Chapter 1

Introduction

At the beginning of the twenty-first century the typical resident of Western Europe, North America, or Oceania was increasingly cosmopolitan in consumption and outlook. He or she drove an imported car (perhaps German or Japanese), wore Chinese-made clothing, ate food products from various corners of the world as part of a daily diet, and communicated with an Asian-assembled computer or cell phone to friends or relatives all over the world. Internet e-mail, innovations like Skype, and Facebook, eased the way for exchanging information and images, and keeping up with a global network of friends and contacts. Those fortunate enough to have investment portfolios often diversified with foreign stocks or bonds. And residents of affluent nations thought little of vacationing abroad (France, Spain, North America, and China were popular destinations). Retirees opted for more leisurely travel, perhaps on one of the giant cruise ships that frequented Alaska or the Baltic in summer, or the Caribbean and Mediterranean in winter.

Four to five billion people joined the global market during the last quarter century. While local political and economic elites opted to hobnob with other elites, skiing at Davos in winter or yachting at St. Barts or Monaco in summer, many of the poor intersected the global economy differently. Some 500 million new factory workers – many of them young women – produced t-shirts, sneakers, iPhones and other products for export to consumers in other countries. Frequently, they labored 12-hour days, or longer, for low wages (perhaps the equivalent of $2 per day, or less), and had little leisure time. Many spent a portion of their meager earnings

The Contemporary Global Economy: A History Since 1980, First Edition. Alfred E. Eckes, Jr.

to enhance their mobility and connections to family and friends. Even in the most desolate locations, basic products like motor scooters, cell phones, and televisions expanded knowledge and widened opportunities. Hearing of better jobs in high-income countries, some entrusted their lives to professional smugglers who locked them in shipping containers, or led them on desert treks in the middle of the night, to cross borders. As millions of migrants had done in centuries past, they risked their lives to improve prospects for their families and themselves.[1]

While millions of people have benefitted from the contemporary global economy – particularly high-income and professional elites – not everyone has shared its prosperity. OECD studies show an increasingly skewed distribution of wealth in some countries.[2] Jobless data indicate that factory workers, and their families, in high-income countries have experienced disruptions to their lives, as plants closed and jobs moved to countries with cheaper labor. In the Soviet Union, the collapse of state planning produced widespread hardship for pensioners and those unable to adapt to new circumstances. Others over-estimated their circumstances. They splurged, and took on risk and debt far in excess of their resources. As it turned out some of the greatest excesses were in government, where elected officials in many countries made fiscally irresponsible promises to win votes, and budget deficits soared.

In some ways the period from 1980 to 2010 was reminiscent of the late Victorian and Edwardian years before World War I. From about 1870 to 1914, the United Kingdom was the center of a similar world economy. It too was open to trade and finance, and imposed few restrictions on migration. As a result of submarine cables, news and information traveled rapidly. British-owned cables linked the world to London, and the Royal Navy protected maritime routes. Residents of the United Kingdom consumed the world's products and invested their savings abroad in mines, ranches, railroads, and utilities. John Maynard Keynes, the famous British economist, recalled this extraordinary period nostalgically in *The Economic Consequences of the Peace* (1920). Keynes marveled at the "internationalization" of economic life, noting in a famous passage from his writings how an inhabitant of London could order by telephone, while sipping his morning tea, the various products of the whole world. He could invest his wealth in natural resources and new enterprises overseas, or buy the bonds of any substantial municipality on any continent that his fancy or information might recommend.[3]

But, alas, the open world economy that preceded World War I vanished in that conflict, as governments imposed controls to regulate economic affairs. For some 65 years until about 1980 national governments restricted trade and finance, controlled migration, and managed communications through government-owned or regulated monopolies. During this period two world wars, a great depression, and intense Cold War competition disrupted earlier economic patterns. But, late in the twentieth century when Cold War tensions subsided and enthusiasm for market forces revived, a new era of open markets and deregulation dawned.

Scope

This introductory chapter provides an overview of the extraordinary economic, political, and technological developments that shaped the contemporary global economy over the last generation. It considers the overarching themes, while the second chapter offers a short historical perspective on the early- and mid-twentieth-century international economy. The next two chapters examine how the broad themes of growth, integration, and volatility impacted the rich countries and the developing world. The fifth chapter discusses how ideas and individuals shaped the contemporary economy. Here we review the thoughts of Adam Smith and David Ricardo in the eighteenth century, and more recent business and economic thinkers like John Maynard Keynes, Milton Friedman, and Peter Drucker. Subsequent chapters consider how these themes apply to international trade, global business, and finance. Then the book revisits the recent global financial crisis, and examines the interplay of darker forces, including organized crime, trafficking, sweatshops, health and safety, and environmental issues. A concluding chapter surveys recent efforts to regulate and rebalance the global economy, and to engage rising powers.

The Contemporary Age of Globalization, 1980–2010

During the period from 1980 to 2008 the international economy experienced a second golden era, reminiscent of the peaceful prosperity before World War I. Despite a number of local and regional conflicts in the Falklands, the Balkans, Afghanistan, the Middle East, South Asia, and Africa, there were no overt hostilities among the great powers. Governments gradually cut taxes, deregulated markets, sold off state-owned enterprises, and dismantled trade barriers. During the 1990s they reduced arms spending sharply as the Cold War ended. The pace of change accelerated and transformed the political, social, and economic landscape. A variety of long-term trends and short-term conditions produced new opportunities for humankind, but also brought greater uncertainty, dislocations, and anxiety about modernization. On the one hand, there was greater integration of people and nations (globalization). On the other, there was resurgent localization (as ethnic groups sought greater self-determination and devolution of power) and protectionism, as afflicted groups challenged international efforts to knock down barriers and integrate markets. The meaning and implications of these terms will be addressed in subsequent chapters.

