

Global Economy and Social Impacts

Tai-Ran Hsu, Ph.D., ASME Fellow
Professor
Department of Mechanical Engineering
San Jose State University
San Jose, California, U.S.A.
E-mail: tai-ran.hsu@sjsu.edu
www.engr.sjsu.edu/trhsu

Presented to a combined
ME 195b Senior Design Projects Class
March 14, 2018



What is “globalization”?

Globalization is a process of global economic, political and cultural integration

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)

Alexander, the Great



- The Empire of Genghis Khan (1167-1227)

Genghis Khan



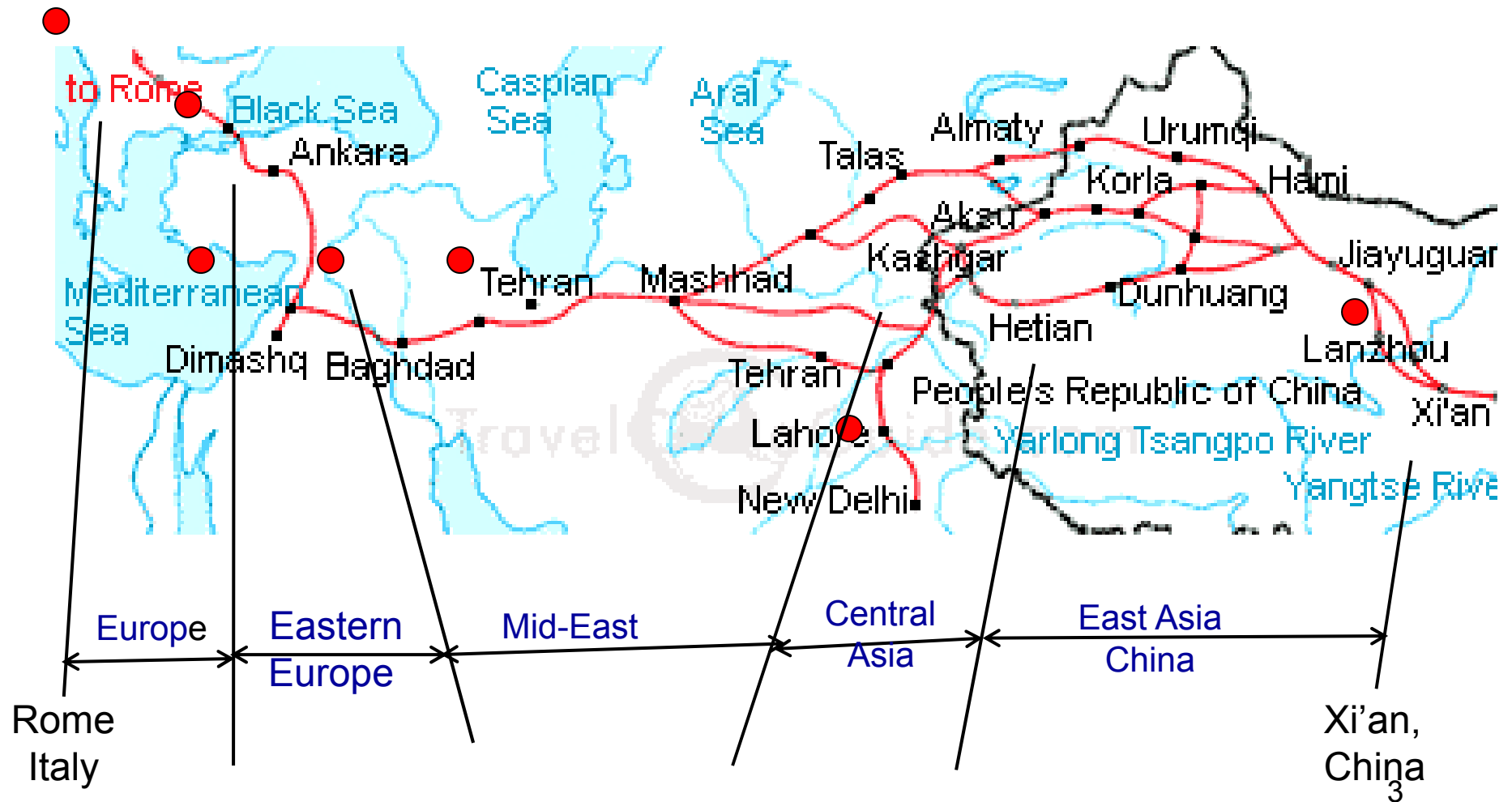
- The Roman Empire (753 BC – 476 AD)



Julius Caesar

Example on early massive flow of goods in the world:

- The great “Silk Road” for Eurasia trading in early 15th Century.



Technologies used in mass movement of people and goods in early globalization:

Wheels:



Floatation:



Animal power:



Human endurance:



Globalization in our recent history (1600 -1990)

Mass movement of people and goods in recent history:

- Mass immigrants to the Americas (1650 - 1945)
- 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 colonies 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 of 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 that allows **round-the-clock operations** in design and manufacturing of high tech products in particular:

USA-California	China, Japan, Korea, Hong Kong, Singapore, Taiwan (+ 16 hours)	France, Germany, Italy (+9 hours)	
9 AM (Monday)			
5 PM (Monday) 	9 AM (Tuesday)		
	5 PM (Tuesday) 	10 AM (Tuesday)	
8 AM (Tuesday) 			5 PM (Tuesday)

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 also **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:

