Global Economy and Social Impacts

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What is “globalization”?

Globalization involves:

(1) Mass movement of people from one location to another,

(2) Flow of goods, services and wealth from one country to another.

Global activities has been in existence as long as human civilization:

Examples of massive movement of people in Pre-Medieval (1500 AD) age:

- The Empire of Alexander the Great (356-323 BC)
- The Roman Empire (753 BC – 476 AD)
- The Empire of Genghis Khan (1167-1227)
Example on early massive flow of goods in the world:
• The great “Silk Road” for Eurasia trading in early 15th Century.
Technologies used in early globalization:

Wheels:

Floatation:

Animal power:

Human Endurance:
Globalization in our recent history (1500 -1990)

Major movement of people in recent history:
- Mass immigrants to the Americas (1650 - )
- World War I (1914 -1917)
- World War II (1941-1945)
- Exchange of students and liberal immigration to USA, Canada and Australia (1960 - )

Major flow of goods and services:
- Massive exploitation of materials and resources by Western powers from their colonels and the importation of slave labors (Pre-1920)
- Flow of technologies among countries between rich and poor
- Freer trades worldwide, e.g. GAIT, the predecessor of WTO, NAFTA
- Wide spread of multinational corporations since 1980’s

Enabling technologies in modern-day globalization:
- ELECTROMECHANIZATION
- TELECOMMUNICATIONS
- Mechanized TRANSPORTATIONS, and
  - blessed by over 70 years with SUSTAINING PEACE in the world.
New Socio-Economic Order by Globalization

• A major paradigm shifts in social and economic orders since 1990:

  With increasing Global cooperation and collaborations in “Industrial productions,” “Business operations” and “Distribution of goods and services” among the nations in the world.

• This recent wave of globalization is possible with technology advances in:

  • Advanced transportations and low-cost telecommunications, and
  • Rapid advancing in Information Technology (IT)

• Other major factors:

  • Unprecedented lasting peace in the world in the last 70+ years has cultivated prosperity in many new countries with fast expansion of middle class consumers for industrial goods and services
  • Creation of generations of highly educated, highly skilled workforce
  • Liberal immigration practice for freer movement of people and goods and services, e.g., from the European common market to European Union
  • Liberal trade policies by nations, e.g. NAFTA, EU, WTO, etc.
The Birth of New Global Economy:

Outsourcing

and

Insourcing
OUTSOURCING has become a common practice by business and industry in major industrialized nations (Canada, USA, Germany, Japan, France, etc.)

Outsourcing has already made major impacts in the US economy, and it has been the driving force for the New Economy of the Global Village.

“Cost-effective resources” is the fundamental reason for US industry and business to export their productions and operations to offshore low-labor cost countries, such as China and India, and now to other Asian-Pacific countries such as Vietnam, Indonesia, Malaysia, etc..

Other reasons for outsourcing include:

(1) Availability of Low-cost (but qualified) workers in countries like India and China with: low wage, marginal fringe benefits, no powerful trade unions for costly and time-consuming collective bargaining as in U.S.A., Canada and Western European countries.
(2) All receiving countries have more lax regulations in environmental and safety controls, resulting in significant reductions in production costs for U.S. business and industry to have their operations in these countries.

(3) Outsourcing industrial productions and business operations to countries in different parts of the world allow around-the-clock operations on design and manufacturing of high tech products in particular:

<table>
<thead>
<tr>
<th>USA-California</th>
<th>China, Japan, Korea, Hong Kong, Singapore, Taiwan (+ 16 hours)</th>
<th>France, Germany, Italy (+9 hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 AM (Monday)</td>
<td>5 PM (Monday) → 9 AM (Tuesday)</td>
<td></td>
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<tr>
<td></td>
<td>5 PM (Tuesday) → 10 AM (Tuesday)</td>
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<tr>
<td>8 AM (Tuesday)</td>
<td>5 PM (Tuesday)</td>
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</tbody>
</table>

These Round-the-clock operations allow U.S. companies to solve a critical problem in “Time-to-Market” (TTM), and capture the narrow window of marketing for high tech products.
(4) Outsourcing allows US business and industry to create vast new markets in emerging countries like India and China.

Because the “Receiving countries” of outsourcing evolve to become rising economic powers years later, (China for example) and they have become major customers of US industry and business. (China now is the largest market for world luxurious goods and products, it is also the 2nd largest market for Apple smart phones)

(5) Reversed outsourcing, or “Insourcing” begins to take place, and it has already happened in the U.S. (e.g., part of Apple’s productions), as current receiving outsourcing countries become the new rising economic powers – they are no longer the countries offering low labor cost.

