
**Outsights on
the Five Flows
of Globalisation**

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The Five Flows of Globalisation

Introduction

'The extension and use of railroads, steamships, telegraphs, break down nationalities and bring peoples geographically remote into close connection commercially and politically. They make the world one, and capital, like water, tends to a common level.' – David Livingstone reflecting on his journey into Africa in the 1850s¹

Whilst “globalisation” became a vogue word at the end of the last century, the process of globalisation – the integration of economies through markets across frontiers² – is nothing new. What has driven the integration of markets across frontiers throughout history?

Livingstone’s analogy with water is powerful. Globalisation can be considered in much the same way: as the story of five flows – flows of Goods, Capital, People, Information and Services. The smooth flow and combination of these factors has enabled interconnectedness that, since the fall of the Iron Curtain, we have taken for granted. As Livingstone noted, the flows have had a levelling affect – developing, to echo the title of Tom Friedman’s bestseller book, a flat world. Much of the story of globalisation over the coming years will be how the world economy will adjust to the growing influence of the BRIC economies – Brazil, Russia, India and China. The location of production is changing as, increasingly, is the location of services. As the BRIC economies catch up with the more established OECD economies, the playing field is levelling.

There is an implicit assumption that the five flows will continue to run smoothly. But what could slow or even reverse the flows?

There are obvious shocks which would cause all or any of the five flows to go through a period of reversal. War would be one, as proven by both World Wars, the threat of international terrorism another. A health pandemic would have devastating consequences, closing ports, airports and tightened border controls. But even before the onset of any such doomsday scenarios, other barriers may impede the five flows - barriers which, whilst not having the immediate drama of the shocks mentioned, would have a profound impact by creating a closed world.

¹ Nayan Chanda, *Bound together: How Traders, Preachers, Adventurers and Warriors Shaped Globalisation*, (New Haven: Yale University Press, 2007)

² Martin Wolf, “Will globalisation survive?” Third Whitman Lecture, Institute for International Economics, April 5th 2005

The Future of Flow #1: Goods – the Great Imbalance?

The free flow of goods is a core measure of global economic activity. The collapse of free trade in the 1930s represented one of the great globalisation reversals. In the three years following the Wall Street Crash between 1929 to 1932, world trade fell by 70 percent in value terms as restrictive “beggar-thy-neighbour” trade policies became the norm.³ The steady removal of these tariffs since the end of WW2 through the series of trade rounds - from Torquay to Uruguay - represented one of the great successes of the post-war agenda, despite the stalling at Seattle and Doha it may be almost inconceivable to think that the flow of goods will stop. However, there are weaknesses in the system, which, if exposed, could interrupt the flow.

There is a massive flood of goods streaming around the world. With the fall of the Soviet Union and the rapid incorporation of China into the global economy, the available global labour supply has virtually doubled in the last 15 years⁴, providing the developed world with a munificence of cheap products as these producers compete through cheap labour costs. The developed world’s appetite for such cheap goods continues unabated and exports of merchandise goods rose by two-thirds from 2000 to 2005.⁵

The country with the biggest appetite for goods is the United States, becoming what historian Niall Ferguson has called the “consumer of first resort.” China is the country that is only too happy to continue serving up a feast of cheap riches. Between 1999 and 2004, Chinese exports trebled to US\$600 billion.⁶ China and the other emerging economies have benefited from this export-led growth, the US can buy things cheaply. Everyone wins.

But of course goods have to be paid for – by goods and services flowing the other way or in money or credit. Thus there is another story: one of imbalances including possibly one of the biggest financial imbalances the world has ever seen in recent history. The US has run a massive balance of payments deficit and China is running a massive surplus. To understand the magnitude of the imbalance, consider the following statistic: in 2006 the quantity of goods and services that Americans consumed in excess of what America produced was close to the entire output of Brazil.⁷ Is this evidence that global system is under a strain that it cannot bear? Can the “great imbalance” be sustained indefinitely?

