

globalisation: the view to 2025

Alasdair Keith



outsights
insights from the outside

contents

Executive summary	Page 02
The flow of goods	Page 03
The flow of capital	Page 05
The flow of people	Page 07
The flow of information	Page 08
The flow of services	Page 09
Conclusion	Page 10

executive summary

Generally we think of globalisation as synonymous with openness. Yet globalisation has always been subject to controls. The questions are: what controls and enforced by whom?

10 features of globalisation in the future stand out:

- 1 The history of globalisation has always been one of punctuated equilibrium. Flows speed up and then, due to the changes they wrought, slow down as the dust settles and more controls are put on the flows.
- 2 In coming years the flow of commodities will become a dominant story. Who controls this flow will reflect the changing balance of global power with emerging economic powers exerting as much control as the OECD economies.
- 3 Whilst current fears in OECD countries focus on deflationary pressures, resource constraints and the control of resources will unleash inflationary pressures. Whilst the rise of emerging economic powers has up to now been for the most part disinflationary, this is likely to reverse.
- 4 The free flow of capital is a common feature of financial crises, and is not necessarily an unalloyed good. At present we can expect flows of capital to be subject to greater control.
- 5 After years of becoming more transactions-based, finance will be subject to two forces in the other direction, towards being more relationship-based; State-based capitalism and localisation.
- 6 By 2015 the number of people moving into retirement in OECD countries will exceed cohorts entering the workforce. Migration will be a means of redressing this balance.
- 7 In recent memory immigration has been a big issue for OECD countries. In coming years, emigration will be as important, as emerging economic powers become an attractive location for economic migrants. In OECD countries there will be controls to attract highly skilled workers, whilst limiting the influx of low-skilled workers.
- 8 Currently, the net import of manufactured goods into OECD economies from emerging economic powers has outweighed the export of services from OECD economies.
- 9 An increase in the export of services from OECD economies will be a source of competitive advantage. There is an opportunity for OECD economies to build on their expertise in providing health and education services to be exported overseas.
- 10 The free flow of information was another important aspect of globalisation in the last 15 years. The next 15 years, as the Internet grows up, will look very different: there will be a greater control of information as new business models are created.

the Great Recession has marked the end of an era: 15 years of the world becoming more globalised. What will replace it?

Whilst globalisation is not about to reverse, the liberal economic ideology of the US is no longer going to predominate as China and other emerging economic powers assume greater influence in shaping the world.

This will have profound implications for business. Whilst China, India and Brazil are the largest of the emerging economic powers, the likes of Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, and Vietnam also have an important role to play.

Dividing globalisation into five constituent parts, or five flows – of goods, capital, people, information and services – proves not only to be a useful rear-mirror through which to view the last 15 years, but also a powerful lens to help see where we are heading in the next 15. In doing so a Scenario emerges out to 2025 in which it is apparent that the globalised world will look very different. In some instances greater control will be placed on the flows, and who is doing the controlling will change. In short, power will shift.

the flow of goods – what's changed?

An explosion of free flowing goods was an obvious feature of the last round of globalisation. With the incorporation of the former Soviet countries and China into the world economy, the global labour force by some estimates doubled, and with this came a munificence of cheap goods for the developed world to consume. This period was marked by the rise of the World Trade Organisation, formed in 1995 to govern world trade.

Yet whilst the trade of manufactured goods boomed, the Uruguay Trade Round which ran from 1995 to 2000 – though endeavouring to encourage a greater trade in services and agriculture – highlighted the tensions between the OECD economies and the rest of world. One significant area of contention is the claim that OECD economies protect their domestic agriculture producers preventing the establishment of an even playing field.

The explosion of the trade in goods had immediately apparent effects. Between 1990 and the eve of the financial crisis the total value of goods traded trebled, a rate of double the growth of global GDP. Think about how the high street experience changed for the shoppers in OECD countries. The period saw the rise of cheap clothes stores with a quick turnover of cheap clothes knocking off high-end fashion trends. Similarly, it was also an era in which mobile technology gained in mass appeal rather than being viewed as a novelty, as it had been in the 1980s. As consumer electronics fell in price, gadgets became more affordable, with mobile phones and then iPods and the like becoming commonplace.

