economic unilateralism has all but gone for good.
And, finally, a small way to outsource:

It’s meant to be a joke. Please don’t be offended by it.