³ Rudi Dornbusch, “A Century of Unrivalled Prosperity,” in Ian Vásquez (ed.), *Global Fortune: the stumble and rise of World Capitalism*, (Washington DC: Cato Institute, 2000)

⁴ Richard Freeman, “What really ails Europe (and America): the doubling of the global workforce,” *The Globalist*, June 3rd 2005

⁵ Daniel Altman, “Globalisation story still has a long way to go,” *International Herald Tribune*, January 9th 2007

⁶ Martin Wolf, “Will globalisation survive?” Third Whitman Lecture, Institute for International Economics, April 5th 2005

⁷ Jonathan Shaw, “Debtor Nation: the rising risks of the American dream, on a borrowed dime,” *Harvard Magazine*, July-August 2007

Will any adjustment of the imbalance be gradual, or sudden and disruptive? Economic theory supposes that a gradual rebalancing occurs through exchange rate and wage adjustments – in this case leading to a change in the relative price of goods between the US and China. However this gradual adjustment has yet to happen.

What could lead to a sudden adjustment? Harvard and former IMF economist Kenneth Rogoff outlines a scenario in which a sudden adjustment in the current account leads to a currency shock.⁸ Up to now the rest of the world has supported the imbalance by investing in US stocks, bonds, real estate and other assets, thereby shoring up demand for the US dollar. Any reversal of this would lead to significant dollar depreciation to improve the competitiveness of US exports (by necessity to make up for the loss of inward flows of investment). With the fall of the dollar, Chinese goods would no longer be dirt-cheap. It would only be a matter of time before interest rates went up to curb the inflationary pressures caused by expensive Chinese imports. Interest rate hikes could then bring to an end the era of the US as consumer of first resort and a bursting of the US consumer and personal debt bubbles (and forcing the US individual to start rebuilding their savings again). As the bubbles burst and US Main Street felt the pinch, there would be amplified calls for protectionism to protect US workers.

It would not just be the US who would feel the pain of a currency shock. Asian holders of dollar assets would suffer heavy capital losses in terms of their own currencies and Asian exporters would lose some of their competitiveness in US markets. Such a dramatic reversal and recession could be accompanied by the “beggar-thy-neighbour” trade policies reminiscent of the 1930s. If accompanied by a slowdown of China’s growth, Asian countries whose post-1998 recovery has been fuelled by exports to China could be in trouble.

Protectionist sentiments are already beginning to be voiced more vociferously. Whilst exchange rates have yet to adjust to the level necessary to correct the imbalance, real wage growth has begun to stagnate. Less than four percent of workers in the US were in educational groups that enjoyed increases in mean real earnings from 2000 to 2005. Mean real money earnings rose for workers with doctorate and professional graduate degrees, and fell for all others.⁹ Many of the gains made by Democrats in the 2006 mid-term elections were for candidates standing on a protectionist ticket looking to help the losers from globalisation. Watch this space in the 2008 US Presidential election.

This scenario shows one way that an exchange rate shock, and/or a consumption-saving shock, could be followed by bad policy responses stemming the flow of goods. Adjustments in real wages have already led to calls for greater protection of the losers from globalisation.

⁸ Ibid.

⁹ Kenneth Scheve and Matthew Slaughter, “A new deal for globalisation,” *Foreign Affairs*, July/August 2007

However, how likely are such reactions? Exchange rate crises are nothing new. Just as the US pressured Japan in the 1970s to revalue its currency, so has there been steady pressure on China to revalue the renminbi. There is hope that a rebalancing is beginning to occur at a manageable rate with a growth in US exports as the dollar weakens. Furthermore, as supply chains become more integrated across borders, the chances of going back to protectionism become more remote. Nonetheless there is still a risk that a sudden adjustment could prove unmanageable as the river overflows. The era of “floating” exchange rates has always been rather imperfect.

The Future of Flow #2: Capital – From ‘Made in China’ to ‘Owned by China’?