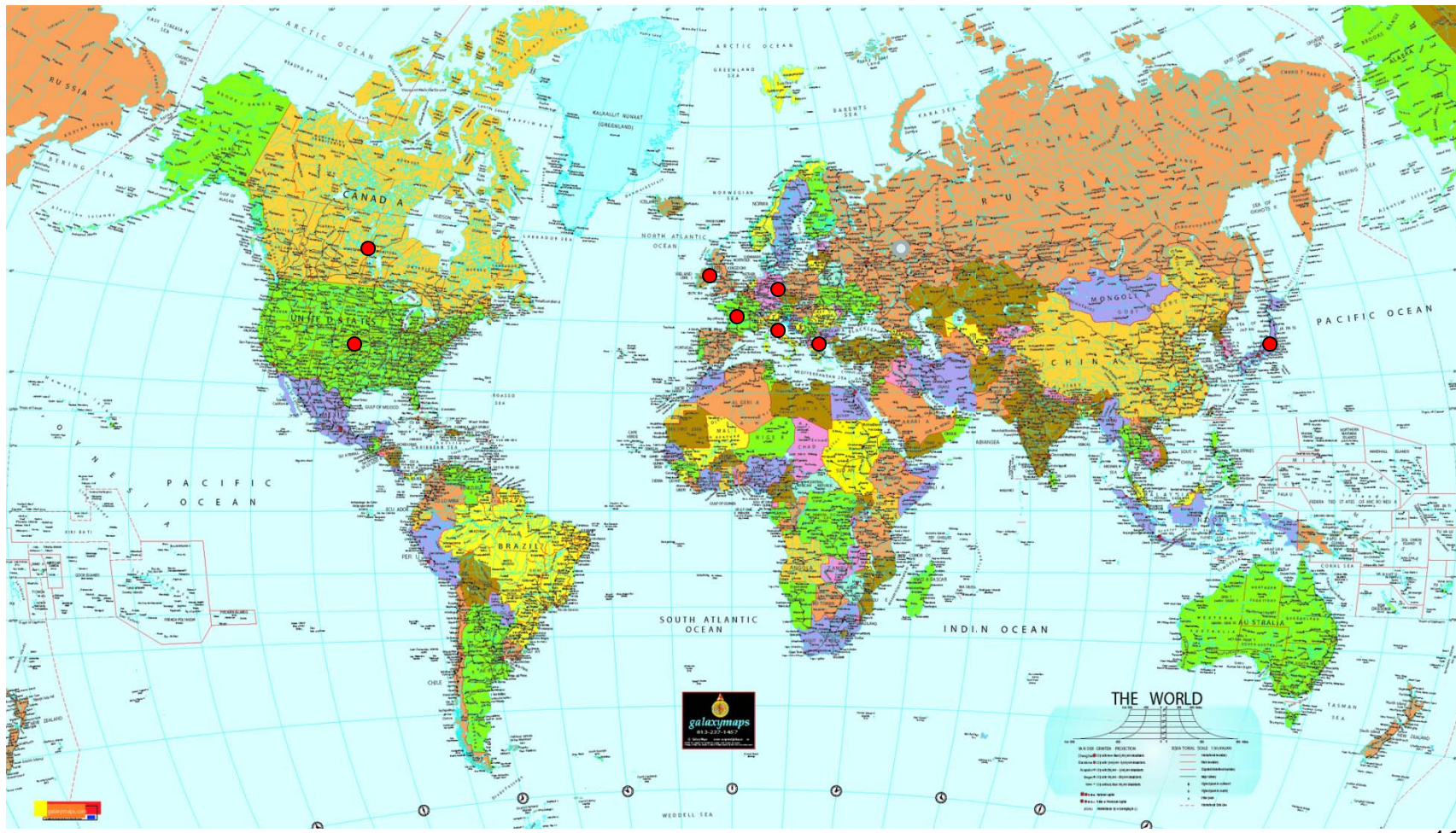
- **Industrial production,**
- **Business operations,**
 - **Services, and**
 - **Shift of Wealth**

in the last 4 decades has resulted in:

major shifts in global economic landscapes

Global Economic Powers in 1980s

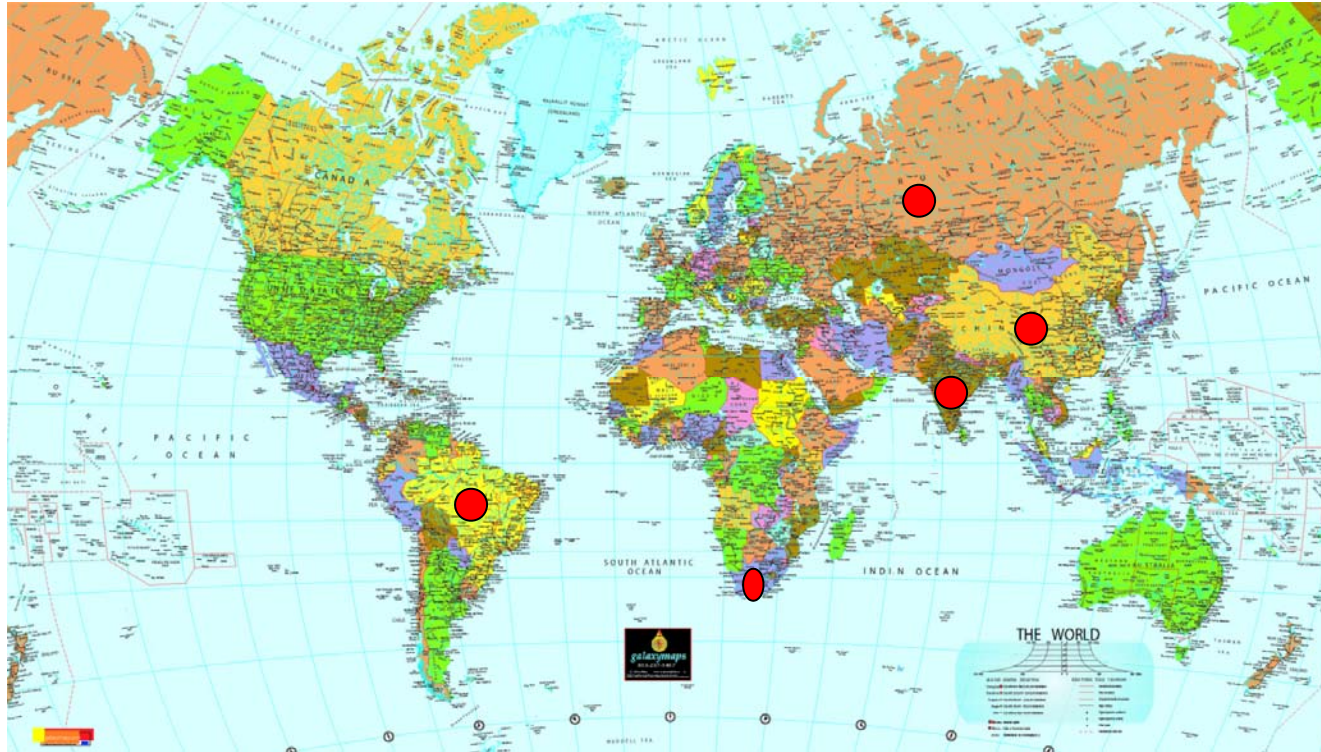
- World's richest countries at that time: the G-7 countries:
USA, Japan, Germany, United Kingdom, France, Canada, Italy



