According to the UN Development Program, the accumulated wealth of the 225 richest individuals in the world is equivalent to the combined annual earnings of the 2.7 billion people at the bottom of the global income ladder.1

March of Globalization

Despite the rising international debate against continued economic liberalization, we believe that further global integration will continue out to the year 2025. The benefits of integration to both developed and developing countries are clear. The Euro area’s GDP now rivals that of the United States while the UN maintains that economic integration has allowed a number of developing countries to achieve in 30 years what it took industrialized nations up to 100 years to accomplish.2 Consider, for example, that real per capita GDP in Asia more than doubled between 1980 and 2000. While there may be temporary setbacks along the path to deeper integration, the world has clearly benefited from liberal economic reforms and continued momentum for greater integration appears to be likely in the long-term

“BRIC” Economies

The “BRIC” countries—Brazil, Russia, India and China—will increasingly define the world’s new economic center of gravity. According to a report from Goldman Sachs, if they can consolidate conditions conducive to structural growth, the total GDP of the “BRIC” economies by the year 2025 could equal half the aggregate level of the G-6 countries (United States, Japan, Germany, UK, France and Italy). By 2040, assuming strong and sustained growth rates by the BRIC countries, they could overtake the G-6 altogether. However, the massive populations of the BRIC countries—equal to 40 percent of global population in 2025—will prevent economic growth from being translated dramatically in per capita income gains and the concentrated growth will exacerbate growing income inequity. For instance, “Forbes Asia” magazine’s annual list of the richest Chinese found that there are now ten billionaires in China compared to three only a year ago. Meanwhile, GNI per capita in China remained under $1,300 in 2004.

Inequality

Income disparities will not be limited to the BRIC countries alone. Global aggregate output growth has increased on average by more than 3.6 percent annually over the last quarter century, and we expect the trend to continue through 2050. While this growth in global GDP and falling poverty rates indicate a rising economic sea level, global income inequalities have also grown. The fact remains that a staggering 2.8 billion people live on less than $2 a day. The costs for basic commodities continue to fluctuate, meaning that it is increasingly difficult for the poorest of the poor to meet daily requirements for life. These disparities - between the “haves” and “have-nots”- are fueling populist backlash against global inequity and integration. Globalization’s greatest enemy is not its absolute success, but its relative concentrations.
DID YOU KNOW?

• During the 1990s, the economies of developing countries that were integrated into the world economy grew more than twice as fast as the rich countries. The “non-globalizers” grew only half as fast and continue to lag behind.³

• During the 1990s, the average annual rate of growth of gross domestic product (GDP) for developing countries as a whole increased to 4.3 percent.⁴

• 15 percent of the world’s population, located in the high-income countries, accounts for 56 percent of total consumption, while the poorest 40 percent, living in low-income countries, accounts for only 11 percent of consumption.⁵

• The poorest 10 percent of the world’s people have only 1.6 percent of the income of the richest 10 percent, and the richest 1 percent receives as much income as the poorest 57 percent.⁶

• Multinational corporations virtually control economic integration; two-thirds of international trade is accounted for by just 500 corporations.⁷

• International trade is expanding faster than the world’s economy – adding evidence to the claim that trade is one of the main engines of economic growth.⁸

• International trade has grown 12-fold since World War II and is expected to grow 6 percent annually for the next 10 years.

• In 1947 the average trade tariff on manufactured imports globally was 47 percent; by 1980 it was only 6 percent.⁹

• The US and Canada are the largest trading partners in the world. In 2003, two-way trade in goods and services surpassed $441.5 billion.¹⁰

• In absolute terms, FDI to developing countries increased from $36 billion in 1991 to $178 billion in 2000.¹¹

Use the questions below to structure a discussion on the promise and peril of economic integration. We offer some suggested sources to complement your consideration of these important issues.

Discussion Questions

1) An integrated global supply chain means that, as Nobel Laureate Milton Friedman put it, “It is possible to produce a product anywhere, using resources from anywhere, by a company located anywhere, to be sold anywhere.” What vulnerabilities are intrinsic in this system—the “just in time” supply chain—for countries, governments and organizations? How do labor and the mobility of people (migration) fit into the logic of this globally integrated economic system? In such a system, what is the importance of traditional notions of state sovereignty? Of cultural borders?
2) What will a potential shift of the economic center of gravity from the traditional G-6 countries—United States, Japan, Germany, UK, France and Italy—to the “BRIC” countries mean? Does it signal hope for a new wave of economic growth and new engines of regional prosperity to drive the global economy or does this signal the fading importance of Europe and the US? Will the rise of the BRIC countries signal the rise of middle classes within those countries or a further expansion of inequity in income distribution? How can governance challenges in each of the BRIC countries derail their economic growth? Resource challenges? Demography and population? The threat of conflict?

3) 2.8 billion people—nearly 45 percent of the world’s population—live on less than two dollars a day. To what extent can global economic growth address addressing this massive need—especially in the face of information technology and the ability to quickly organize political and social movements? The rise of radical Islam, opposition movements to environmental degradation and urban-rural divides in China and India, and the “bolivarian” movement in Venezuela led by Hugo Chavez are all examples of how perceived inequality in the global playing field can manifest itself into political movements. What is the long-term impact of such movements to the further integration of the world economy? How can the benefits of globalization be more widely distributed and the costs minimized? What specific role should the United States play in addressing global inequity? What specific role should current global powers (the EU, Japan) and rising powers (China, India, Brazil) play?

From CSIS

The William M. Scholl Chair in International Business (http://www.csis.org/schollchair/) was established to further the role that international business plays in advancing economic growth, innovation, prosperity, security, and freedom in the United States and throughout the world.

Dr. Sidney Weintraub holds the Simon Chair in Political Economy (http://www.csis.org/simonchair/). Dr. Weintraub examines issues of trade, investment and international finance, particularly in Latin America and Canada.

Web Resources

The Corporate Social Responsibility Newswire (http://www.csrwire.com/) is a reliable source to track increasingly visible corporate involvement in international affairs.

The Economist Online (http://www.economist.com/) is a premier online source for the analysis of world business and current affairs.

The World Bank (http://www.worldbank.org) works to eliminate poverty around the world by helping connect countries and their people to the benefits of globalization.

Further Reading


ENDNOTES

4 Ibid.
5 Ibid.
6 Ibid.
8 Ibid.
9 Ibid.