Since the collapse of the Bretton Woods fixed exchange rate regime in 1971, the freeing of money flows has meant less capital controls. In addition, the boom in foreign direct investment (FDI) has been a classic measure of economic freedom and globalisation. Latest data just published show FDI in and out of OECD countries at the second highest level in history.¹⁰ However with each global economic crisis there are worries that money is too free. The current credit crisis is no different. With the unification of global credit markets credit has become more easily available. As the credit markets become “delocalised” – with debtors no longer borrowing from the local banks – it has become more difficult to tell where risk lies.¹¹ This could lead to demands to a greater regulation of capital flows. Yet there is also another challenge to the free flow of capital. With money and investment comes questions of ownership, and in the future there may be increased sensitivity to overseas ownership of firms.

If the big story of the world economy so far has been “Made in China”, then the future story may well be one of “Owned by China”¹². At the beginning of the 20th Century, when the British Empire was considered the dominant power, the UK was a net exporter of capital. The current incarnation of globalisation is different: there is a flow of funds from emerging economies to the developed world (not only to the US but to Australia and the UK, who also run current account deficits).

Emerging economies are using sovereign wealth funds to invest in developed economies. As the flip side of the great trade imbalances countries such as China have built up large foreign exchange reserves. The Chinese talk of “Zon Chu Qu”, loosely translated as “swarming out”. China has recently announced its intention to launch the China Investment Corporation with US\$200 billion to invest overseas and many other Asian countries are accumulating huge foreign exchange reserves. Resource rich countries have also accumulated foreign currency which they have channelled into sovereign funds. Libya has foreign reserves of US\$66 billion, Algeria has US\$89 billion and oil rich Angola is trying to buy a 55 percent stake in the largest commercial bank of its old colonial master, Portugal.¹³

The amount invested through sovereign wealth funds is forecast to increase dramatically, possibly from US\$2.5 trillion today to an astonishing US\$12 trillion by 2015.¹⁴ How

¹⁰ Hans Christiansen, Andrea Goldstein and Ayse Bertrand, “Trends and recent developments in foreign direct investment,” OECD, June 2007

¹¹ Daniel Altman, “Managing Globalisation,” *International Herald Tribune*, September 19th 2007

¹² Dr Gerard Lyons, Outlook for the Chinese Economy, Standard Chartered, June 1st 2007

¹³ “Fear of Foreigners,” *The Economist*, August 14th 2007

¹⁴ John Willman, “Big Spenders,” *Financial Times*, July 30th 2007

comfortable will the developed world be in having such states wielding their influence in their domestic economies? Predictably, not very.

“These funds have the ability to buy any global company, to create panic in markets if they move too precipitously, even to dwarf the political clout of international financial institutions. They can no longer be ignored,”¹⁵ says Jeffrey E. Garten, former Undersecretary of Commerce for International Trade under the Clinton administration.

There are no global rules requiring all countries to allow the free flow of capital between countries. Hence, the US rebuffed an attempt by CNOOC, the giant Chinese oil firm, to acquire the US firm UNOCAL.¹⁶ Similarly, recent interest from a Chinese technology firm in a US manufacturer of computer disk drives has been met with concern from US government officials. At the crux of the issue is fear about the national security risks of transferring technology to the Chinese.¹⁷ Similarly, the EU is concerned about two state-owned companies – Gazprom, Russia’s state-owned energy monopoly, and the Algerian national gas company Sonatrach – taking advantage of energy liberalisation and investing in EU energy companies. At the same time there is little reciprocity in allowing EU firms to invest in Russian and Algerian energy.¹⁸

The Chinese, and others, may wish to “swarm out”, but will there be increased resistance to China, and others, exerting their influence in the domestic economies of the older powers? Or will the reliance on the West for inward capital flows mean that they will bow to the might of the emerging economies?

Whatever the answer, the smooth flow of capital is in no way guaranteed. It is arguable that the world of open money could be stopped much faster than the flow of goods, given governments’ ability with almost the stroke of a pen to nationalise foreign ownerships or re-impose capital controls.