Russia was added to the G7 club to make a new G8 group in early 1990's

Embracing the New Global Economy

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 2017: US\$18,337 B (25% of World total)

From **BRIC** to **BRICS** = **BRIC** countries + **S**outh Africa (the largest economy in Africa)

The Annual BRICS Countries Summit Meetings



Temer



Putin



Modi

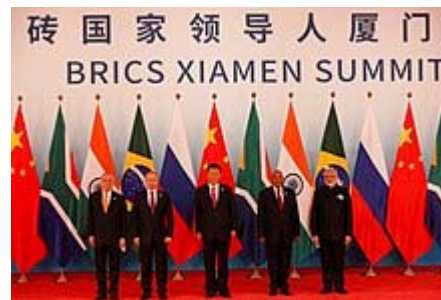


Xi



Ramaphosa

The 9th Summit Meeting
Xiamen, China
September 3-5, 2017



In its 5th summit meeting in Durban, South Africa on March 27, 2013, the BRIC group established 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. The Bank's HQ in Shanghai, China



This bank is in parallel to the World Bank controlled by the USA, and the IMF controlled by the European Union.

The first major loan was announced at the G20 meeting in Shanghai, China on February 24, 2016 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 systems

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

- 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

2017 List of GDP¹ and PPP² of Countries³ by the IMF

WORLD: US\$ 75,278 Billion

Top 10 GDP Countries (Ranking in 2017):

GDP/Capita of the G7 Countries:

Rank	Country	GDP (PPP), \$B
1 (1)*	USA	19,362 (18,561)*
2 (2)	China ⁴	11,937 (11,391)
3 (3)	Japan	4,884 (4,730)
4 (4)	Germany	3,651 (3,494)
5 (6)	France	2,574 (2,488)
6 (5)	United Kingdom	2,565 (2,649)
7 (7)	India	2,439 (2,250)
8 (9)	Brazil	2,081 (1,769)
9 (8)	Italy	1,921 (1,852)
10 (10)	Canada	1,640 (1,532)

World Ranking	Countries	GDP/Capita, \$
11 (6)	USA	59,495 (56,084)
17 (18)	Germany	50,206 (40,952)
22 (16)	Canada	48,141 (43,413)
26 (13)	United Kingdom	43,620 (43,902)
27 (21)	France	43,550 (37,653)
28 (24)	Japan	42,659 (32,479)
33 (26)	Italy	37,970 (29,867)

GDP/Capita of the BRICS Countries:

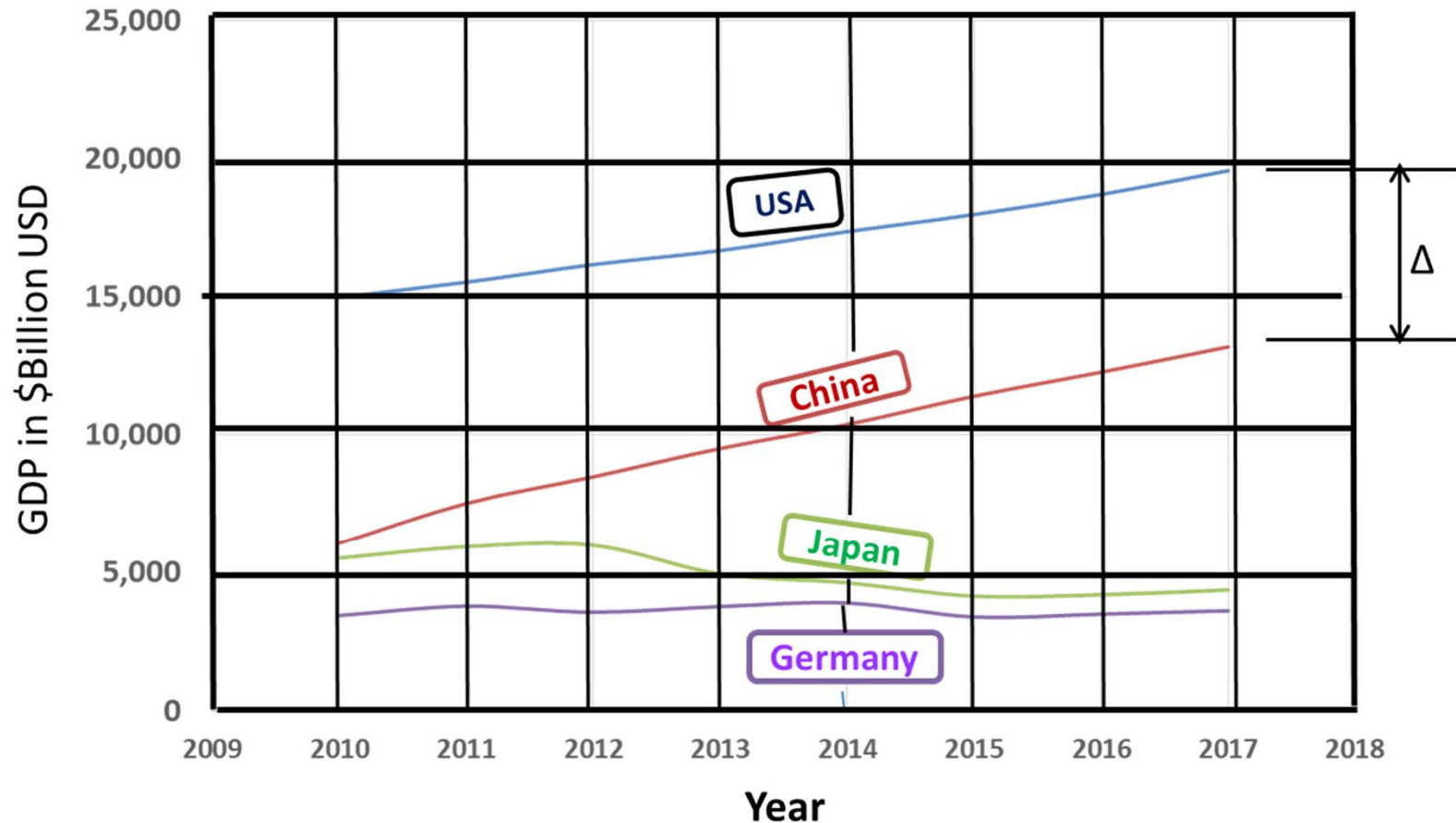
World Ranking	Countries	GDP/Capita, \$
81 (70)	Brazil	15,500 (8,670)
48 (63)	Russia	27,890 (9,243)
122 (140)	India	7,174 (1,604)
79 (73)	China	16,624 (8,140)
89 (89)	South Africa	13,403 (5,716)