It’s happening now by countries like China and South Korea
Globalization

in:

- Industrial production,
- Business operations,
  - Services, and
- the Shift of Wealth

in the last 3 decades has resulted in:

major shifts in global economic landscapes
Global Economic Powers in 1980s

- World’s richest countries, the G-7 countries:
  USA, Japan, Germany, United Kingdom, France, Canada, Italy

Russia was added to the G7 club to make a new G8 group in early 1990’s
The BRICS Countries – The emerging new world economic powers

BRIC countries = Brazil, Russia, India and China

- Combined population: 2.767 billion (41.3% of World population)
- Combined GDP (PPP) in 2010: US$18,485,913M (25% of World total, 63% of G7 nations)

From BRIC to BRICS = BRIC countries + South Africa, the largest economy in Africa
The BRICS Countries

Member countries: Brazil, Russia, India, China, South Africa

Factoid:

Inception: 2009
First summit meeting of leaders: 2011
Combined Population: 40% of the 13 billion world population
Combined world gross national income: 25%
The BRICS, in their 5th summit meeting in Durban, South Africa on March 27, 2013 announced the establishment of a new BRICS Development Bank with initial joint investment of $100 billion to support the development in GREEN technologies for the needy developing countries

– parallel to the World Bank controlled by the USA, and the IMF controlled by the European Union

The first major loan was announced on February 24, 2016 at the G20 meeting in Shanghai, China with $2B to a company in India on a “Green solar energy project.”
## The G-20 Nations

The G-20 is a forum for cooperation and consultation on matters pertaining to the international financial system.

<table>
<thead>
<tr>
<th>Continents</th>
<th>Countries</th>
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</thead>
<tbody>
<tr>
<td>Africa (1)</td>
<td>South Africa</td>
</tr>
<tr>
<td>Latin America (3)</td>
<td>Argentina, Brazil, Mexico</td>
</tr>
<tr>
<td>North America (2)</td>
<td>Canada, USA</td>
</tr>
<tr>
<td>Asia (7)</td>
<td>China, India, Indonesia, Japan, South Korea, Saudi Arabia, Turkey</td>
</tr>
<tr>
<td>Europe (6)</td>
<td>France, Germany, Italy, Russia, Unite Kingdom, European Union</td>
</tr>
<tr>
<td>Oceania (1)</td>
<td>Australia</td>
</tr>
</tbody>
</table>

- The inaugural meeting took place in Berlin on December 15-16, 1999
- 2/3 of world population
- Collectively produces 85% of global GDP
- 80% of world trade
## Embracing the New Global Economy

### 2016 List of GDP\(^1\) and PPP\(^2\) of Countries\(^3\) by the IMF

**WORLD: US$ 77,869 Billion** ($73,982 B in 2013)

#### Top 10 producing countries:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (PPP), $B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>18,561 (17,968)*</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>11,391 (11,385)</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>4,730 (5,957)</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3,494 (3,874)</td>
</tr>
<tr>
<td>5</td>
<td>United Kingdom</td>
<td>2,649 (2,937)</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>2,488 (2,737)</td>
</tr>
<tr>
<td>7</td>
<td>India</td>
<td>2,250 (1,870)</td>
</tr>
<tr>
<td>8</td>
<td>Italy</td>
<td>1,852 (2,072)</td>
</tr>
<tr>
<td>9</td>
<td>Brazil</td>
<td>1,769 (2,242)</td>
</tr>
<tr>
<td>10</td>
<td>Canada</td>
<td>1,532 (1839)</td>
</tr>
</tbody>
</table>

#### The second tier countries:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (PPP), $B</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>South Korea</td>
<td>1,404 (1,410)*</td>
</tr>
<tr>
<td>12</td>
<td>Russia</td>
<td>1,267 (2,079)</td>
</tr>
<tr>
<td>13</td>
<td>Australia</td>
<td>1,256 (1,550)</td>
</tr>
<tr>
<td>14</td>
<td>Spain</td>
<td>1,252 (1,643)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (PPP), $B</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>South Africa</td>
<td>280</td>
</tr>
</tbody>
</table>