¹⁵ Jeffrey Garten, “We need rules for sovereign funds,” *Financial Times*, August 8th 2007

¹⁶ Rawi Abdelal and Adam Segal, “Has globalisation passed its peak?” *Foreign Affairs*, January/February 2007

¹⁷ John Markoff, “Chinese company’s interest in US tech firm raises security issues,” *International Herald Tribune*, August 26th 2007

¹⁸ Judy Dempsey, “EU considers adding protectionist measures to energy policy,” *International Herald Tribune*, September 18th 2007

The Future of Flow #3: People – Walls go up?

In the previous large round of globalisation there was a significant flow of people. In the last decade of the 19th Century – the inflow of people into the US was equal to nine percent of the initial population. The importance of the flow of people to the current round of globalisation is no different. Whilst the flow of people is slightly smaller today in proportion – in the last decade of the 20th Century, immigration into the US was equal to about four percent of the initial population¹⁹ – there are both strong push factors and pull factors, not least income gaps (pushing) and demand for labour (pulling). The sheer volume of newspaper headlines on migration demonstrates that this flow is clearly on the agenda. In a world where we welcome the ability to be mobile – but with every society displaying limits to tolerance – will attitudes supporting openness be sustained?

Despite the headlines we are still a long way from the hyper-mobility envisaged by the prophets of globalisation. While there are short-term nomadic workers following work wherever it may be, across borders, in the 1990s overall migration slowed, with the world's stock of migrants growing only 1.3 percent a year, according to data from the International Organisation for Migration. Since then, however, the pace has picked up again to 1.7 percent per annum in the first half of this decade.²⁰ That is not to say that there are not some early indicators of hyper-mobility such as the estimated 200,000 to 300,000 French people living in the UK – making London France's seventh largest city.²¹

Migration is a politically charged subject with tensions over culture clashes and demands to protect the jobs of domestic workers. With the latest round of EU enlargement, barriers were put up by the Union's core members to stop an influx of workers from countries such as Poland, Hungary and Slovakia, and even the more liberal UK imposed new caps on migrants from Romania and Bulgaria on their accession. But can greying OECD members afford to have restrictive migration policies?

The dependency ratio defines the ratio of economically active people to “dependents” i.e. those not in work (children and the retired) that need to be supported by the employed. In ageing European societies the dependency ratio is set to increase. By 2050 half of the population of the European Union's current 25 nations are expected to be older than 50 years.²² Unless there are heroic productivity gains, so that more output can be extracted from the decreasing pool of workers, there will need to be an influx of young workers to support the

¹⁹ Richard Baldwin and Philippe Martin, “Two waves of globalisation: superficial similarities, fundamental differences,” National Bureau of Economic Research Working Paper 6904, www.nber.org, January 1999

²⁰ Daniel Altman, “Globalisation story still has a long way to go,” *International Herald Tribune*, January 9th 2007

²¹ Quentin Peel, “Sarkozy woos French expats in London,” *Financial Times*, January 30th 2007

²² Vaclav Smil, “The next 50 years: unfolding trends,” *Population and Development Review*, December 2005

growing pool of older people – even with retirement ages being extended. A global war for talent may emerge. There are more than twice the number of university educated professionals in developing countries than there are in developed countries,²³ and these professionals could become much sought after across borders.

One of the main drivers of the flow of people is the differential in income growth. Between 1980 and 2002, average per capita income growth in the rich world (defined as the “old” OECD members) was almost two percent, compared to 0.1 percent in the 42 least developed countries.²⁴ This differential in economic growth is also expressed in real wage differentials. Four of the global hotspots for illegal immigration – between the US and Mexico, Spain and Morocco, Greece (and Italy) and the southern Balkans – all display such differentials. Unless free movement of people is allowed, wages will never equalise and this tension will persist.

The uncertainty is whether there will be a loosening of controls on the flow of people (allowing wage equalisation), or whether there will be much more controlled migration. This may not just be through policy tools to manage immigration (encouraging those deemed desirable) but also through physical barriers (for those deemed undesirable). With the enactment of the 2006 Secure Fence Act, the US is planning to build a 700-mile double-layered fence along part of its border with Mexico. Other such fences – physical and metaphorical – may also develop to inhibit the flow of people.