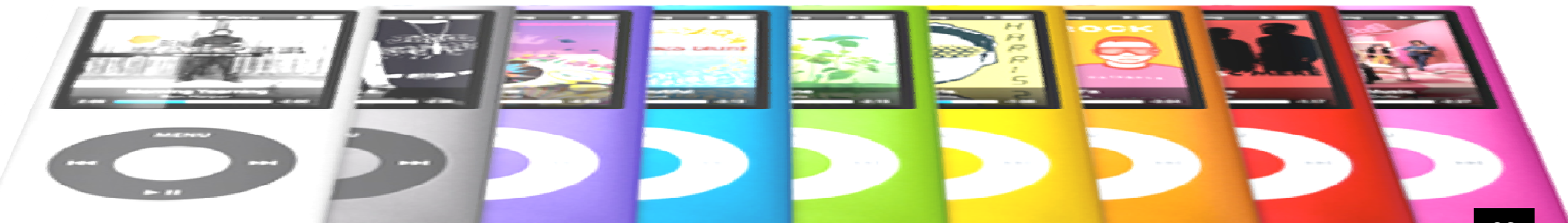
In the US the rise of China, “the Factory to the World”, was met with complaints that domestic manufacturing jobs were being destroyed. This was not the only market which was disrupted: China threatened to put the household burglar out of business. Why risk breaking into a house to take a DVD player when you can get one at Tesco for £15? The payoff is paltry. Research from the criminology department of the University of Leicester found that globalisation changed the economics of crime, resulting in a fall in household burglaries. As with other economic activities, globalisation resulted in a shift in criminal activity. Muggings rose as mobile devices maintained their value and attractiveness to thieves.

Less immediately obvious but equally, if not more, important, is that cheap manufactured goods help explain the era of low inflation that was a hallmark of the period. At the time policymakers were keen to attribute low inflation to independent central banks’ credible targeting of inflation. Workers’ inflationary expectations were kept in hand and the devastating wage-price spiral of the 1970s was avoided. Some even went as far to talk about the “death of inflation”. With hindsight it is recognised that importing cheap manufactured goods played a much larger part than previously attributed in keeping interest rates and inflation low. Money was cheap which helped fuel the excesses of the boom years in the financial sector. This ended abruptly with the credit crunch which preceded the Great Recession.

It wasn't just the macroeconomic environment that changed; throughout history the flow of goods has reflected changes in global power. Between 1400 and the middle of the 17th Century, the Netherlands was the preeminent global trading force. This helped it to become the most dynamic economy in Europe. But by the 18th Century it lost its supremacy as two new rivals, England and France, greatly increased their maritime strength. Between 1700 and 1820, UK exports rose more than sevenfold, and French exports almost threefold. During the same period Dutch per capita income fell by a sixth, whilst British per capita income rose by 50% and the French by 25%.

Similarly today, the changing patterns of trade are indicative of the rise of China and the relative decline of the US. Over the period 1999 to 2009, the US share of global trade in goods fell from 12% to 8%. Over the same period the total number of goods exported by China rose by a factor of six, which led to an increase of its share of total goods traded globally from 3% to 10%. Per capita income growth in the US increased by 40% over the period, whereas China saw per capita income triple. US economic ascendancy will not last. This year the US economy is about three times the size of its nearest rival, China.

By 2020 the Chinese economy is forecast to be 75% the size of the US economy and between 2020 and 2030 it is forecast that it will overtake the US economy in size.



how the flow of goods will shape the future

The flow of goods explains much about our recent history but what does it tell us about the shape of the global economy to come? At the start of the current recession, there were fears that actions by governments would halt the free flow of goods. That there would be a knee-jerk reaction from the US, threatened by China's rise, which would trigger beggar-thy-neighbour tariffs as occurred during the depression of the 1930s. These fears have yet to materialise, in part because modern supply chains are so integrated. The iPod is symbolic of globalised production lines: it is a US product assembled in China; two of the main components are a hard drive manufactured in Korea, by Toshiba, a Japanese company, and a chip supplied by Broadcom, a US company, which is manufactured in Taiwan.