On the political front, the fall of the Berlin Wall in 1989 and the dissolution of the Soviet Union in late 1991 introduced an era of relatively peaceful co-existence among the great powers. Responding to new circumstances and ideas, governments around the world deregulated economies, privatized industries, and permitted market forces to revive. In encouraging deregulation and privatization Prime Minister Margaret Thatcher and President Ronald Reagan led the way. Meanwhile, new technologies of transportation (wide-bodied jet aircraft and container ships), communications (cell phones, optic-fiber line, satellites), and information processing (personal computers), integrated national markets and dissolved border barriers.

For the global economy, these changes accelerated flows of information, goods, services, and money – and produced volatility as market forces responded to events. The world of the late twentieth century was no longer one in which ordinary people and communities were loosely connected by trade, occasional visitors, and sporadic information flows (an occasional telephone call or letter). The new world was immediate, interactive, and integrated. In the digital age information and ideas flowed at the push of a button. Retailers in one area of the world communicated electronically, and instantaneously, with suppliers thousands of miles away. Changes in commodity markets, exchange rates, stock prices, and interest rates impacted investors and producers in far corners of the world immediately. And large sums of private capital flowed easily and quickly from one region to another, challenging local authorities and regulators.

Life expectancy and literacy

During this period of economic restructuring, millions of people improved their own lives and living conditions. In most areas of the world, life expectancy increased. In 1960, a person born in a high-income country could expect to live to 69 years, 29 years more than a person born in one of the

Table 1.1 Life expectancy at birth (total years), 1960–2008

Region or country	*1960*	*1980*	*2000*	*2008*
World	52	63	67	69
High income countries	69	73	78	80
Australia	71	74	79	81
Canada	71	75	79	81
Euro area	70	74	78	81
France	70	74	79	82
Germany	70	73	78	80
Japan	68	76	81	83
New Zealand	71	73	79	80
United Kingdom	71	74	78	80
United States	70	74	77	78
Low and middle income countries	47	60	65	67
Least developed countries	40	47	54	57
East Asia and Pacific	46	64	70	72
China	47	66	71	73
Hong Kong	66	75	81	82
Indonesia	41	54	67	71
Malaysia	54	67	73	74
Philippines	53	61	69	72
Singapore	64	71	78	81
South Korea	54	66	76	80
Thailand	54	66	68	69
Vietnam	44	57	72	74
Latin America and Caribbean	51	64	72	73
Argentina	65	70	74	75
Brazil	54	62	70	72
Chile	57	69	77	79
Mexico	57	67	74	75
Middle East/North Africa	47	58	69	71
Egypt	46	57	68	70
Israel	72	72	79	81
Saudi Arabia	44	61	71	73
Turkey	50	60	70	72
South Asia	43	54	61	64
Bangladesh	40	48	61	66
India	42	55	61	64
Pakistan	49	58	64	67

(*Continued*)

Table 1.1 (*Continued*)

Region or country	*1960*	*1980*	*2000*	*2008*
Sub-Saharan Africa	41	48	50	52
Ghana	46	53	58	57
Liberia	40	57	72	74
Mauritius	59	66	72	73
Nigeria	38	45	46	48
South Africa	NA	57	56	51
Zimbabwe	51	59	43	44
Eastern and Central Europe				
Czech Republic	70	70	75	77
Poland	68	70	74	76
Russian Federation	NA	67	65	68
Ukraine	69	69	68	68

Source: World Bank, *World Development Indicators Database*, http://data.worldbank.org/data-catalog (accessed August 2010).

least-developed countries. By 1980, the gap had fallen to 26 years, the high-income country resident living 73 years, the least-developed country resident 47. Twenty-eight years later (2008), the last year for which data was available, the gap remained large at 23 years. Those born in a high-income country could look forward to 80 years of life; those in a least-developed country to 57 years. While an enormous gap remained, life expectations had expanded both in rich and poor countries with only a few exceptions. In sub-Saharan Africa, where AIDS took a heavy toll, nine countries had declining life expectations. They were Botswana, the Central African Republic, the Democratic Republic of the Congo, Kenya, Lesotho, South Africa, Swaziland, Zambia, and Zimbabwe. Zimbabwe, one of the world's most mismanaged economies, experienced a decline of 15 years (from 59 to 44). In a few countries outside Africa, there were also declines in life expectancy: Kazakhstan, and the Ukraine, and North Korea.

In the developing world of low- and middle-income countries, the literacy rate for adults ages 15 and above rose from 69.9 percent to 80.2 percent between 1990 and 2008.[4]

Improving living standards

Economic growth offered other evidence of improving conditions. During the late twentieth century, economic growth dramatically elevated living standards in many markets. Since 1980, the world's gross domestic product (GDP) in constant dollars increased at a compounded rate of 2.8 percent annually. In developing economies GDP growth averaged an impressive 6.7 percent, but in older high-income countries the rate was closer to 2.5 percent.*

One of the better indicators of individual incomes is GDP per capita measured in constant dollars and using purchasing power parities to adjust for costs in different economies. For the world during the period 1980 to 2009 GDP per capita rose 60% from $5,949 in 1980 to $9,514 in 2009. The UK (74%) and the US (62%), had per capita GDP growth rate above the world average. But developing countries set the pace. In East Asia and the Pacific per capita GDP soared, rising 594% from 1980 to 2009. China enjoyed a 1,083% increase, followed by South Korea with 360%. India's per capita GDP rose 230%. Such meteoric growth turned millions of peasants into consumers with cash to buy cell phones, televisions, and motorized transport, and to connect with the outside world. Rapid growth also created many new Asian millionaires. In 2009 it is estimated that individuals with at least $1 million of investable assets in Asia equaled the number in Europe and approached North America's 3.1 million.[5]

In some areas of the world, per capita GDP growth was less spectacular. Remnants of the former Soviet Empire, undergoing the difficult transition from state-controlled to market-oriented economies, experienced uneven growth. Countries such as Poland and Slovakia, which attracted

* GDP is the gross value of all goods and services produced within an economy during a year. When divided by a country's population it becomes GDP per capita. Because price and currency fluctuations complicate comparisons, we rely on GDP per capita in constant dollars using purchasing power parities. Purchasing power parities enable economists to more accurately calculate comparative living standards and to compensate for exchange rate fluctuations.