* Data in parentheses are those for 2016

- Notes:**
1. Gross domestic products
 2. Purchasing power parity (PPP)
 3. Out of 191 countries
 4. Hong Kong and Macau with combined gdp > \$1,000 M reported by the IMF was not included in the reported GDP of China

Source: Wikipedia Encyclopedia

GDP of Top Four Ranking Countries by IMF



- (1) The top 2 economies continue to grow; with USA @ annual growth of 2.7%, China @6.5%,
- (2) The gap of GDP (Δ) between USA and China is closing; All signs indicate that China would replace the USA to be World's largest economy by 2030.

Top 10 Rich Countries (Regions) in the World

- GDP/Capita in 2017 by IMF

World Ranking	Countries or Regions	GDP/Capita (\$)
1	Qatar	124,427
	Macau, China	114,430
2	Luxembourg	109,192
3	Singapore	90,531
4	Brunei	76,743
5	Ireland	72,633
6	Norway	70,590
7	Kuwait	69,669
8	Unite Arab Emirates	68,246
9	Switzerland	61,360
	Hong Kong, China	61,061
10	U.S.A.	59,495

**This Table shows that we are no longer the richest nation in the World.
We ranked 12th if Macau and Hong Kong are included in the world ranking**

Most spectacular outcome of globalization in 21st Century:

Goods and products MANUFACTURED by:

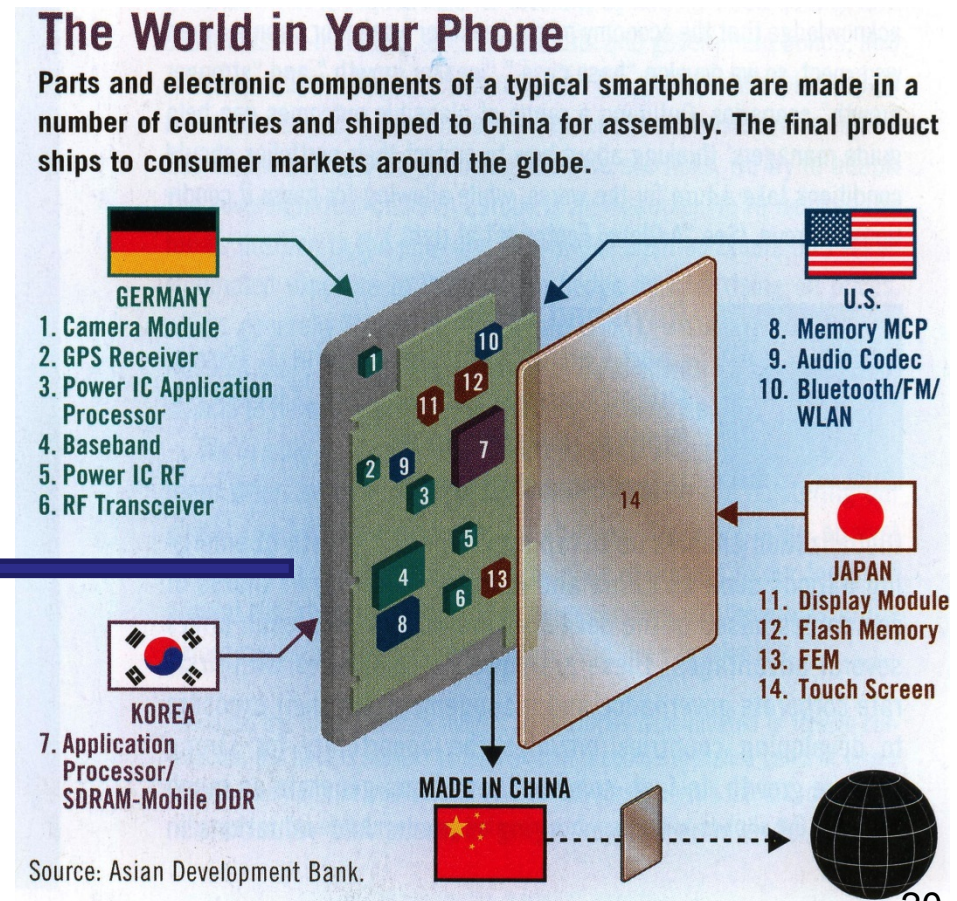
Talents from Multi-nations!!

Example on GLOBAL Manufacturing

The well-known iPhones 4 were 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.
(sold @ \$500+ in the US)



Current Major Initiatives on Globalization

Initiative on Free-trade partnerships by USA:

- The US has already signed free-trade agreement with 20 nations. The current US administration is re-negotiating with many of its partners of these free-trade agreements for more “favorable terms.”
- **Trans Pacific Partnership (TPP)** signed in February 2016 with 14 nations: USA, Singapore, Brunei, New Zealand, Chile, Australia, Peru, Vietnam, Malaysia,, Mexico, Canada and Japan. These 14 member countries have over 45% of annual world trades. **Unfortunately, the current US administration has decided to withdraw from the TPP in January 2017. However, it has since resumed negotiation to re-join the TPP in early March 2018.**

- **A major initiative by China:**

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: @ half the cost of air freighter & 2 weeks shorter than by sea.