The dominant story in coming years may not be the flow of manufactured goods but instead the flow of commodities. Trade in commodities has never been anywhere near as liberalised as manufactured goods. Consider just two examples. In agriculture, domestic suppliers often get favourable subsidies – the Common Agricultural Policy in the EU is a case in point. Similarly OPEC sets global oil prices, which means that price is not set by the law of supply and demand in the same way as manufactured goods. In future the flow of commodities will be further restricted as demand outstrips supply.

In 2007, prior to the financial crisis taking hold, there was a spike in the price of commodities, including a related spike in the price of food and oil (high energy prices fed into the cost of producing and transporting food). Between 2005 and 2007 the price of rice, wheat, corn, barley, cattle and pork increased by more than 30%. By 2008 oil peaked at a record US\$147 per barrel.

Whilst economists engaged in heated debate about the exact forces which led to spiralling prices, one undeniable fact was that increased global demand, fuelled by the emerging economic powers, drove prices up. The Great Recession has dampened global demand so the issue has

fallen down the agenda but as the emerging economic powers continue on their growth trajectories, it is once more becoming important.

In the next 15 years the more controlled flow of commodities will become more apparent as a driving force.

There are fears that there will be a supply crunch as output will not match demand. Christophe de Margerie, the CEO of Total – the fifth largest publicly-traded integrated international oil and gas company – fears that this will happen by 2014/15. His concern is echoed by a recent report by Lloyd's Insurance Market and Chatham House, international affairs think tanks, which have warned that the UK needs to be ready for disrupted energy supplies due to the growth in demand in China and India, constraints on production caused by the recent Deepwater oil spill and political moves to cut CO₂ to halt global warming.

Commodities which are not yet household names but which make their way into our homes nevertheless are also under pressure. Rare earths are vital for the manufacture of consumer electronics and clean technologies such as solar panels and electric cars and in many cases there are no known synthetic alternatives. Given this, there is a surprising amount of uncertainty to the total annual global consumption of rare earths and the overall stock in the ground. Indium and hafnium, which are used in the manufacture of computer chips, could be completely exhausted by 2017. China is naturally endowed with an abundance of rare earths and in some case has near monopoly on their supply. This is of strategic importance.

In 1992, Deng Xiaoping – then ruler of the Chinese Communist Party – said: “There is oil in the Middle East;

there is rare earth in China”. It is thought that China is stockpiling reserves to control the market and promote its own consumer electronics and clean tech industries.

Similarly as China and other economies in the Asia Pacific region consume more oil, one can expect them to extend their influence into energy markets. The reserves of oil in Eurasia and its proximity to both the EU and China mean that this area will be an area of strategic importance. There is credence to those who invoke the spirit of Halford Mackinder, an eminent geographer at the turn of the last century, who in the aftermath of the First World War suggested that those who controlled the Eurasian heartland would control the world. China's increased presence in the African continent makes perfect sense in an effort to shore up food and mineral supplies.

In the past 15 years, manufactured goods have flown freely. OECD economies imported cheaper goods, and enjoyed the disinflationary pressures as goods were manufactured overseas in countries with lower unit labour costs. This contributed to rising living standards and enabled a lower rate of unemployment without unleashing inflationary pressures. At the same time by following the flow of goods, a changing global balance of power was signalled – notably with the rise of China – as has always been the case throughout history. The free flow of manufactured goods has been dominant in the story of globalisation. In the next 15 years the more controlled flow of commodities will become more apparent as a driving force. Who controls the commodities will reflect the changing balance of global power, with emerging economic powers trying to exert as much control as the OECD economies.

Whilst current fears in OECD countries focus on the risk of deflationary pressures, resource constraints and the control of resources will unleash inflationary pressures. Whilst the rise of emerging economic powers has up to now been mostly disinflationary, in future this will reverse.

the flow of capital – what’s changed?

Most economists agree that the free flow of goods is a positive thing which raises the long-run potential growth rate for the global economy. Whether the free flow of capital is a good thing, however, remains more contentious. During the 1990s Washington Consensus prevailed in which the IMF and World Bank encouraged developing nations to liberalise their economies, including capital flows. The Bretton Woods system, which emerged from the Bretton Woods conference in 1944, shaped the global economy in the post-war era up until the 1970s.