*Countries in red ink are the emerging BRICS countries*

* Ranking in GDP in 2015

**Notes:**
1. Gross domestic products
2. Purchasing power parity
3. Out of 191 countries + Regions such as, Hong Kong and Macau as reported by the International Monetary Funds (IMF)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Countries</th>
<th>GDP/Capita, $</th>
</tr>
</thead>
<tbody>
<tr>
<td>6(10)</td>
<td>USA</td>
<td>56,084 (52,776)</td>
</tr>
<tr>
<td>16 (20)</td>
<td>Canada</td>
<td>43,413 (44,987)</td>
</tr>
<tr>
<td>18 (18)</td>
<td>Germany</td>
<td>40,952 (46,216)</td>
</tr>
<tr>
<td>13 (27)</td>
<td>United Kingdom</td>
<td>43,902 (39,826)</td>
</tr>
<tr>
<td>24 (28)</td>
<td>Japan</td>
<td>32,479 (37,517)</td>
</tr>
</tbody>
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<table>
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<tr>
<th>Rank</th>
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<th>GDP/Capita, $</th>
</tr>
</thead>
<tbody>
<tr>
<td>21 (26)</td>
<td>France</td>
<td>37,653 (40,538)</td>
</tr>
<tr>
<td>26 (32)</td>
<td>Italy</td>
<td>29,867 (35,131)</td>
</tr>
<tr>
<td>63 (50)</td>
<td>Russia²</td>
<td>9,243 (24,449)</td>
</tr>
<tr>
<td>70 (74)</td>
<td>Brazil²</td>
<td>8,670 (16,155)</td>
</tr>
<tr>
<td>89 (89)</td>
<td>South Africa²</td>
<td>5,727 (13,097)</td>
</tr>
<tr>
<td>73 (88)</td>
<td>China²</td>
<td>8,141 (13,224)</td>
</tr>
<tr>
<td>140 (125)</td>
<td>India²</td>
<td>1,604 (5,808)</td>
</tr>
</tbody>
</table>

GDP/capita of BRICS countries – a long way to catch up with the G7 countries:

Notes: ¹ Based on International Monetary Funds in Wikipedia Encyclopedia ² BRICS countries

An alarming fact: The wide gap between people in the RICH and POOR countries:

Variation of per capita GDP (or PPP) from highest $101,994 (Luxembourg), and $56,084 (USA) to pooresest of the ranked 184 countries at $306 (Burundi in Africa)
What’s Happening in The New Economy of the Global Village?

- Gradual removal of **national boundaries** in economic developments
- Gradual removal of **trade barriers** among nations - with multi-national free trade agreements
- **Productivity** and **Efficiency** are the two key factors for industry and business to survive and succeed in the global marketplace
- **Outsourcing** of industrial productions and business operations to countries of low-labor cost will become a normal global strategy by industry and business
- The roles of “**Providing**” and “**Receiving**” countries in outsourcing will vary as individual nation’s economic well-being change with time
- **Multinational corporations** will replace mono-national companies in the New Global Economy
- **Inter-cultural communications and inter-personal management skills** will be major factors for industry and business to succeed in the New Global Economy
Example on GLOBAL Manufacturing

The well-known iPhones are assembled in China with parts from many countries:

34% is Japan
17% is Germany
13% is South Korea
6% is USA
3.6% is China
27% is Other

The value of iPhone 3G components and labor was $178.96.
Major Initiatives on Globalization after Economic Tsunami in 2008(1)

US initiative on Free-trade partnerships:

- The US has already signed free-trade agreement with 20 nations.
- Trans Pacific Partnership (TPP) signed in February 2016 with 14 nations: USA, Singapore, Brunel, New Zealand, Chile, Australia, Peru, Vietnam, Malaysia, Mexico, Canada and Japan. These 14 member countries have over 45% of annual world trade. However, the new US administration has decided to withdraw from the TPP in January 2017.

Another major initiative:

Regional Comprehensive Economic Partnership (RCEP)

It is a proposed free trade agreement between the 10 member states of the ASEAN (Association of Southeast Asian Nations) and 6 states with which ASEAN has existing free trade agreements (Australia, China, Japan, South Korea and New Zealand).

RCEP negotiations were formally launched in November 2012 at the ASEAN Summit in Cambodia.

There are 3.4 billion people living in the RCEP countries with a total gdp @ $21.4 trillion Accounts for 30% of the world gdp. Unfortunately, USA is not included in this initiative.
A Major Initiatives on Globalization to Watch

China initiatives:
● Unveiled by President Xi of China in 2013 to promote a joint economic development that focuses on connectivity and cooperation among countries in Asia and Europe by the “One Belt and One Road” initiative.

Two venues to reach the focused goal:
(1) The land-based “Silk road,” and (2) the sea-bound “Silk belt” – the so called “One Road and One Belt” for the 21st Century – supported by:
● The Asian Infrastructural & Investment Development Bank (AIIB). Proposed by President Xi in 2013. It was founded by 50 nations with initial capital of $100 billion. It began operational on 12/25/2015. The Bank will focus on its support on the development of infrastructure and other productive sectors in Asia & world.