²³ *McKinsey Quarterly*, January 2006

²⁴ Branko Milanovic, “Migration laws may be the end of globalisation,” *The Taipei Times*, August 1st 2006

The Future of Flow #4: Information – the Bordered Internet?

There already exists a borderless, open, globalised world – albeit a virtual world: the Internet. Information flows are free and largely uncontrolled and in theory, it is a perfectly free market. Echoing Livingstone’s remarks about the telegraph, the Internet has been the big new force of globalisation. Up to now this free flow of information has been one of the largest forces behind creating a borderless world, however in the future, it could also be the place where borders get created fastest. Are the days of free and open information numbered?

The protean Internet of the past may be viewed as an untamed state of nature, with the Internet of the future being subject to much more control and regulation. Jack Goldsmith and Tim Wu, authors of *Who Controls the Internet*, predict an increasingly bordered Internet, noting that the Internet is “taking on the characteristics – good and bad – of the governments and the people beneath it in different parts of the world.”²⁵

Germany, France and the UK already require local Internet Service Providers to screen out unwanted content. The “Great Firewall of China” – with 50,000 censors based in Beijing alone – has been described as one of the wonders of the 21st Century by Dr Li Gong, head of Microsoft Messaging in China. Whilst these measures control information flows, an even more extreme way of controlling information flows could emerge in the future: multiple, competing Internets²⁶.

The common Internet standard, used by most of the world, is called Internet Protocol Version 4 (IPv4). However, China has developed its own Internet based on a standard called Internet Protocol Version 6 (IPv6). IPv6 allows Internet addresses (domain names or what appears in the address section of your web browser) in Chinese characters. IPv4 does not allow this. In addition, IPv6 is scarcely used in the West, and may make many parts of the Chinese Internet and the rest of the world mutually unreachable. It also means that China does not have to go through the American Internet body (ICANN) to register web addresses.

Moreover, China’s domestic bandwidth is rapidly outpacing the speed of its international connections leading to a situation where China will soon be like a country with a great internal transport system but with few roads leading in and out. Michael Geist, Research Chair of Internet law at the University of Ottawa, suggests that countries in South America, the Middle East, and other parts of Asia may look to follow China’s lead and create their own Internets too.²⁷

²⁵ Jack Goldsmith and Timothy Wu, “Digital Borders,” *Legal Affairs*, January/February 2006

²⁶ Kerry Brown, “Changed by China,” *The World Today*, April 2007

²⁷ Michael Geist, “China and the break-up of the net,” *BBC News*, March 7th 2007

Security concerns may also drive to greater regulation of the Internet. Viruses are being programmed to attack specific network destinations by seeking to attack them again and again. Estonia experienced such a “distributed denial of server” attack in April and May of this year. In a country where you can pay for your parking meter via cell phone, access free Wi-Fi at every gas station and vote in national elections from your PC, it is easy to see how what has been dubbed “Cyberwar I” caused mass panic. A particularly worrying aspect of the attack is that the assailants did not need to purchase any expensive weaponry. Instead they could operate on a shoestring budget.²⁸

The threat is not limited to those with (or without) a budget. States are developing their “knowledge warfare” capabilities. The US armed forces have expressed concern at China’s policy of creating “informationised armed forces”. The Chinese have set themselves the target of building a cyber army which could win an information war by 2050 and already stand accused of attacking Pentagon email systems.²⁹

Rather than the physical border collapsing to mirror the borderless virtual world, borders in the virtual world may increasingly mirror state borders. In the future there is uncertainty over whether information flows will remain as free as we have come to expect, as governments look to enforce more control over the frontiers of the Internet in an effort to regulate and protect information flows. Will the nation state rebuild in the virtual world?

²⁸ Cyrus Farivar, “Cyberwar I”, *Slate*, May 22nd 2007

²⁹ Ed Pilkington and Bobbie Johnson, “China flexes muscles of its ‘informationised’ army,” *The Guardian*, September 5th 2007

The Future of Flow #5: Services – No Longer Personal?