GDP per capita is widely used as a proxy for the standard of living in an economy, because living conditions tend to improve when GDP per capita rises. It is not a measure of personal income and does not take into account the distribution of wealth or non-market transactions.

GDP data is widely available and is collected regularly, permitting international comparisons. Because it is the best available indicator of relative economic performance, we use it extensively in this study. In our country comparisons of per capita GDP, we have relied on World Bank data based on purchasing power parity (PPP) in constant 2005 international dollars. For more information, see World Bank, *WDI*. According to the World Bank, an international dollar has the same GDP purchasing power as the US dollar has in the United States.

considerable foreign investment, did better than more remote locations. Russia managed a small gain – up 7 percent from 1990 to 2009. In the Middle East Turkey and Egypt experienced solid gains, as did the countries of South Asia. Latin America had uneven and sub-par growth, except for market-oriented Chile which turned in a superior performance. Sub-Saharan Africa was the laggard with GDP per capita climbing only 8 percent, but this region generated strong growth after 2000. A number of countries in that region experienced declining incomes. Some of them had unstable governments, wars and internal conflicts, and high-levels of corruption in the public sector.[6]

Accelerating international migration

People move across borders, as goods, money, and information do. During the period from 1980 to 2010, the flow of migrants accelerated. In 1980, nearly 100 million people lived outside their country of birth, 30 years later 214 million (3.1 percent of the world's population) did. The trend was reminiscent of the first golden era of globalization (1870–1914) when governments imposed few barriers to migration and people moved freely. But two world wars, a great depression, and increasing immigration restrictions discouraged large-scale migration until the 1960s when governments began to relax restrictions. Some European governments began to recruit low-skilled labor in Turkey and North Africa. Over time former colonial powers – Belgium, the Netherlands, France, and the United Kingdom – admitted substantial numbers of immigrants from foreign colonies. Also, Australia, Canada, New Zealand, and the US relaxed immigration restrictions that benefited immigrants from Northern and Western Europe. Then during the early 1990s members of the European Union gradually loosened restrictions on migration, opening up opportunities for emigration among the member states.[7]

The dominant trend over the full 30-year period has been the growing movement of persons from low-income to high-income countries. Flows from Europe to traditional countries of emigration, like the US, Canada, and Australia, waned. Political events also influenced migration statistics in the 1990s. Among the big events were the collapse of the Soviet Union and its satellite regimes in Eastern Europe, the reunification of Germany, conflicts in the Balkans, and the opening up of China. Russia absorbed 4.4 million immigrants, more than double the previous decade. In part this was a statistical issue, the result of reclassifying internal migrants as international migrants when the Soviet Union disintegrated, and 15 independ-

Table 1.2 Gross domestic product per capita (purchasing power parity, constant 2005 international $)

Country or region	*1980*	*1990*	*2007*	*2008*	*2009*	*2009/1980*
World	5,949	6,814	9,529	9,688	9,514	160%
High income countries	19,495	24,505	33,873	33,870	32 ,600	167.2%
Australia	20,042	23,979	33,848	34,522	34,259	171.0%
Canada	22,569	26,355	36,074	35,895	34,567	153.2%
Euro area	18,961	23,393	30,966	30,993	29,603	156.1%
France	20,253	24,315	30,651	30,546	29,578	146.0%
Germany	20,688	25,672	33,236	33,719	32,144	153.4%
Japan	18,647	25,946	31,660	31,296	29,688	159.2%
New Zealand	16,952	18,434	25,649	25,270	24,873	146.7%
United Kingdom	18,461	23,743	34,099	34,048	32,147	174.1%
United States	25,931	32,474	43,745	43,533	42,107	162.4%
Low and middle income countries	2,435	2,786	4,684	4,902	4,968	204%
Least developed countries	–	812	1,184	1,238	1,259	155% (1990)
East Asia and the Pacific (developing)	793	1,393	4,800	5,167	5,507	694%
China	524	1,101	5,239	5,712	6,200	1,183%
Hong Kong	13,945	23,697	39,958	40,599	–	291.1% to 2008
Indonesia	1,361	2,087	3,521	3,689	3,813	280.2%
Malaysia	4,891	6,646	12,752	13,117	12,678	259.2%
Philippines	2,618	2,385	3,182	3,244	3,216	122.8%
Singapore	14,454	23,429	49,739	48,002	45,978	318.1%
South Korea	5,544	11,383	25,021	25,517	25,493	460%
Thailand	2,231	3,961	7,333	7,469	7,258	325.3%
Vietnam	–	902	2,455	2,574	2,681	297.2% (1990)
Latin America and the Caribbean (developing)	7,482	6,975	9,489	9,781	9,496	127%

(*Continued*)

Table 1.2 (*Continued*)

