

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)



BUSINESS BOOKSHELF | DECEMBER 17, 2008, 2:22 P.M. ET

Thinking Local

Is "globalization" really the defining trend of our lifetimes?

By [RICK CAREW](#)

Everyone loves to talk about globalization. Workers complain about how their jobs are shipped to lower-wage countries. Corporate chiefs enthuse about new overseas markets. Activists of various stripes bemoan environmental damage or suffering poor countries. But this skirts the most important question: Is "globalization" really the defining trend of our lifetimes?

Despite all the hype, the answer is "Probably not." Local forces are still much more powerful than global ones. Most people have a view on whether their mayor is doing a good job. Very few people have a view on the United Nations Secretary-General's job performance, or know his name. Meanwhile, fulminations on the ills of globalization frequently suffer from a lack of perspective. Call-centers in India are vilified as the latest manifestation of developed-country jobs being shipped overseas. But the number of jobs at stake is small relative to the overall work force. And their importance is also overstated. How many parents in the U.S. dream that their kids will grow up to work in a call center?

The list of globalization errors (both pro and con) is long, and makes fertile territory for Bruce Greenwald and Judd Kahn in "Globalization." The authors, a Columbia Business School professor and a historian, respectively, argue that local decision-making, productivity-enhancing technological change, and the growing demand for services will be the key forces shaping our futures -- not globalization, meaning the global flow of goods and capital.

It's not that trade is unimportant. But other factors are more so. Consider the link between technology and the workforce, something many pundits miss. Worried about your job being sent to China? A cheap worker in China isn't necessarily your biggest threat. It's more likely you'll be replaced by better technology or cut by management trying to use one less worker, period. Examining detailed data on changes in the U.S. workforce, the authors show that job losses due to higher productivity greatly outnumber those lost to globalization, meaning here shifting production from Country A to Country B and then shipping the product back. Think of the legions of secretaries and office workers eliminated by the desktop computer.

So if globalization hasn't sent your job overseas, it must at least be the reason for the rise of China and India, right? Wrong. If globalization were the cause rather

than a condition, everybody from Latin America to Africa would be getting in on the party. Instead, globalization and trade have helped countries that have made the tough local decisions to liberalize markets and unleash the powerful incentives of capitalism. Hence, the crucial role of local-decision making in everyone's future.

If this sounds counterintuitive, it helps to remember that "globalization" is just today's catchword for a phenomenon we've seen before. Messrs. Greenwald and Kahn compare our age of expanding global trade to the early 20th century and find a similar picture. Trade as a share of global output rose until 1920 due to advances in shipping, which helped build global markets for commodities like grains and coal.

This expansion of trade proved only partial and cyclical, however. Commodities became cheaper, and thus a smaller part of spending. Households began spending more on manufactured goods, such as washing machines and automobiles, that at the time were harder to globalize because they depended on local sales networks and tastes. That caused global trade's importance to shrink.

The authors argue global trade has peaked again today. The demand for computers, appliances and cars has driven the growth in global trade because companies have learned how to produce cheaply manufactured products that could be tailored to meet local market demands. In other words, they've finally commoditized the modern equivalents of yesterday's washing machines.

But Messrs. Greenwald and Kahn believe we will again shift more of our spending to things that are hard to globalize. This time it will be services, which are harder to transport across borders. The desire for services will drive demand for managers, teachers, builders and nurses. These are exactly the high-skilled professions that are hardest to replace with technology or offshore workers.

This view of globalization leads to several controversial arguments. Among the more startling is the authors' contention that liberalizing global financial markets isn't necessarily a positive development. That's because local investors will always have better information than investors who are widely dispersed geographically. They cite the distance between borrower and lenders created by the repackaging of subprime mortgages resold across the world as a prime example of how information gets lost the further investors are separated from the underlying asset they are buying.

While local knowledge is certainly important, the ability to deploy capital on a global basis can also result in attractive investment opportunities. Global capital flows are at times a source of stability, as when money quickly flows from capital-rich areas to capital-starved countries (think of Japan's recent investment in Morgan Stanley). But this can be a double-edged sword, as discovered by many small countries that have fallen victim to currency speculators over the years.

At other times, the book can come across as rather self-serving. For example, the authors discount the role of broad educational quality in propelling productivity

improvements. Instead, the authors say, management skills and incentives drive the productivity gains that create prosperity. One wonders if readers are meant to extract from this the notion that general education isn't crucial, but that it's important to build a talented pool of managers through elite business schools like the one where one of the authors teaches.

One other weak spot is the limited discussion of the impact of globalization on incomes. The authors dismiss concerns about wage stagnation due to global trade by noting that wages have done slightly better as global trade has expanded. It would have been better to offer a more rigorous analysis teasing out how much of the poor wage growth in the U.S. can be attributed to global trade versus other causes.

Those qualms aside, however, this work is a crisp, provocative addition to the debate on globalization. It's well worth a look, particularly as a counterbalance to prevailing globalization "wisdom."

Mr. Carew covers mergers and acquisitions in Asia for The Wall Street Journal in Hong Kong.

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at



1-800-843-0008 or visit

www.djreprints.com