Capital controls and fixed exchange rates were designed to lead to global economic stability. However, tying currencies to the gold standard provided limited policy flexibility and the system came under stress, in particular as the US accumulated an unsustainable balance of payments deficit. The system did not survive the tumultuous OPEC oil price shocks of the 1970s. In the early 1980s, the Conservative Government in the UK liberalised capital controls – the amount of foreign currency which could enter and leave the country was no longer restricted. This formed part of Big Bang – the liberalisation of financial markets in London – which saw the explosive growth of the City as the dynamo in the UK economy. The past 60 years have seen orthodoxy change from a belief that capital controls are best, to a belief encapsulated in Big Bang and the Washington Consensus, that free flowing capital is better.

Taking a longer view of the flow of capital, Ken Rogoff and Carmen Reinhart, authors of a masterful study of 800 years of credit crises, highlight free capital flows as an important feature of financial crises, including the credit crunch. They conclude that, “periods of high international capital mobility have repeatedly produced international banking crises”. So, whilst fixed exchange rates caused problems, high capital mobility is not without risks. How has the free flow of capital shaped recent economic history? Returning to the flow of goods for a moment, as

the number of Chinese exports mushroomed the trade imbalance between China and the US grew ever larger. This translated into a large current account imbalance. The Chinese reinvested the dollars they earned through trade in US Treasury Bills: the US bought Chinese goods, the Chinese bought US Treasury Bills.

The free flow of capital led to the imbalance problem with “surplus” countries accumulating large savings – a macroeconomic issue. Chinese savings were recycled into the US and UK financial sectors; a necessary condition for households and the banking sectors to become highly leveraged. In this way a Macroeconomic problem became a microeconomic problem as markets became distorted.

High leverage among households drove the housing bubble. High leverage in the banking sector allowed more and more money to be invested in innovative new financial products, such as securitised mortgages. When the US housing bubble burst the securitised mortgages were not worth as much as previously thought – which lay at the heart of the subprime crisis that triggered the Credit Crunch. Risk was fatally mispriced. The financial sector no longer had confidence that assets hitherto regarded as safe were safe, and credit markets froze up.

A common view of the Credit Crunch is that greedy bankers, unfettered by regulation, treated financial markets as the world’s largest casino using the cheap money to fuel their gambling addiction. Greed and lax regulation certainly magnified the problems but they do not tell the whole story. A more nuanced telling of the story sees investors in OECD countries searching for

yield. With technology not driving growth as much as hoped for, and societies beginning to take the strain of aging populations, OECD economies needed to look elsewhere for returns.

In financial parlance there was a *search for yield*: low risk, high return investment opportunities.



how the flow of capital will shape the future

In the face of the Credit Crunch governments stepped in as the consumer of last resort, deploying Keynesian pump-priming policies in a bid to stave off a repeat of the Depression of the 1930s. This has led to a significant expansion in OECD countries' national debt, which now threatens the free flow of funds. Fears of the debt becoming unmanageable have led to a rash of austerity measures, agreed by the leaders of the G20 countries.

Taking the long view, economic historians are keen to point out that national debts have been much larger. The UK's debt is currently at around 70%. However, at the end of the Napoleonic Wars in 1815 it was at a staggering 250%. Yet there are important differences. The 1815 debt was fuelled by war spending, whereas the current debt is the largest in peace time.

The debt in the 19th Century could be repaid through the dynamic growth of the Industrial Revolution and increased taxation, especially of Britain's colonial subjects, to avoid domestic unrest.

Rather than being fuelled by war spending, the debt today has been fuelled by borrowing against future growth prospects, growth prospects which could well have been overestimated. In the case of subprime mortgages, the value of the US housing stock did not continue growing in the way that was forecast. A large part of the UK debt is caused by a structural deficit. Or in other words, long-run trend growth was overstated, so there is a bigger shortfall in tax revenue over the economic cycle than previously forecast.

Not only are there important differences in the causes of the debt, but the mechanisms for funding it are different. International capital markets exist in a way that they did not in the 1800s. The UK no longer has an Empire to help it repay its debt. The UK therefore has to look to international capital markets to fund its debt and the markets are less willing to support as high a national debt. The national debt might look modest in historical perspective but against anticipated future

growth potential it begins to look less benign.