Country or region	*1980*	*1990*	*2007*	*2008*	*2009*	*2009/1980*
Argentina	10,067	7,492	12,506	13,220	13,202	131.1%
Brazil	7,572	7,179	9,181	9,559	9,455	124.9%
Chile	5,366	6,583	13,045	13,391	13,057	243.3%
Mexico	10,422	10,121	13,371	13,434	12,429	119.3%
Middle East and North Africa (developing)	4,357	4,311	6,144	6,298	6,379	146.4%
Egypt	2,432	3,184	4,762	5,011	5,151	211.8%
Israel	15,028	17,864	25,005	25,548	25,268	168.1%
Saudi Arabia	34,599	19,162	21,302	21,713	21,245	–38.6%
Turkey	5,694	7,806	11,973	11,904	11,202	196.7%
South Asia (developing)	892	1,222	2,458	2,540	2,679	300.3%
Bangladesh	604	680	1,178	1,233	1,288	213.2%
India	899	1,249	2,695	2,796	2,970	330.4%
Pakistan	1,191	1,678	2,348	2,345	2,381	200%
Sub-Saharan Africa (developing)	1,760	1,585	1,859	1,914	1,899	108%
Ghana	983	897	1,286	1,351	1,370	139.4%
Liberia	1,765	484	350	358	360	–79.6%
Mauritius	3,729	6,115	10,987	11,472	11,659	312.7%
Nigeria	1,668	1,420	1,872	1,939	1,950	116.9%
South Africa	8,763	7,975	9,367	9,604	9,332	106.5%
Zimbabwe	247	265	–	–	–	–
Eastern Europe and Central Asia (developing)	–	1,393	4,800	5,167	5,507	395.3% (1990)
Czech Republic	–	16,320	22,863	23,223	22,098	135.4% (1990)
Lithuania	–	12,499	17,010	17,571	15,013	120.1% (1990)
Poland	–	8,171	15,655	16,436	16,705	204.4% (1990)
Russia	–	12,630	13,912	14,706	13,554	107.3% (1990)
Ukraine	–	8,063	6,547	6,721	5,737	–28.8% (1990)

Source: World Bank, *World Development Indicators,* http://databank.worldbank.org/ (accessed October 2010).

ent states took its place. A united Germany took in 3.6 million immigrants during the 1990s, up sharply from 1.85 million in the prior decade. A surge in asylum seekers and refugees resulted from regional conflicts in the Balkans and elsewhere. From 1980 to the present the foreign-born Chinese population quadrupled in the US from 363,277 to 1,570,999. Large numbers of Chinese students entered the US to complete college degrees. Many of these married and brought over family members. A number claimed political asylum.

Globalization impacted migration patterns in a big way during recent decades. Improved communications and cheap transportation, new patterns of trade and manufacturing, and the deregulation of business gave impetus to people movements for economic improvement. With better information about living conditions in other regions of the world, the gap in income levels between rich and poor countries prompted residents of developing countries to look beyond their own borders for economic opportunities. Most of these migrants were unskilled workers, but many had advanced education and professional skills.[8]

Europe and North America experienced the greatest immigration growth in the 20 years since 1990. The US gained nearly 20 million immigrants, and their share of the population rose from 9.1% in 1990 to 13.5% in 2010. Five countries in Latin America and Asia supplied 44% of the total immigrant population. The largest share came from adjoining Mexico, about one in every three. The others included the Philippines, India, China, and Vietnam – all in Asia. Germany received nearly 5 million immigrants, and their share of the population rose from 7.5% to 13.1%. Many came from Poland and Turkey, as well as other areas of Eastern and Central Europe. In the United Kingdom, there were nearly 4 million more immigrants, with the share rising from 6.5 to 10.4% of total population. The largest numbers came from former colonies India and Pakistan, South Africa, and Nigeria in the developing world. While these trends show the increasing mobility of the world's workforce, it is worth emphasizing that the migration of people accelerated somewhat faster (1.6% compounded annually from 1990 to 2010) than the world's population growth (1.3%).[9]

Much of this migration followed well-established corridors, reflecting the influence of networks. Ten point three million Mexicans moved across America's southern border, 3.5 million residents of Bangladesh entered India, 2.7 million Turks migrated to Germany, and 2.2 million Indians left for the United Arab Emirates. Large numbers of workers seeking temporary labor moved from South and Southeast Asia to countries in the Middle East. Thousands of Indonesians crossed into Malaysia in search of jobs, as did thousands of Burmese to Thailand, and large numbers of Filipinos to Singapore, Hong Kong, and Japan.[10]

Since 1980 waves of human migration have increased the racial diversity of many countries, including some historically white. According to the Migration Policy Institute, Britain was 94 percent white in 1991. In 2008 it was 81 percent white, with Asians and blacks having more than doubled their share of the population. Of the foreign-born population, the Irish (424,000) were outnumbered by Indians (639,000), Poles (526,000), and Pakistanis (436,000).[11]

Remittances to home countries

These migrants, whether temporary or permanent, continue to make substantial contributions to their countries of birth. Many remit a significant portion of their earnings to relatives and residents of their home countries, as migrants have done for centuries. In 2008, worldwide remittances were estimated at $444 billion. Of this amount $338 billion went to developing countries to support families. The largest of these recipients were India ($51.6 billion) and China ($48.5 billion), Mexico ($26.3 billion), and the Philippines ($18.6 billion). As a percentage of GDP, Tajikistan, Moldova, and Tonga each received remittances amounting to over 30 percent of GDP. With over 20 percent of GDP coming from remittances were the Kyrgyz Republic, Honduras, Lesotho, Guyana, Lebanon, Haiti, and Jordan. Remittances of this magnitude far exceeded development assistance from governments and international institutions.[12]

Continuing rural to urban migration

Another important trend involved the continuing migration from rural to urban areas within nations. In 1960, less than one-third of the world's population lived in urban areas. By 1980, 39% did, and by 2009, over half did. In high-income countries 77% of the population resided in urban areas in 2009 (90% in the United Kingdom; 82% in the US; 73% in the euro region). But large numbers of the world's population continued to live in abject, rural poverty in sections of Africa, Asia, and Latin America. In the world's least developed countries, a group of 49 countries with a population of 818 million, 71% lived in rural areas in 2009, compared to 83% in 1980. In the world's two most populous nations, China and India, residents of rural areas accounted for over half of the population. In China it was 56%, down from 80% in 1980, and in India, 70%, down from 77%

in 1980. The historical experience of high-income countries suggests that migration from rural to urban areas will remain an important trend in emerging markets – especially in India and neighboring South Asian countries – for years to come.[13]

Slower population growth

Why had per capita incomes risen so sharply? The dynamism of the global economy was obviously an important factor, but so was slower population growth. While world population rose over 50 percent from 4.4 billion in 1980 to 6.1 billion in 2000 and 6.7 billion in 2008, the rate of growth slowed. It was 2.5 percent worldwide in 1960, but fell to 1.7 percent in 1980, and 1.2 by 2008. In effect the world's population, which had been doubling every 29 years in 1960, doubled every 60 years in the early twenty-first century.

