Making globalization a win-win strategy
(Balancing the rules with emerging countries)

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It is now widely recognized that financial markets are not perfect and require some public regulation. But what about markets for internationally traded goods and services? To question their perfection is taboo among economists. The very few who dare become immediately condemned as "protectionists". Protectionism being, as every economist should be convinced since the 30s, the epitome of evil in international economic affairs.

This is quite strange, as from a conceptual point of view, international goods and services markets are full of what economists call "market failures" such as: "increasing returns" leading to global monopolies oligopolies; "economies of agglomeration" leading to large concentrations of exporting industries in districts like Shenzhen in China; or of financial activities in Wall Street, the City of London, Singapore, etc.… As well as massive state interventions, particularly in emerging countries whose present policies are close to a kind of ""neo-mercantilism".

Moreover, from a pragmatic point of view, it seems that the last three decades of globalization, although having strongly supported the emergence and the catching up of Asia and some other countries, leave us today with a far from optimal distribution among territories of the jobs producing internationally traded goods and services. Africa is dramatically short of such jobs. Europe and the US have lost too many of them. And they appear to be too export-oriented in China.

With this in mind, let's take a closer look at why this is so, and whether «win-win» cooperatives policies, instead of brutal protectionism, could improve the present situation.

Population in Sub Saharan Africa will reach 1.8 billion by 2050, with 1.2 billion people living in urban areas. Africa is entering its "demographic

window", where the ratio active/total population is at its highest. It potentially will have a very large internal market, while population in the rest of the world will continue to age. Africa cannot survive on its natural resources exports only: it must industrialize quickly. It needs three to five "Shenzhen"s, growing just as rapidly by exporting cheap and poorly qualified labor, with a trickling down of their wealth into the « hinterland ». There are two internal and two external conditions to this. Internal conditions depend on Africans themselves. These are: i) a strong and sustained development of agriculture, leading rapidly to self sufficiency and then to exports, and: ii) "sufficient" state governance and interstate cooperation, since Africa's development will have to cope with huge internal migrations.

External conditions are: i) massive Chinese, and also Indian, Brazilian, South African, Foreign Direct Investment in the segment of the global value chains using young and initially unskilled workers and ii) Europe, the US and soon the emerging countries keeping their borders wide-open to African exports. Further, in case of necessity, Europe could incite the emerging firms to invest in Africa through a credible threat of taxing differently these goods according to their origin.

These moves have already begun: they should be greatly accelerated.

Let's now use a somewhat "unusual" lens to analyze Europe and the USA as well. Internationally traded goods and services are crossing borders - let's call them "nomadic goods". "Sedentary goods" aren't crossing national borders. Infrastructures, basic urban services, power generation and a bulk of personal private and public services are examples of sedentary goods. Let's call the jobs, and by extension the people holding these jobs, in the same way. Within a territory "nomadic jobs" are those who directly contribute to producing nomadic goods. In that sense, "nomads" are not only those who are internationally mobile, but also those who directly contribute to the production of nomadic goods. If a "nomad" loses "competitiveness", his or her job disappear from the territory to reappear in another one. Sedentary jobs are producing sedentary goods for themselves and for the "nomads" located on their territory. If someone having a sedentary job loses his competitiveness, he will be replaced by another sedentary person and he himself will take a less-qualified sedentary job, as the demand for sedentary goods hasn't changed in the territory.

It is then quite intuitive that, in a given territory, any increase in: i) the proportion of nomads in the active population and/or ii) their revenues gained on international markets, also improves the revenues of the territories' sedentary people. Conversely, if the relative number and/or the nomads' revenues decrease, so do the revenues of the sedentary people. And it can further be demonstrated that, in this case, the inequalities between the nomads and the sedentary people also increase.

For decades in Europe and as well in the USA, the nomads' jobs have been steadily disappearing, throwing out millions of people into the sedentary sector, mainly in poorly-paid service positions. Although many of the richest nomads have become much richer, the gap between the average nomads' and sedentary people revenues has increased. This lead to the disappearance of the middle class in former rich countries, a trend that bears serious political threats and opens the doors to various kinds of populism and xenophobia.

Since the Lisbon European Council, where it has been unanimously decided to take the lead of the so called "information society", European governments just repeated the same "mantra": the way out for Europe is to invest in high-tech and other "innovative" industries, such as luxury, fashion, champagne, other national specialties and tourism. But, according to a recent study by the McKinsey Global Institute, these sectors: innovative industries and renowned trade marks, account for only 18, 20 and 26 % of the French, German and US industries, respectively. Moreover, even in these sectors, particularly "high tech" ones, China and India are still and will become increasingly competitive. In Europe and the US, these sectors alone will never be able to replace the rest of the industry, which is steadily disappearing.

If these trends go on, former rich countries will become like India today: some of the richest people in the world will live in the same country, the same cities, and even neighboring streets, as some of the poorest. Remember that Mumbai, host not only some of the richest Indians, but still over 50% of slums dwellers.