During the 1800s the UK State successfully reduced its spending from 23% of GDP in 1810 to 8% of GDP in 1890. Currently State spending in the UK stands close to 43% of national incomes.

Where does this leave future capital flows? At one and the same time, we could see more investment from the emerging economic powers (the high growth countries of the future) into the OECD economies (the more sluggish growth countries of the future), and more localised investment. Whilst, prior to the crisis there had been great unease at the flow of investment capital into the OECD economies from Sovereign Wealth Funds looking to invest emerging economic powers' wealth, the current economic reality means that there may be little choice.

This reflects a globalisation of a different hue. Ian Bremmer, a political scientist commenting on the global scene has posited that these sovereign wealth funds are dictated by the logic of State Capitalism rather than the logic of the free market which informs investment decisions of private companies. Or in other words, investment decisions may take into account political considerations over and above considerations of purely economic decision making. Whilst funds may flow freely there are some big holders of funds at work exercising power.

The flow of capital may also become local. The confluence

of two trends could lead to more localised investment. One aspect of the credit crunch was that risk had become delocalised. As Raghuran Rajan, a financial economist based at the University of Chicago, observed, "You don't borrow from your neighbourhood bank anymore, you don't deposit in your neighbourhood bank. You invest more widely, and you invest through a group of intermediaries." Thus the fate of Norwegian municipal pension funds became inextricably linked with the fortunes of the housing market in the American Midwest. There may well be an appetite to re-localise risk.

At the same time deficit reduction plans look to scale back State spending. During the 1800s the UK State successfully reduced its spending from 23% of GDP in 1810 to 8% of GDP in 1890. Currently State spending in the UK stands close to 43% of national incomes. The reduction of spending during the 1800s did not usher in an era of laissez-faire capitalism, but instead something possibly closer to the Big Society proposed by the Conservative Party in the UK today. In finance this was a world of mutual saving societies and municipal bonds.

Today, distressed assets on the balance sheets of incumbents in the banking sector make the barriers to entry for new players lower than they were previously. More local models of finance could develop.

Historically, banking has been relationship-based – think of meeting with the bank manager to get an approval for a mortgage. But since Big Bang in the 1980s it has become more and more transaction-based. However, the move away from relationships has coincided with greater risk mismanagement. By localising the flow of capital, finance could once again become more relationship-based.

Both the trend towards sovereign wealth funds and localisation would mark a departure from the transaction-based finance of recent years, where economic efficiency has been the only consideration in the flow of funds.

the flow of people – what's changed?

The flow of people is contentious amongst electorates and has aroused political passions in a way that the flow of capital has not. One of the defining moments in the recent UK General Election was Gordon Brown's off camera comments, with his microphone still on, about a woman who voiced concerns about migration into the UK.

During the boom years open people flows were an element of globalisation that electorates for the most part would tolerate. A period of increased mobility was a feature of many economies. Cheap flights and improved communications technology to phone and wire back money home created, what Professor Steve Vertovic, a specialist in immigration, described as hypermobility. People could temporarily migrate for short spells before returning home. In the UK, the poster child for this hypermobility was the Polish plumber.

But the flow of people was not one way. The Institute for Public Policy Research, the UK think tank, described the UK's borders during the last decade as a revolving turnstile. There were levels of emigration of UK citizens as high as the late 1950s and early 1960s when "£10 Poms" left to start a new life in Australia on a cheap one-way ticket. During the last decade there were 41 countries with more than 10,000 Britons living there, with 50% of Britons leaving for just four countries: Australia, New Zealand, France and Spain.

The assumption that older nations will remain as attractive destinations for skilled labour should not go unchallenged.

www.outrights.co.uk



how the flow of people will shape the future

With the Great Recession the tides are turning. For the first time larger numbers of migrants from the A8 – the eight Eastern European countries that joined the EU in 2004 – are leaving the UK than those entering. In part this is caused by unemployment. Immigrants tend to be harder hit than native born workers as they often do not have as secure contractual arrangements. Furthermore, a weaker Sterling means that remittances are worth less.

Economic migration is not a one way trend. Bangalore has seen a reverse diaspora with more than 50,000 IT professionals born overseas attracted back to work in the past five years. With differing economic performance between regions this trend may increase as global competition for skills and labour intensifies between the OECD economies and the emerging economic powers. The assumption that older nations will remain as attractive destinations for skilled labour should not go unchallenged.