Yet population growth patterns were uneven. The population of low-income countries rose 93 percent over the period after 1980, far faster than for middle-income countries (51%) and high-income countries (22%). In some countries population growth actually turned negative. This occurred in the Ukraine, Russia, Poland, Japan, Hungary, Georgia, and other countries of Central Europe and Western Asia. There lifestyle issues, such as higher rates of smoking, alcohol consumption, and suicides, as well as the easier emigration of people had a negative impact. So did a declining birth rate among non-Muslim populations. In sub-Saharan Africa, the AIDS epidemic slowed population growth.[14]

Population control measures also had some impact. China took drastic steps in 1978, limiting couples to one child. As a result, the growth rate fell sharply from 2.8 percent in 1970 to 0.7 percent by 2000. In Mexico, government programs to encourage family planning, as well as a large outflow of migrants to the United States, helped to explain a drop from 3.2 percent population growth in 1970 to 1 percent by 2008. In Japan and some high-income areas of Western Europe, the population grew older, as couples chose not to have children.

Aging populations

Of course, greater longevity also meant older populations. In high-income countries, the percentage of people over age 64 to the working age population (dependency ratio) rose from 18% in 1980 to 23% in 2008. It soared in Germany (30%), Italy (31%), and Japan (33%). The rising numbers of senior citizens signaled problems for public officials responsible for providing social services, medical care, and other government assistance. The private sector and the working population would likely face higher tax burdens to pay for these inter-generational transfers. Emerging market countries faced no such burden. In China only 11% of the population was over 64; in India 8%. In much of Africa, the Middle East, and South Asia the ratio was even lower – 6 to 7%. In the developing world, a younger population wanted cars and consumer goods. Goldman Sachs economists have predicted that an expanding middle class in developing countries will continue to drive world growth and market opportunities in the decades ahead. Two billion people may join the middle class by 2030.[15]

Enhanced mobility

Another distinctive feature of the post-1980 global economy involved the enhanced mobility of goods, services, money, and information. As noted elsewhere, technological improvements in transportation, communications and information technologies gave a giant boost to market-opening and integration of national markets. Where border barriers and controls once impeded trade, their removal boosted imports. Corporations once rooted in the nation-state could move factories overseas to low labor-cost countries, and operate complex global supply chains. Jack Welch, the CEO of General Electric, vividly described this trend in 1998 when he told TV interviewer Lou Dobbs: "Ideally you'd have every plant you own on a barge to move with currencies and changes in the economy." He implied that plants could be moved wherever wages were lowest and regulations least intrusive.[16]

Big business's enthusiasm for offshoring and global sourcing diverged from the sentiments voiced by earlier generations of business leaders. In the early twentieth century business leaders thought in national terms, and with few exceptions relied on exports to serve foreign customers. By the late twentieth century Jack Welch's enthusiasm for global market opportunities better expressed the *zeitgeist*, or spirit of the times. The world of multinational enterprise now strongly backed economic and financial integration, and trade expansion.

Greater economic integration

World Bank data show the rising significance of these transactions. In the post-World War II period, trade grew far more rapidly than production for national consumption. The ratio of merchandise trade to GDP, a standard measure of a country's dependence on other nations, climbed steadily. World trade rose from 21 percent of GDP in 1970 to 35 percent in 1980 and to 53 percent in 2008, before the global recession disrupted trade flows. Trade exceeded 300 percent of GDP in 2008 for two small trading units, Hong Kong and Singapore. For euro-area countries, merchandise trade integration rose over 26 percentage points between 1980 and 2008. The US also became more reliant on the global economy. For the US, the ratio of trade to GDP climbed nearly 7 percentage points between 1980 and 2008. Incidentally, these figures do not take into account trade in services (such as banking, transportation, tourism, consulting, and the like), because services are more difficult to measure. Also, there are gaps in available service data, and delays in tabulating it.

Some of the most rapid integration with world markets involved former Communist countries. In 1970, merchandise trade represented only 5 percent of China's GDP, a decade later 20.1%, and then it surged to 56.7% in 2008. In 1990, Vietnam's trade to GDP ratio was 79.7%; in 2008, 176.4%. With the collapse of the Soviet Empire in Eastern Europe, countries of Central and Eastern Europe joined the global economy. In 1994 Russia's trade with the world amounted to 29.9% of GDP, but, 14 years later, it was 45.8%, comparable to many high-income countries.[17] The Czech Republic, Poland, and the Ukraine conform to this pattern.

Among developing countries the same pattern of growing engagement with the international economy applied generally. Low- and middle-income countries increased their trade dependence from 34.2 percent in 1980 to 55.6 percent in 2008. Some of the most rapid improvement occurred in East Asia and the Pacific where the merchandise trade ratio rose from 35.4 to 65.9 percent. Of course, a few troubled countries in the Caribbean and Africa slid backwards, but these situations appeared to reflect special and temporary circumstances, such as commodity-price fluctuations and internal unrest.[18]

Over the 30-year period, export-led growth – particularly exports of manufactures – enabled emerging nations, such as China and four smaller Asian "tigers" (Hong Kong, Singapore, South Korea, and Taiwan) to thrive in the global economy. These countries lured foreign investors to build factories, transfer technology, use inexpensive local labor, and produce goods for export. The developing countries of Asia saw exports of manufactures rise as a share of their total exports from 60 to 80 percent between 1990 and 2009. Annual GDP growth rates in some areas of Asia exceeded 8 percent, and the region offered an alternative model for developing countries around the world to imitate, one that hinged on active government leadership.[19]