The flow of services between countries is essentially a combination of the previous two flows: Information and People. Yet the flow of services has lagged behind the other flows. Economic textbooks have long stated that services remain largely untradable. Things which you can put in a box are tradable, those things which you cannot, are untradable; you can export fruit, you cannot export a haircut. But with developments in communications technology, and improved information flows, outsourcing (moving company functions from internal departments to external firms) and offshoring (relocating corporate activities overseas) have become much easier. Is the haircut far behind?

India is the global leader in the provision of business process outsourcing (BPO), tasks such as accounting, IT and payroll. “Booming Bangalore” is home to several dynamic Indian companies now challenging Western multinationals in the BPO markets. India exports US\$25 billion per year worth of these services, a figure that is expected to rise to US\$60 billion.³⁰ The flow of services continues even further with India now outsourcing its outsourcing – giant IT firms Infosys, Wipro and TCS are building “outsourcing campuses” in China, Vietnam and Romania to cope with demand.

With cheaper and easier travel – perhaps not yet enabling people to fly to India just for a haircut – in 2005 150,000 medical tourists flew to India to have procedures from liposuction to open-heart surgery. It is unsurprising that people are increasingly prepared to make the long journey to jump the queue, make a saving of 95 percent on domestic prices and often for higher quality services. This trend is set to become further entrenched as deals involving UK health insurers flying customers to India for treatment are expected soon.³¹

But despite a lot of noise about the emergence of new players on the services scene, services remain largely untradable. In 2004, services represented 69 percent of world GDP, and 72 percent of the total workforce of OECD countries. Yet trade in services accounts for only one fifth of world trade.³² Some economists suggest that one reason contributing to the great imbalance between the US and China and other emerging markets, is that services are not tradable.

Services are harder to trade than goods because they require face-to-face relationships. For example, with the high level of trust involved in psychotherapy it is unlikely people would attend therapy sessions over the phone with a centre abroad (though of course we are

³⁰ Steve Schifferes, “Multinationals lead India’s IT revolution,” BBC News, January 24th 2007

³¹ Siddhartha Deb, “We’re all Indians now,” *The Observer*, November 26th 2006

³² “Trade in services: New horizons for globalisation,” *The CEPII Newsletter*, No. 33, 2nd Quarter 2007

familiar with telephone counselling help lines and e-conferencing is steadily improving). But improved information and people flows have gone some way to address the old economy need for face-to-face relationships. In a world in which surgery has been performed by robots controlled by doctors via fibre optic cables, it is not improbable to conceive of medical procedures being performed by doctors overseas. Similarly, the success of Apple's iTunes university lectures hints at a future in which university education could be outsourced. The personal is increasingly becoming impersonal.³³

Instead, political barriers remain the main issue. If there were a 50 percent reduction in the obstacles in the trade in services, welfare gains from trade would double for the world.³⁴ The Doha trade talks have failed to address the removal of barriers to trade in services. But this may not be the fault of the talks. Rather, most services commitments require a sophisticated regulatory apparatus. Up to half of the WTO's members are ill equipped to implement such obligations. Even a genuinely ambitious WTO services agreement would raise sensitive questions – such as cross-border labour flows for rich countries and investment policy for developing countries – that few governments are willing to confront.³⁵

In the absence of such reform, we could be heading towards a future where there the flow of services could slow or even reverse. As wages begin to equalise there could be a reversal of offshoring and outsourcing. Why offshore to India when you could keep your business onshore for a similar price? The rising cost of paying engineers in Bangalore has prompted at least one Silicon Valley start-up to save money by closing its Indian engineering centre and moving jobs back to California.³⁶

There is great uncertainty around how smooth the flow of services will be in the future. Will the personal become increasingly impersonal? If services became tradable the great imbalance could adjust but there is also evidence to suggest that the flow of services may not become freer.