The **Pros** and **Cons** of Global Economy

Positive social and geopolitical impacts of globalization is well recognized by a frequently cited quote of Kofi Annan, a former Secretary General of the UN:

“Arguing against globalization is like arguing against the laws of gravity”

The single most **negative social impact of globalization** is:

Income Inequality

for the World, and for both the developed and developing countries

This income inequality is caused by the cycle of the stimulating heavy investments by venturesome business people – resulting in “windfall profits” from their global business and industrial operations. This practice, in turn, results in snow-balling profits for these investors. These “fast bucks” business operations and industrial productions made them “instant” rich people and new business tycoons in both developed and developing countries.

A. Positive social and geopolitical impacts to the World (the “global village”):

- (1) Gradual removal of national boundaries in economic development - thereby the economic growth.
- (2) Gradual removal of trade barriers among nations with more multinational free trade agreements
- (3) Enhance Inter-cultural communications and inter-personal management skills
- (4) Promotes inter-racial and inter-cultural cooperation in industrial productions and economic development
- (5) Has proven to help poor countries and regions prospering in their economy and thereby improving the quality of lives of their citizens - a fundamental issue of social justice.
- (6) Develops a culture of resolving economic and trade disputes through cooperation and collaborations among all nations in the GLOBE VILLAGE – an unprecedented social impact
- (7) United Nations acts as the governing body of the Global Village. It plays increasingly active roles in maintaining “law-and-order” of the Global Village – thus reduces the chances of major wars.
- (8) Provides underprivileged people in the world with low price consumer goods (e.g., the “Walmart price”) - contributing in sustaining decent living standards for the poor – an issue of social justice.
- (9) Provides employment opportunities to citizens of poor countries – another social justice issue
- (10) Nurtures rapid rising of middle-class in the society to afford better goods and services with stronger buying powers – In theory, it helps in narrowing the gap between the rich and poor:
- a major contribution to social justice and stability.

Positive Social and Geopolitical Impacts of Globalization – Cont'd

B. To Developed nations, such as USA and Western European countries:

- (1) To set up their companies and industries to the developing nations to take advantages of qualified workers with low wages and with marginal fringe benefits.
- (2) To take advantages of lax environmental regulations by governments of hosting countries, and with weaker union demands– **Substantial improvement in productivity at significantly lower costs.**
- (3) Open up potentially **new markets** for its products.

C. To Developing nations, such as China, India and former Eastern block countries of Soviet Union:

- (1) Receive infusions of new investments, new and current technologies, and employment of their people. The size of direct foreign investments has increased, and erase a lot of bad habits and traditions, and also cuts many drawbacks in government bureaucracies.
- (2) Learn new business, industrial management and marketing skills that were not known to them before.
- (3) Newly generated revenues from global business provide funds for educations and trainings to many of its citizens.
- (4) Fast rise of middle-income class and has created number of business tycoons.

Negative Social Impacts of Globalization

A. To the World (Global village):

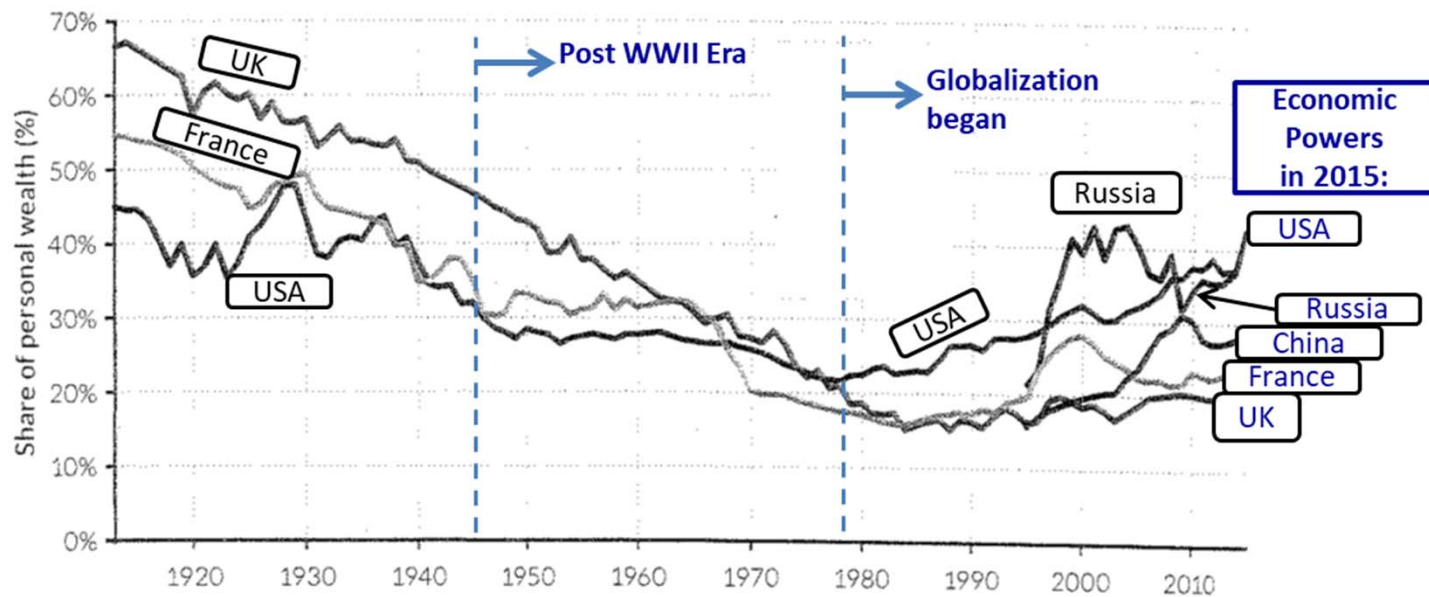
The single most negative social impact of global economy is

INCOME INEQUALITY

The richer become richer and
the poorer become even more poor!