At least in Europe, the process of de-industrialization has gone too far. It is time to reverse it. Why? Because there is a serious economic case for keeping on the European territory some segments of the industrial value chains that global firms allocate today to different territories according only to their present short-term competitive advantages. In Europe we should keep those segments that need a kind of human and social capital that is very costly and takes long to rebuild when it has been lost. We are

not talking about standard textile, garments, toy, or basic electronic industries. But we are definitely talking about highly automatized assembly plants of sophisticated manufactured goods, including cars, for example.

In others words, we are talking about these segments of the global value chains in which China and India will have lost their price competitiveness within ten to twenty years. Their present competitiveness is based on the structure of their active workforce: a growing minority of nomads whose revenues are improving very fast, but remained pulled down, at least in the lower segment, by an enormous mass of sedentary people whose very low productivity keeps them poor and who thus sell sedentary goods at a very low relative price. This is why an Indian software engineer, graduate from Stanford, will enjoy a better welfare, with the same wage in dollars, in Bangalore than in Palo Alto. In Bangalore he can afford renting a very large house with many domestic employees. Therefore he can accept a lower wage when returning to Bangalore, yet still live better than his friend who stayed in Palo Alto; thus becoming more competitive than him. But this is not going to last very long for the most qualified nomads in the emerging world, where cost are catching up rapidly.

Letting these value chains disappear in Europe, which will recover their price competitiveness within ten years, would be a enormous destruction of human capital and most certainly also of social capital. This is a big mistake in the long-term management of what is the strongest pillar of the "wealth of nations". Actually, human and social capital account for 80 % of total wealth in rich countries!

As for China, it has chosen an export driven industrial growth strategy, contrary to Japan in the 50s to 70s, but rather like South Korea in the 60s to 80s. China being far bigger than South Korea, it has hollowed out a large slice of industry in the former industrialized countries. From a national Chinese point of view, this was a perfectly legitimate strategy. Since Deng's big move, China's only goal is "catching up as quick as possible", thus closing the disastrous three centuries long parenthesis in the human history where China hasn't been the "Empire of the Middle".

If a country wishes to catch up quickly, it must first learn by copying as fast as possible, then produce as much as possible to maximize the benefits of the "learning by doing process". If the country's consumers aren't able to absorb the all of production, just give it to the American consumers for free, or more precisely against treasury bonds you perfectly know they will never be repaid. It doesn’t matter. The country has already reaped the true benefit: *human capital building*. The result is of course a very much export-oriented industry, while the internal market remains widely unsatisfied as compared to its potential.

If one agrees with this broad picture, it exists an obvious « win- win » cooperative solution. Firstly, China - and the others emerging countries in due time - should reorient rapidly their growth towards their internal market. There is no other way to give birth to true middle classes. Secondly, firms from emerging countries should delocalize massively less qualified nomadic jobs in Africa. Europe could help this move by keeping their borders open to those goods with a sufficient African content. This would be reinforced by threats to tax or put quotas on those good that continue to originate from Asian countries where producing such goods is no longer needed, except for a part of their own internal consumption. Finally, to maintain its valuable human capital, Europe should stop its deindustrialization and the destruction of its middle class.

Who might support such policies? Firstly, a still nascent industrial middle class in Africa, that is eager to emerge. secondly, middle classes in emerging countries, that are still too narrow but keen to grow fast. Finally, middle classes in Europe that have been shrinking for thirty years, due to globalization. Therefore the slogan for these policies could be: “Middle classes of all countries, unite!”

Well, then, how to get to it? First of all, who might feel really concerned? I would answer: Europe, China and Africa. The USA might choose another way: maintaining in specialized “nomadic” clusters many of the best universities, research centers and innovative firms of the world, with the rest of employment made up of sedentary, mainly service, jobs. In this case the US would end up looking like India today within a few decades. But Africa cannot afford waiting, and, while the American Revolution and the Indian independence struggle were fight for freedom, China and Europe have a long history of revolutions and fights for equality. European and Chinese people may not easily tolerate further increase in inequalities. Witness the growing social unrest in China. The Chinese people wants a bigger share of the benefits of globalization, they want the Chinese economy to be re-centered. The government today says it wants this as well: but slowly…

Therefore the negotiation should start between Europe, China and Africa. USA, India and Latin America being naturally invited to join.

The objectives of the above suggested cooperative win-win strategy could be reached mainly through coordinating exchange rates, monetary, budgetary and industrial policies. But in any negotiation, each player must keep at hand a “Plan B”, that is a credible threat if negotiations fail. China and India are developing countries no more. Today, they are scientific, industrial and economic powerhouses. They still have millions of absolute poor and destitute citizens, but poverty reduction and the control of growing inequalities in these countries must be addressed by domestic policies. Therefore I suggest a very simple “Plan B” for Europe: “Reciprocity”. It means treating global firms exactly like China and India do. Welcome Chinese and Indian goods and services in Europe, if some of their value added are produced on the European territory. (This is exactly what Japanese carmakers were strongly “incited” to do in Europe and the USA in the 80s). Thus, a very warm welcome to Chinese and Indian Foreign Direct Investment in Europe, including in research.

In other words, we must establish a much more balanced cross-fertilization of each territory by the nomads of the other. Isn’t it the right way to optimize the benefits of globalization?