³³ Alan Blinder, "Offshoring: The next industrial revolution," *Foreign Affairs*, March/April 2006

³⁴ Yvan Decreux and Linonel Fontagné, "A quantitative assessment of the outcome of the Doha development," *CEPII Working Paper No. 2006-10* (2006)

³⁵ Charlene Barshefsky, "With or without Doha," *Foreign Affairs*, December 2005

³⁶ Richard Waters, "Bangalore wages spur 'reverse offshoring'," *Financial Times*, June 5th 2007

The flows slow. Or will they accelerate?

This study of the five flows has been one-sided in entertaining the possibility that the flows will slow, challenging much of the conventional wisdom of today. On the other side, a future of much faster flows can also be envisaged, creating a far more open world.

Good and Services As global supply chains become ever more integrated the flow of goods around the world could increase even more. Economists refer to the “great unbundling” and “trade in tasks”. Different components are increasingly made in different locations, and then assembled in yet another location to make the finished product.³⁷ In a world in which the Intellectual Property for the components that make up Apple’s iPod is owned by companies in Taiwan, Japan, the UK, the US, and Korea, it is hard to see the flow slowing.³⁸ Add to this a world in which technology depersonalises services – the world in which a doctor can operate on a patient half the world away using a robot – and the flow of trade could get faster and faster.

Capital Capital may become increasingly footloose as the question of ownership becomes considered a 20th Century concern. Economies usually welcome investment from wherever it may come from, not unlike the global “hub” of the City of London today.

People The necessity of replenishing the ageing workforces in the older OECD countries could mean that social tensions are overcome, out of necessity, with an acceleration of the flow of people.

Information The Internet utopians’ dream of “information being free” could become an ever increasing reality with more relaxed Intellectual Property regimes; a future signalled at by the availability of free content on YouTube.

³⁷ “The Great Unbundling: Does economics need a new theory of offshoring?”, *The Economist*, January 18th 2007

³⁸ Andrew Leonard, “Remember the iPod,” *Salon.com*, June 28th 2007

Do borders still matter?

During the 1990s governments worried that their power was being eroded by multinational companies. As the five flows moved increasingly freely across borders, borders would become less important. *A fortiori*, in the future the nation state would not be important. However, this survey of the five flows suggest that the actions of governments remain important. It is consistent across all five flows that their future is bound to policy responses of individual nation states.

Running throughout the story of the flows is the subplot of how the BRICs and other emerging economies are incorporated into the global economy. Up to this point, they have been a driving force behind the increased magnitude of the flows. However, in the future there will be challenges. The global economic system is changing as the emergence of the BRICs has increased the global supply of labour. This is reflected in the great imbalance. Will this place the economic system under too much strain?

Will trade remain free? It is a moot point how free trade is today, with the US and the EU continuing to protect their farmers. The stalling of the Doha round of trade talks could signal a future in which bilateralism replaces multilateralism. The WTO acts as a court adjudicating on concerns other than pure economics, an arena in which conflicts on environmental, human rights and “fair trade” issues are played out. Considerations other than economics may hamper the flows.

There are also strong socio-political forces at work, in the themes of whether countries will be comfortable with increased foreign ownership of their assets, or welcome immigrant labour and skills. Overall, there is a fear that the older OECD countries will react with protectionist measures as their economic predominance comes under threat: the world will become more closed. And it may not just be the older economic powers’ response which leads to a closing down. China is doing all it can to enforce borders on the Internet and control the flow of information.

To close by returning to Livingstone’s metaphor: consider how man has controlled the flow of water through time. Rivers used to flow freely. Then from the Hoover Dam onwards there has been a boom in dam building. Few major rivers remain undammed. Arguably, this policy has been a failure, not delivering on promises, upsetting eco-systems and destroying people’s livelihoods, with dams themselves finally silting up. On the other hand, the flourishing of many societies in history has hinged on their ability to effectively manage water and irrigate land to support food production. Flows happen for a reason: a balance needs be struck in the management of flows. In the same way that it is rare that rivers flow uphill, it is unlikely that the five flows will reverse entirely. However, the flows need careful management, and how well governments will meet the challenge is an important question for the 21st Century.

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insights from the outside

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