The future challenge may not be managing immigration but instead managing emigration. Migration is driven by push and pull factors. Whilst push factors – such as climate change and political insecurity overseas – mean that the UK will remain an attractive destination for immigrants, the economic pull factors may not be as attractive. Indeed, the favourable economic performance of emerging economic powers could make these honey pots for people currently living in the UK. This is already

happening in Ireland: in a reversal of its economic miracle, it is reported that 5,000 young people are leaving every month to look for jobs overseas. Hence, we see a UK policy that wants to attract people but control the inflow of low-skilled people.

By 2015 persons moving into retirement in OECD countries will exceed cohorts entering the workforce, a phenomenon which will continue. Whilst the issue of declining labour forces can be addressed through the use of technology, greater reliance on outsourcing, and a greater mobilisation of the domestic labour supply, migration can also help to address the challenges of strained dependency ratios.

A study of migration patterns within Europe over the period 1980-2004 found that out of three variables, only unemployment had an effect on immigration rates (the other two being GDP per capita and social expenditure).

The effect was found to be negative: low unemployment figures seem to attract migrants. People flows primarily seem to function as a mechanism to restore imbalances in the labour market. We are currently seeing a slowdown in net emigration as unemployment rises. But by placing more restrictive migration policies today, it becomes harder to take advantage of immigration when growth resumes. If the challenge in the future is attracting workers as net migration reverses, attractive migration policies become all the more important.

the flow of information – what's changed?

In the 1990s, and the first half on the noughties, it was not just the flow of goods and capital which embodied the liberal economic philosophy of the US but also information, which flowed ever more freely and at ever increasing volumes, thanks to the Internet. The pioneers of the Internet – such as the Electronic Freedom Foundation – promulgated a certain West Coast libertarian philosophy. The Internet was a place where a frontier mentality predominated and you were free from interference from anyone.

One rallying cry which summed up the mood was provided by futurist Stewart Brand. He boldly declared, "Information wants to be free". But as many are beginning to point out, including the likes of *The Atlantic* magazine recently, maybe information no longer wants to be free. What was drowned out in the cacophony of cheerleading for the freedom of information was Brand's next point: that a dichotomy exists, "information wants to be expensive, because in an Information Age, nothing is so valuable as the right information at the right time."

Many are beginning to point out that maybe, information no longer wants to be free.

In the information and communications technology world people use the analogy of Walled Gardens to describe platform owners – such as mobile operators – controlling access to content. The convention is that trying to control information on the Internet through large Walled Gardens does not work. With the Internet, rather than putting wall around a garden, you are trying to wall a savannah. The savannah is too big, and too unruly to wall. Users can always go elsewhere to get their content. AOL is a held up as the classic example of company who could not get their arms around the sprawling mess of the Internet. AOL looked

to order the Internet's information for Americans in return for a subscription charge. It was blown out of the water by other access points. Notably search engines. And notably Google, which offered its search for free.

Google has a business model built around free information – targeted advertising – but traditional content owners have not done as well in alighting on a business model which can be described as a success. Many gurus pointed to the central organising principle of the Internet was free – "*freeconomics*" – as Chris Anderson, editor of *Wired*, the tech magazine would have it. The Internet is a network and the value of any network is exponentially related to the number of users – Metcalfe's Law. Therefore, on the Internet you have to give stuff away for free. However, content is not necessarily subject to the same rules as the network.

how the flow of information will shape the future

Relatively niche, specialist content has been put behind a paywall. Small walled gardens work. The *FT*, the *Economist* and the *Wall Street Journal* have all successfully pursued this strategy, to a degree (although many readers can pick up the cost through their business subscription). A mass newspaper has not successfully been able to get readers to pay for their content. Readers have plenty of choice online.

The New York Times had to renege on a business model which put some content behind a paywall. The conventional wisdom is that consumers online expect content to be free. Yet the same was said for music. Why would anyone buy music from Apple's iTunes if it was available for free elsewhere? Yet people do because it is easy to. With other forms of content, there is a collective action problem.