Figure E8

Top 1% wealth shares across the world, 1913–2015: the fall and rise of personal wealth inequality



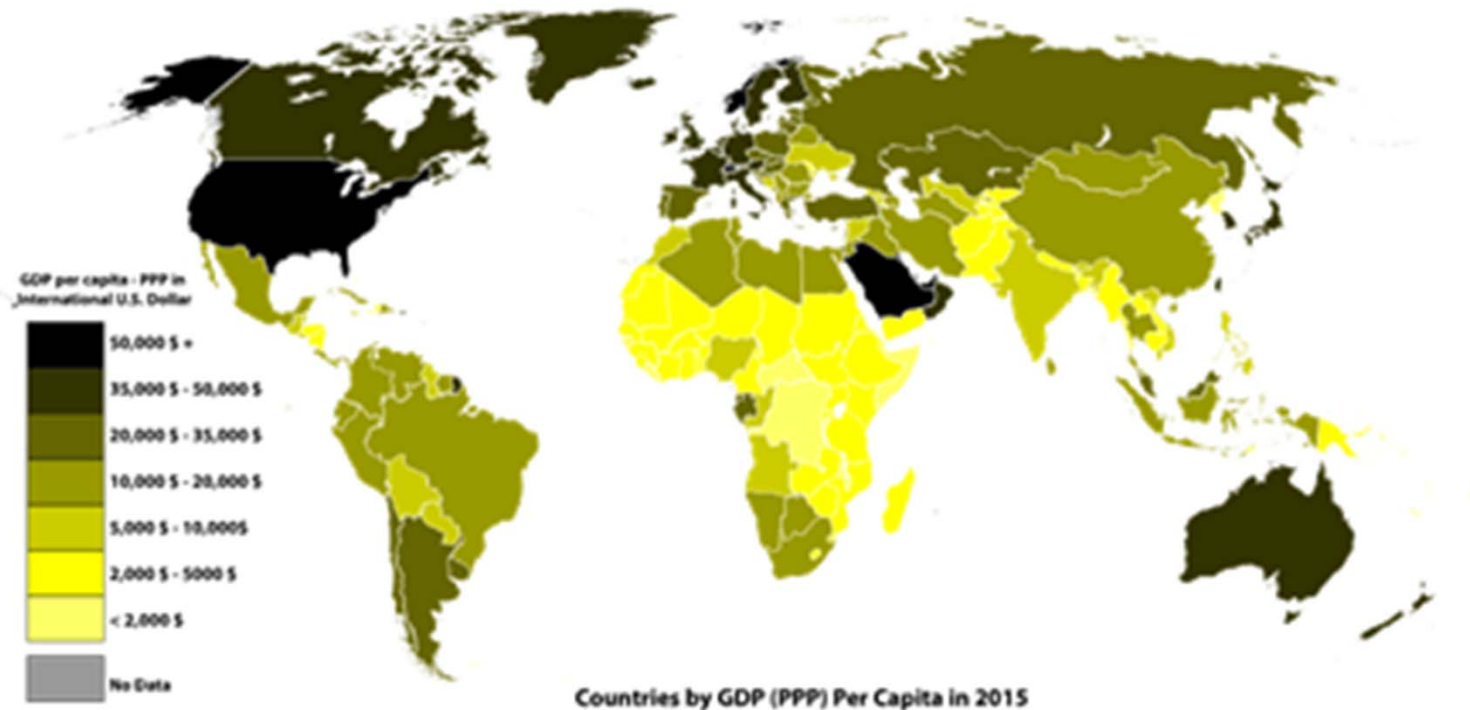
Source: WID.world (2017). See wir2018.wid.world for data series and notes.

In 2015, the Top 1% wealth share was 43% in Russia against 22% in 1995.