● Technologies available for globalization in the 21 century:

An 18-day journey from East China to London crossed 7 countries by rail, ½ the cost of air freighter & 2 weeks shorter than by sea.
The PROS and CONS of Globalization in SOCIAL IMPACTS
**POSITIVE Socio-Economic Consequences of Global Economy**
- **positive social impacts**

- Has proven to help poor countries and regions prospering in their economy and thereby improve the quality of human being of their citizens: - a fundamental social justice.

- Promotes inter-racial and inter-cultural corporations in industrial productions and economic development – another positive social justice

- Develops a culture of resolving economic and trade disputes through *cooperation and collaborations* among all nations in the GLOBE VILLAGE – an unprecedented social impact

- **United Nations** – the governing body of the Global Village plays increasingly active roles in maintaining “law-and-order” of the Global Village – thus reduce the chances of major wars.

- Provides underprivileged people in the world with low price consumer goods (“Walmart price”) - has contributed in sustaining decent living standards for the poor – an issue of social justice.

- Provides employment opportunities to citizens of poor countries – another social justice issue

- Nurtures rapid rising of **middle-class** in the society to afford better goods and services with stronger buying powers – helps in narrowing the gap between the rich and poor: **a major contribution to social justice and stability**
NEGATIVE Socio-Economic Consequences of Global Economy
- and negative social impacts

- Creates massive unemployment in outsourcing countries, such as USA

- Creates widening gap between the rich and poor in developed countries
  - Creates “the Wall street and the Main street” disparity in many countries such as USA
    (statistics indicates: Top 1% Americans own 40% of the nation’s wealth, yet the
    bottom 80% only own 7%) - a major social injustice

- Globalization resulted in rapid urbanization which outpaces public supports and services – creation of urban ghettos (>60% of the 330 million people in this country live in cities) that create:
  - Rapid deterioration in environment due to over-consuming, cost-cutting in industrial productions for better profits, outpaced government regulations and inspection, and lax in government restrictions. Outpaced government planning, e.g., quality air, serious shortage in clean water supply, sanitation and sewage treatment – a serious social welfare problem – another major social injustice

- Substandard labor practices in some receiving countries – a gross social injustice

- Nurtues corruptive government officials and banking systems → another gross social injustice

- With globalization, regional political conflicts may result in major disruptions on global economy; e.g., massive exits of refugees resulting from recent conflicts in the Mid-East and North Africa – a major social justice and also a human rights problems.
Globalization at a Cross-Road

Globalization in the past 4 decades has promoted global cooperation, mainly in economic Developments. It has created unprecedented wealth and social stabilities in many parts of the world.

Like many other social activities, globalization is now at a cross-road whether its current Practice ought to be continued, or scaled back in its pace, or even back to the old day’s with self-imposed isolation.

So, which way should this country go from here?

Factoids:
(1) The US did lose significant manufacturing jobs to offshore countries through outsourcing by the US industry and business,
(2) The US has also consistently suffered huge trade deficits in the past 20 years, and
(3) There is a real fear that the US will lose its status as the largest economy of the world any time soon, by such a frightening economic forecast as:

Global economy in 2050 forecast by PwC**:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Countries</th>
<th>GDP ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>5,850</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>4,412</td>
</tr>
<tr>
<td>3</td>
<td>USA</td>
<td>3,410</td>
</tr>
<tr>
<td>4</td>
<td>Indonesia</td>
<td>1,050</td>
</tr>
<tr>
<td>5</td>
<td>Brazil</td>
<td>754</td>
</tr>
</tbody>
</table>

** PwC=Pricewaterhouse Coopers LLC
A serious question to ask is:

“How can we make America great Again?”

A sensible answer is to do the following:

(1) Enter free trade agreements with as many countries as possible;
   It will mean greater choice for consumers, lower prices -
   leading to great prosperity for America,

(2) Invest heavily on infrastructures: There has been no major such
devolution in this country since the “Freeway network” instituted
by President Eisenhower in the 1950’s.

(3) Globalization promotes competition among nations of the world.

(4) Invest more heavily in public education and job-retraining.
   Global competitions and education are the two keys that will
   lead to the type of INNOVATION that drives the US economy,
   and ultimately create far more jobs than are lost.
THANK YOU FOR YOUR ATTENTION & INTEREST

Wishing you all enjoying and thriving

in this era of global community,

GOOD LUCK TO YOU ALL