Newspapers will not charge for content as people will go to another site where they can get their news for free. Yet all online newspapers would be better off if they could supplement online advertising revenues with subscriptions. Currently an experiment is under way in the UK where Rupert Murdoch's News International has put the content of the Times and the Sunday Times behind a paywall.

Will this work? Fundamentally it abnegates one important feature of the Web: the "link" culture. This denies the social nature of the Internet. To view an article a friend recommends, you have to buy access to the whole site. This is a bit like having to buy the whole album on iTunes rather than the song you want. The users' experience of the Web has just got worse. But as the iTunes example shows, charging for content can be successful. *cont'd >*



How the flow of information will change the future cont'd

It has been reported that Google is developing a platform Newpass which allows content owners to charge users if they access content through a Google search. In this way payments may be reconciled with the link culture through micropayments – payments per article.

Yet it is not just the efforts of newspaper owners which signal an era of less free information. Another large driver pushes against information being free: the mobile web.

Analysts at Morgan Stanley, the investment bank, forecast that mobile Internet users will overtake desktop users by 2014. The experience of accessing content - through mobile devices, smart phones and tablet computers is different from accessing content through a desktop or laptop. Content is accessed on the go, without a keyboard. Under these circumstances people don't want to surf the web. People access content through specific apps rather than through a search engine. This gives the provider of the app a way to monetise the content and much greater control over how the content is accessed. In this way the service is linked with the medium of delivery – just as it is with the newspaper.

In some countries the State looks to censor and control access to information – hence the ongoing wrangling between Google and China. But the libertarian frontier of the Internet, where anything goes, may be a thing of the past in more democratic countries. For a sign of how content will increasingly be controlled, one has to look no further than Apple's desire to ensure that the iPhone and iPad become a world free of adult content. The Californian company got into a spat with the German newspaper, *Das Bild*, over "inappropriate" content provided on its app.

The free flow of information was another important aspect of globalisation in the last 15 years. The next 15 years, as the Internet grows up, will look very different. There will be greater control of information as new business models are created.

the flow of services – what's changed?

Where does the competitive advantage lie for older OECD economies? Much hope is pinned on the "knowledge economy" or services – economic activity defined as the provision of expertise, equipment and space for the benefit of other. Yet services, which are essentially a combination of the previous two flows – information and people – have not flowed with such force. The OECD economies have not been able to successfully export their services. During the last decade services represented close to 70% of world GDP, and similar figure for the total workforce of OECD countries. Yet services accounted for only one fifth of world trade.

One way of viewing the imbalances in trade between the emerging economic powers and the OECD countries, is the lack in trade in services: whilst OECD countries can import goods, it is much harder for them to export services.

Why has there not been a flow of services gushing around the world like the flow of goods and capital? Services are harder to trade than goods because they are often require face-to-face relationships – as economists love to say how do you trade a haircut without going to the barbershop in person? But improved information flows – video-conferencing being one example – and improved people flows, have gone some way to improve this. Future advances in the applications of information and communications technologies will reinforce this.

Second, legal barriers have remained an issue. By some economists reckoning, a 50% reduction in obstacles in trade in services would see a doubling of the welfare gains for the global economy. Many services – such as finance or health care – are ruled by sophisticated regulatory regimes, yet up to half of the WTO's members are ill-equipped to implement such obligations. Linked to this is the final reason inhibiting the flow of services: the maturity of the emerging economic powers. The demand for services from the emerging economic powers was weaker than the OECD economies demand for manufactured goods. As the emerging economic powers grow and "mature" this could be set to change.

how the flow of services will shape the future

A growth in demand for services in emerging economic powers could coincide with greater private sector involvement in certain service provision in OECD countries. With the enactment of massive deficit reduction programmes and austerity measures, European welfare states will have to cut back in the provision of public services such as health and education. *cont'd >*



How the flow of services will change the future cont'd

There is a void that may well be filled by private sector provision. Countries such as China have weak welfare State provision. There is therefore an opportunity for firms in the OECD economies to build on their expertise in providing health and education services and to export them overseas. Disney has opened up 11 English language schools in China but eventually hopes to have a network of 150 as a way to generate US\$100 million worth of pre-tax profits per year. Many university departments and leading independent schools have opened up Asian faculties. Information communication technologies will further reinforce the trends for teaching organisations to export their services. What would happen if suddenly the best lecturers in the world became available to all?