Also as illustrated in the next four (4) slides

Global Wealth Distribution in the World in 2015

- by List of GDP/Capita of Countries by the IMF

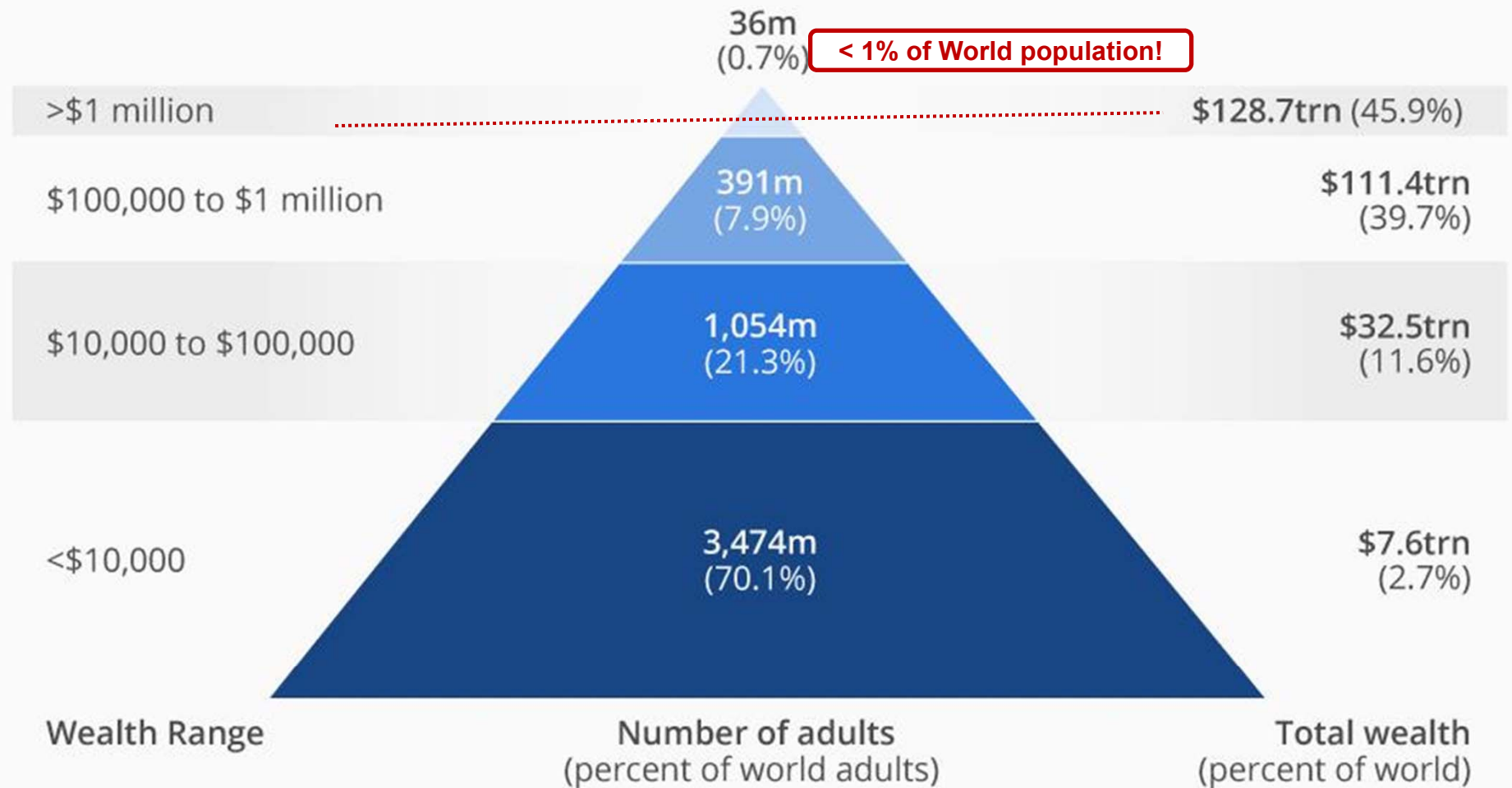


An alarming fact: The wide gap between people in the RICH and POOR countries:
Variation of per capita GDP (or PPP). In 2017, from highest **\$124,927** (Qatar), and **\$59,495** (USA) to poorest of the 187 countries at **\$681** (Central African Republic in Africa)

The gap of income inequality between the affluent and poor countries in the World is widening with Globalization!

The Global Pyramid Of Wealth

An overview of global wealth distribution (U.S. dollars)