The Asian export-led development strategy succeeded because it targeted the United States and other high-income markets in Western Europe, particularly the United Kingdom. From the mid-1980s both the US and the UK experienced widening, and chronic, deficits, as their consumers absorbed large quantities of goods from Asian countries. British imports of goods from developing countries of East Asia and the Pacific rose from 1% of total imports in 1980 to 10% in 2008. US imports of goods from those countries climbed from 5% of total imports in 1980 to 21% in 2008. For both countries the current account balance (the broadest measure of a country's relationship with the world) turned negative in the mid-1980s and remained negative for more than 20 years.† Between 1980 and 2009, the US experienced a cumulative current account deficit of $7,745 billion, and the UK had a cumulative deficit of $711 billion. Together the two English-speaking nations pumped $8.5 trillion dollars into the global economy. Both borrowed money from abroad to sustain consumption of foreign goods far in excess of their own capacity to produce and sell in the global market. In late 2009, overseas buyers held 28% of British government debt, up from 17% a decade earlier. In the US, foreign holdings of government debt rose from 18.8% of debt holdings in 2000 to 30.4% in 2010, indicating a growing dependence on foreign investors to sustain a high-consumption lifestyle.[20]

Poor, deeply-indebted countries also bought far more from the world than they sold during the 1980–2010 period. According to the World Bank, as a group poor, debt-ridden countries ran a deficit amounting to 11 percent of GDP in 2008. Unlike the two English-speaking nations (the US and the UK), which together account for about 19 percent of world imports, the poor debtors account for a very small share of world trade. Thirty-two of 38 are African. It is an uncomfortable fact that sub-Saharan Africa, with a population of 818 million, is less significant in international trade than Singapore, a city state with a population of only 5 million people.[21]

Large trade surpluses helped a number of other countries to build up currency reserves. Manufacturing powerhouses, like China, Japan, and South Korea, exported far more than they imported, and amassed

† The current account weighs trade in goods and services, plus income from investments and transfer payments (such as worker remittances and pensions). A surplus indicates a country is a creditor to the world, a deficit that it is a debtor.

Table 1.3 Ratio of merchandise trade to gross domestic product (percent)

Country or region	*1970*	*1980*	*1990*	*2000*	*2008*	*2009*
World	20.5	35.1	31.3	40.8	53.1	41.8
High income countries	21.0	35.4	31.3	39.8	52.2	40.5
Australia	23.6	29.4	26.0	32.5	37.3	34.6
Canada	36.0	48.4	43.1	71.9	58.4	48.4
Euro area	31.3	41.9	41.3	61.0	68.2	57.1
France	25.3	36.3	36.2	50.2	46.6	39.4
Germany	30.7	41.4	45.3	55.2	72.4	62.0
Japan	18.5	25.4	17.1	18.4	31.6	22.3
New Zealand	38.3	47.6	42.5	52.8	55.1	39.8
United Kingdom	33.1	41.6	40.3	42.9	41.0	38.4
United States	8.4	17.4	15.8	20.6	24.1	18.8
Low and middle income countries	18.2	34.2	31.7	45.2	55.6	45.0
Least developed countries	–	35.0	29.0	43.9	62.3	52.8
East Asia and the Pacific (developing)	12.2	35.4	47.0	59.5	65.9	51.5
China	5.0	20.1	32.3	39.6	56.7	44.3
Hong Kong	142.7	150.3	217.4	246.4	354.4	–
Indonesia	21.8	42.0	41.5	66.1	52.2	39.1
Malaysia	72.2	95.4	133.4	192.1	160.7	145.7
Philippines	34.1	43.3	47.8	101.2	65.7	52.3
Singapore	211.7	369.8	308.1	293.7	340.3	282.9
South Korea	31.7	62.4	51.1	62.4	92.0	82.5
Thailand	28.3	48.6	65.7	106.7	130.9	108.5
Vietnam	–	–	79.7	96.6	176.4	141.0
Latin America and the Caribbean	19.2	27.3	23.3	35.7	41.1	33.8
Argentina	11.0	24.1	11.6	18.1	39.0	30.7
Brazil	13.2	19.2	11.7	17.7	23.2	18.2
Chile	25.7	38.1	51.1	50.1	75.1	58.8
Mexico	10.9	20.7	32.1	59.5	55.9	53.9
Middle East and North Africa	33.5	48.0	42.4	47.9	65.9	53.5
Egypt	20.2	34.5	36.8	19.9	45.8	36.1
Israel	53.2	70.3	55.0	55.4	63.8	49.8
Saudi Arabia	61.1	84.7	58.6	57.2	90.2	78.0
Turkey	9.0	15.7	23.4	30.9	45.7	39.5
South Asia	8.4	16.9	16.4	24.0	42.7	32.3

(*Continued*)

Table 1.3 (*Continued*)

Country or region	*1970*	*1980*	*1990*	*2000*	*2008*	*2009*
Bangladesh	–	18.5	17.6	32.4	49.3	41.3
India	6.8	12.8	13.1	20.4	42.5	31.5
Pakistan	12.2	33.6	32.6	26.9	38.2	30.5
Sub-Saharan Africa	36.1	57.2	41.9	51.7	64.5	52.3
Ghana	39.2	53.7	35.7	93.3	54.5	52.1
Liberia	104.4	117.9	374.1	177.8	125.3	80.1
Mauritius	–	91.5	106.0	79.6	75.6	66.0
Nigeria	18.3	66.4	67.5	64.6	63.6	52.9
South Africa	40.3	55.9	37.4	44.9	65.6	47.6
Zimbabwe	39.7	42.9	40.7	51.2	–	–
Eastern and Central Europe						
Czech Republic	–	–	83.6*	107.7	133.7	114.9
Poland	–	–	43.9	47.2	71.8	65.4
Russia			29.9**	57.8	45.8	40.2
Ukraine			40.1**	91.3	84.5	75.0