The TED videos featuring leading thinkers on a host of global issues are an Internet hit and the Open University in the UK holds the record for the most downloads – 20 million and counting out of a total of 250 million downloads from iTunes University. The Open University has 525 courses available on the Internet, with 162,000 students for online courses. The Internet as a global distribution platform extends the reach of organisations in OECD economies, and this is not only true for education but other services too. There is potential for video content to be easily distributed overseas, for example. Or online retailers can export their services abroad.

Healthcare is another service which has traditionally been classed by economists as non-tradable. In theory you need to be present physically to consult with a doctor but in many areas of healthcare this is no longer necessarily true. Telehealth – the delivery of health-related services and information via telecommunications technologies – has led to an increase in the cross-border trade of health services. Furthermore, a stark differential in the costs of providing certain services between countries has led to an increase in health tourism. The pace of erosion of borders in healthcare is currently inhibited by legislation.

Nevertheless, technology and the movement of people are combining to increase provision across borders. But

www.outsights.co.uk

trade in health services may not be one-way traffic from the older OECD economies to the emerging economic powers. Because of the less developed state of their health systems, emerging economic powers may leapfrog OECD countries in their use of telehealth, shaping the location of health delivery and information management for other countries. Cuba has joint ventures with Canadian, German and Spanish companies to attract patients from these countries for specialised treatments. The aim is establish Cuba as a hub for teleconsultation and telediagnostic services. The Cubans are also looking to export clinics to Central and Latin America where Cuban physicians and nurses are employed.

China exports Disney-branded merchandise to the US (goods). Now Disney is looking to export education back to the Chinese (services). Whatever one feels about such cross-branding of education, this may well signal the changing pattern of trade over the coming years as OECD economies successfully export services in which they have a competitive advantage.

Greater trade in services offers hope for the UK. It is currently the world's second largest exporter of services after the US. Services accounted for nearly 50% of the growth in total expenditure in the UK economy over the last decade and 60% of the rise in exports. Indeed, the UK has a healthy surplus in the balance of trade in services.

Countries such as China have weak welfare State provision. There is an opportunity for firms in the OECD economies to build on their expertise in providing health and education services and to export them.

conclusion

The period of globalisation – from the early 1990s to the Credit Crunch – was a period when goods, capital, people and information flowed with an ever increasing velocity (with the flow of services left a little behind).

It is important to remember that the history of globalisation has always been one of punctuated equilibrium. The world looked much globalised in 1913 but World War I reversed the process, a reversal that continued in the inter-war period. Flows speed up, and then due to the changes they wrought, slow down as the dust settles and more control is put on the flows. After a period of globalisation we can expect the same.

Generally we think globalisation is synonymous with openness but this is going to change. Truly free trade has never occurred – it has been regulated in one way or another – and globalisation has always been subject to controls. The question is what controls and enforced by whom. The scenario that is described for the next 15 years challenges many of the assumptions of the last 15 years, specifically in the future:

The past 15 years	The next 15 years
Goods have flowed freely	Resources will be subject to even greater control
Capital flows have been based more on transactions and less on relations	Relations will in some instances trump economic efficiency – through State Capitalism and localism
OECD countries have seen much temporary migration as people flow more freely	Emigration will be a bigger problem than immigration
Information wants to be free	Information does not want to be free
Compared to goods there has been limited trade in services	The exportability of services will increase – a boon to the OECD economies but not without competition from the emerging economic powers

This is a world of both opportunities and challenges but the underlying rules of the game will change.

outsights

insights from the outside



This license allows you to remix, tweak, and build upon Outsights work non-commercially, as long as you credit Outsights and license the new creations under the identical terms. Others can download and redistribute your work just like the by-nc-nd license, but they can also translate, make remixes, and produce new stories based on your work. All new work based on yours will carry the same license, so any derivatives will also be non-commercial in nature.

Outsights Limited
209 Business Design Centre
52 Upper Street
London N1 0QH

Tel: 0044 (0)20 7226 2280
Fax: 0044 (0)20 7226 2330

info@outsights.co.uk
www.outsights.co.uk