Notes:
* = 1992, ** = 1994
Source: World Bank, *World Development Indicators*, http://databank.worldbank.org/ (accessed January 2011).

large current-account surpluses. They piled up huge holdings of foreign-exchange and reserve assets. By 2010, China had reserves of $2.5 trillion, Japan $1 trillion, and Russia $439 billion. Taiwan ($353 billion) and South Korea ($270 billion) also had large stockpiles of currency reserves.[22]

Transition from manufacturing to services

Another distinctive feature of the 1980–2010 period was the gradual transition of high-income economies away from manufacturing toward services – especially financial and information services. As explained in Chapter 5, futurist Alvin Toffler depicted this shift as a historic move away from smokestack industry to a post-industrial, knowledge-based economy. In a number of high-income countries emerging service sectors generated large numbers of jobs. This was especially so in the United Kingdom where the value of services rose from 56% to 76% of GDP between 1980 and 2007, reflecting the expansion of London as a world financial center. Employment in industry dropped from 37% to 22%, while employment in services rose from 59 to 76% of total employment. In the United States the value of services rose from 64 to 77% of GDP. The percent of employment in industry fell from 31% in 1980 to 21% in 2007, while service employment rose from 66 to 78%. Other major industrial countries mirrored this pattern to a lesser extent. In Germany services rose from 57 to 69% of GDP, and in Japan from 55 to 68%.[23]

Resurgence of financial markets

The resurgence of international financial movements and markets also distinguished the post-1980 period. One way to view this trend is to look at foreign direct investment (FDI), where a company in one country buys or builds a factory or facility in another. Data from the United Nations Conference on Trade and Development, an international institution with 193 members, show that the accumulated inward stock of world FDI soared from 9.8% in 1990 to 32.5% in 2007 before the economic collapse. For developing countries as a group it climbed from 13.6% in 1990 to 30% in 2007, and for developed countries from 9% to 33.3%. While Western Europe and the United States remained attractive to investors, large emerging markets such as China, India, and Brazil captured the lion's share of investment in developing countries. By 2007, investment flows to China increasingly targeted services, high-tech industries, and value-added activities, as multinationals shifted their strategies. Many no longer viewed China as principally a low-cost manufacturing base. Instead, they wanted access to a large, competitive market, and they sought to establish research and development centers.[24]

The growth of global stock exchanges provides another window to financial globalization. In 1990, the value of stocks traded on world stock exchanges equaled 28% of world GDP. Over that decade equity markets internationalized and soared. The value of stocks traded rose to 152% of GDP in 2000 and 184% in 2007 before falling back. In high-income OECD countries, the value of stocks traded as a share of GDP rose from 27% in 1990 to 216% in 2007. Markets in London and New York saw some of the greatest growth. In Britain the value of shares traded rose from 28% of GDP in 1990 to 368% in 2007. In the United States the pattern was similar. From 30% of GDP in 1990, it jumped to 259% in 2007. In Japan, where an economic slowdown cooled speculative trading in 1998, stock trading rose from 53% of GDP in 1990 to 148% in 2007.

Some of the most surprising developments were in former Communist countries, where capitalism revived with a flourish. Stock trading even boomed in Russia. Trading climbed from 8% of Russian GDP in 2000 to 58% in 2007. In China, a country with a mixed economy and Communist political leadership, stock trading leaped from 60% of GDP in 2000 to 230% in 2007. The stock-trading frenzy spread to developing markets around the world, such as Brazil, India, and South Africa. In Brazil stock trading rose from 1% of GDP in 1990 to 16% in 2000 and 46% in 2008. India saw stock trading jump from 7% of GDP in 1990 to 111% in 2000 and 91% in 2008. In South Africa stock trading amounted to 7% of GDP in 1990, 58% in 2000, and 150% by 2007.[25]

Deregulating markets and privatizing government

In the years after 1980, the decisions of governments to deregulate markets, privatize government-owned firms, and cut government spending also buoyed the private sector in many countries. In the US, where President Reagan and other presidents pushed deregulation and privatization, government spending declined from 16.8% of GDP in 1980 to 14.4% in 2000 before rising after the terrorist attacks of 2001 to 16.1% by 2007. In the United Kingdom, government spending dropped from 21.7% of GDP in 1980 to 18.6% in 2000.[26]

Countries in the developing world and East Asia have typically relied on extended family networks for old-age support. Government spending in the poorest countries is typically about 10 percent of GDP. Even in prosperous city states like Hong Kong (8%) and Singapore (11%), the percentage remains low. In emerging giants India (12%) and China (14%), government spending for consumption is a little higher.

Rise of Asia

During the contemporary period millions of new workers entered the global workforce and purchased goods in the marketplace. What is especially distinctive about this period is the acceleration of growth in East Asia, South Asia, and several other emerging countries, such as Brazil, as well as increased international competition in the high-income countries of Western Europe and North America. As world trade expanded rapidly, consumers in high-income countries experienced more choices and greater price competition. Big business in North America and Western Europe awakened to the potential of emerging markets, both for the growth of sales and for cutting costs of production. What management strategist Peter Drucker labeled production-sharing became widespread, as transnational corporations shifted production and later research and development to offshore facilities.

For residents of East Asian developing countries the progress was notable. Led by India, areas of South Asia also began to grow rapidly and embrace the global economy. As a result, the number of people in developing regions living in extreme poverty (defined as less than $1.25 per day in 2005) dropped to 1.4 billion in 2005 as compared with 1.8 billion in 1990. Most of that improvement occurred in China, where improved economic opportunities raised 475 million people from extreme poverty. A large concentration of poor remained in South Asia, where an estimated 600 million live on the equivalent of $1.25 per day. However, in sub-Saharan Africa conditions worsened with 100 million more people added to the ranks of the extremely poor than in 1990.[27]

Increasing volatility and dislocations

Clearly the open global economy did not benefit everyone. It had a down side for many in rich and poor countries. Change brought volatility, uncertainty, and dislocations. Workers who had once produced automobiles, steel, clothing, and shoes in markets insulated from world competition found themselves competing with young, highly-motivated, and relatively low-paid workers from developing countries. Many of the well-paid workers in high-income countries with retirement benefits and health care discovered themselves in a race to the bottom with the world's cheapest labor. Workers in some developing countries had parallel concerns. Family farmers in Korea, Japan, France, and India, among many locations, feared competition from commercial agriculture and the loss of their livelihoods. Inefficient businesses in developing countries opposed concessions on manufacturing tariffs, concerned about the consequences of vigorous competition. They lobbied national governments to resist concessions in multilateral trade negotiations. In Korea militant farmers fought with police and hurled epithets at legislators supportive of free-trade agreements. In France Jose Bove and a crowd of peasant farmers attacked and trashed a McDonald's outlet in 1999 to protest against industrial agriculture and the global trading system. One of the most successful protests occurred in Seattle, Washington, in December 1999 when a broad coalition of activists – consumer advocates, family farmers, trade unionists, environmentalists – disrupted a ministerial of the World Trade Organization. That, and other demonstrations at the annual meetings of the elite World Economic Forum in Davos, Switzerland, appeared to signal a backlash to corporate-led globalization. Polls showed that while ordinary people considered globalization a routine fact of everyday living, there was profound disquiet about the growing gap between rich and poor, the lack of good-paying jobs, and deteriorating working conditions.[28]

Technological revolutions

Another dimension of the global economic transformation involved key technological innovations in transportation and communications. These involved wide-bodied cargo aircraft (the Boeing 747), containers and container ships, satellite communications, fiber-optic lines, cell phones, the internet and personal computers, each of which helped dissolve the barriers of time, distance, and lack of information.

During the twentieth century people, goods, information, and money moved more rapidly across vast distances, as a result of innovations. The arrival of the wide-bodied Boeing 747 in 1969 brought markedly lower operating costs and facilitated the arrival of low-cost mass travel. In 2008, the US ATA reported that the world's airlines carried around 2.3 billion passengers annually, up 207% from 748 million passengers in 1980. More business people and tourists began to travel longer distances, and to visit developing countries. In 1980, 64% of tourists went to Europe, 22% to the Americas, 8% to Asia and the Pacific, 3% to the Middle East, and 3% to Africa. By 2009, Europe (52%) and the Americas (21%) had both lost share, but Asia and the Pacific (21%), the Middle East (6%), and Africa (5%) had gained. The World Tourism Organization reported that the number of tourist arrivals worldwide had climbed from 278.1 million in 1980 to 919 million in 2008, an increase of 230%. China had overtaken Italy as the fourth leading destination for tourists, after France, the US, and Spain. Apparently, tourists had become more interested in the Great Wall than in Roman walls.[29]

Lower jet-travel costs also facilitated air freight and enabled global production chains. A variation of the Boeing 747 produced for cargo service could carry 14 173-cubic-foot containers. In 2008, world airlines transported 40.5 million tons of freight up 265 percent from 11.1 million in 1980.[30]

Other improvements – particularly the development of wide-bodied cargo vessels and containerships – transformed ocean transportation and supported global business activity. Shipping companies, such as Maersk, the world's largest, put in service containerships, like the *Emma Maersk*, nearly 400 meters in length that could carry over 15,000 20-foot equivalent containers (TEU) and speed it along at over 25 knots. The large aluminum and steel containers could be easily loaded and unloaded with automated equipment in eight hours. Until containers arrived the 1960s, the loading process often took a week. It was an expensive and time-consuming process. Containerships could make the trip from China or Malaysia to Los Angeles or other West Coast ports in about two weeks. This fast service enabled merchants to keep smaller inventories, and to replenish them quickly, even using the 24-hour turnaround of jet freighters to restock high-value shipments.[31]

Innovations in communications during this period also expanded connections among people and nations, enhancing the flow of information. The International Telecommunications Union (ITU) estimated that by the end of 2009 there were 4.6 billion mobile phone subscribers around the world covering 90 percent of the world's population, up from 55.5 million in 1995. Cell phone usage increased 37 percent per year compounded.[32]

Similarly, internet usage grew rapidly. The ITU estimated that by the end of 2009 1.8 billion people used the internet, up from 279 million in 1999, a compound increase of over 20 percent annually.[33]

The easy flow of information facilitated business communications and enhanced flows of information among families and friends. It allowed social networking such as Facebook and Skype to connect individuals around the world. The rapid flow of information among individuals had enormous implications. It helped to homogenize tastes, harmonize cultures, and integrate markets in unprecedented ways. It also facilitated cultural diversity, as Chinese expatriates in the Americas retained regular contact with relatives and watched Chinese television. The communications revolution presented a challenge to autocratic regimes that sought to control content and suppress dissent.

One leader had foreseen the power of communications to transform the world. He was former President Ronald Reagan, himself once a radio broadcaster, who understood how information changed lives and expectations. Recognizing the vulnerability of the Soviet Union on this count in the 1980s, he expanded the operations of the Voice of America and Radio Liberty. Reagan knew the power of pictures, and he wanted to show residents of the Soviet Empire that ordinary Americans had cars, good homes, and even swimming pools. In so doing, he fueled discontent in Eastern Europe, hastened the demise of the Soviet Empire, and spurred the revival of market-led globalization.[34]

Conclusion

The period from 1980 to 2010 was an important era of economic transformations and turbulence. As the Cold War faded, and government regulations disappeared, a new market-driven global economy emerged. It was driven by new issues, new technologies, and the emergence of new economic power centers. Around the world living standards improved, life expectancy expanded, and flows of goods, money, people, and information rose sharply. But, as later events would show, late-twentieth century globalization enhanced both gains and vulnerabilities. The rising tide of globalization lifted many boats, and capsized others.