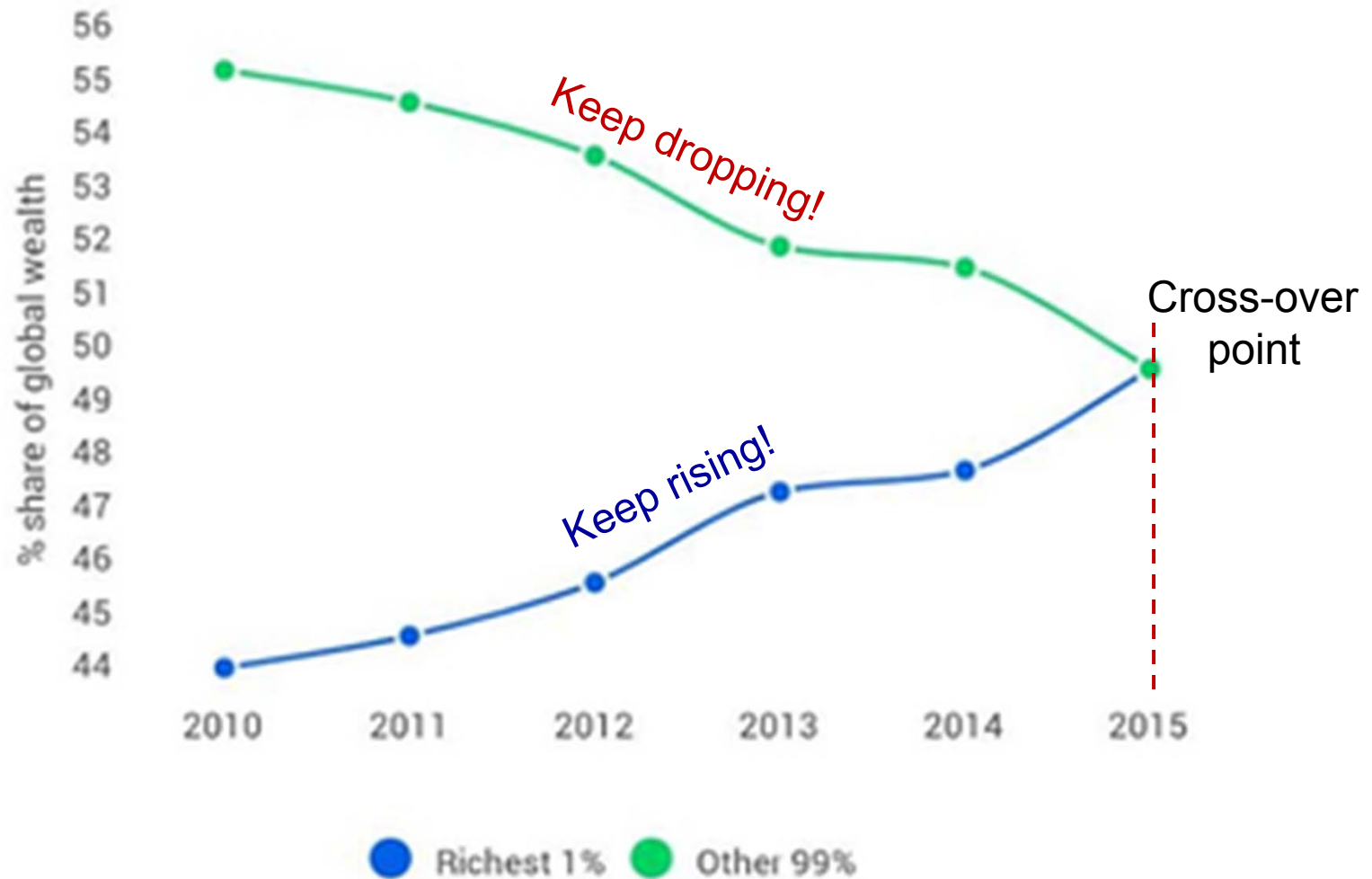


@StatistaCharts

Source: Credit Suisse 2017 Global Wealth Report

**Less than 1% of population hold almost
HALF of the wealth of the World!!**

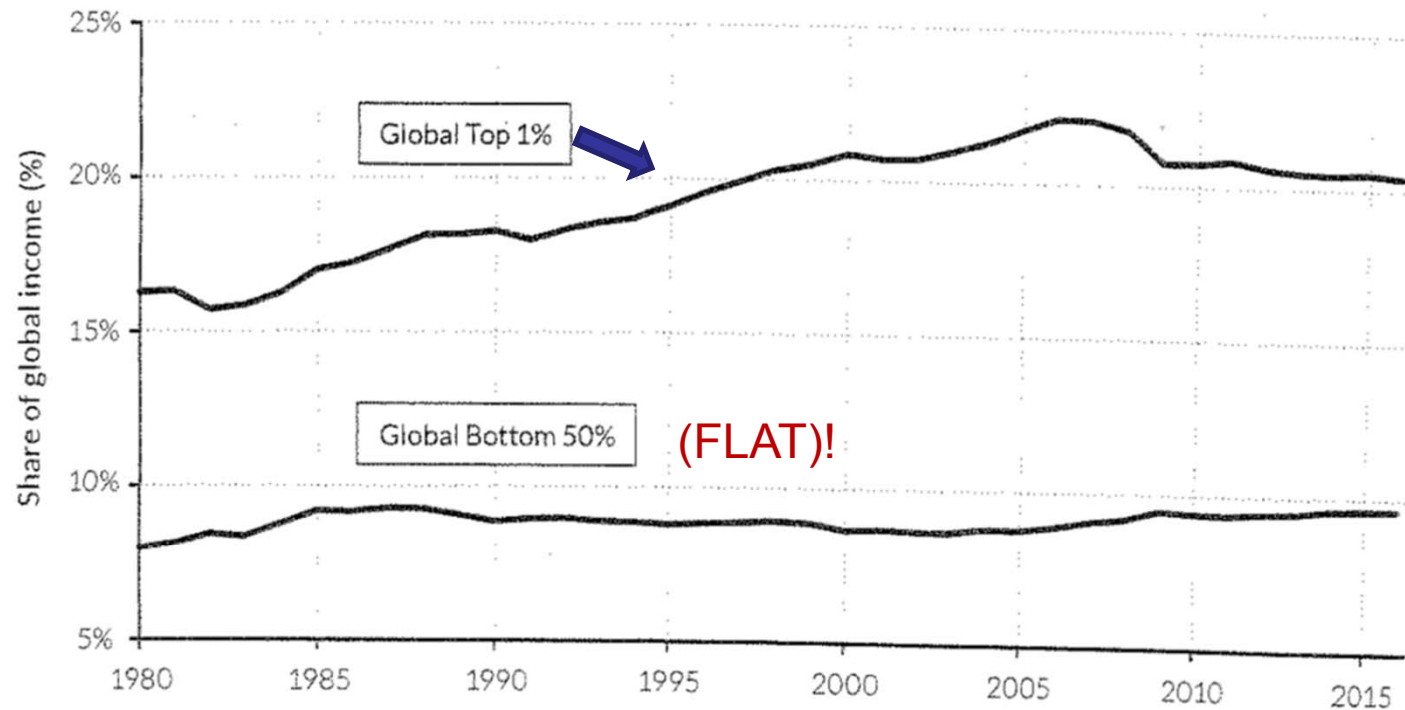
Share of global wealth 2010-2015



Source: Credit Suisse 2017 Global Wealth Report

Figure E5

The rise of the global top 1% versus the stagnation of the global bottom 50%, 1980-2016



Source: WID.world (2017). See wir2018.wid.world for data series and notes.

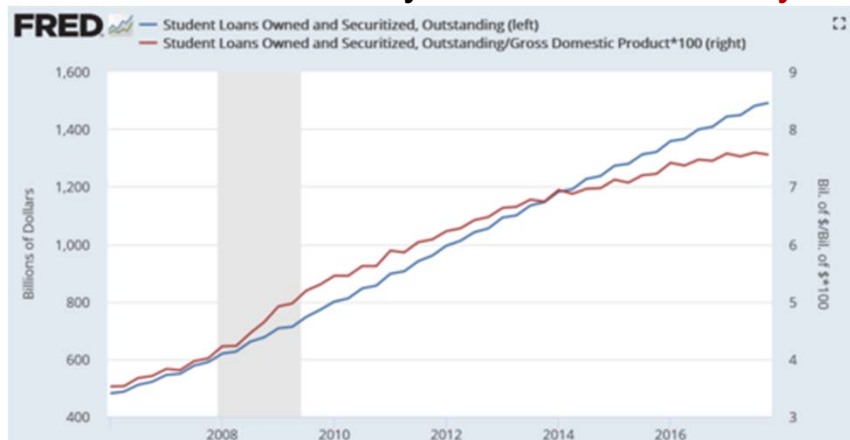
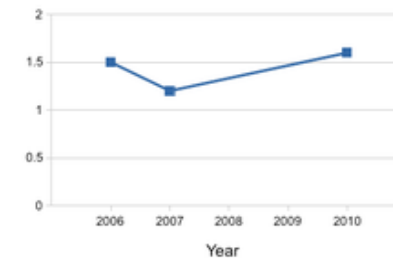
In 2016, 22% of global income was received by the Top 1% against 10% for the Bottom 50%. In 1980, 16% of global income was received by the Top 1% against 8% for the Bottom 50%.

Negative Social Impacts of Globalization – Cont'd

B. To Developed nations, such as USA and Western European countries:

- Creates widening gap between the rich and the poor in these countries:
 - The accelerating **income disparity** in many countries such as USA shows that “**Top 1% Americans own >40% of the nation’s wealth, yet the bottom 80% only own 7%**” – it is a gross social injustice that leads to:
 - (1) Increasing number of “**homeless**” adults & families- with many women, children and **veterans** (current estimate of homeless in US over 1% of total population, or 2-3 millions),
 - (2) Huge number of people with no adequate **healthcare**.
 - (3) Social disharmony deepening “**hates**” in the society with increasing number of **drug abusers** and **gun violence** among the desperate or mentally disordered adults.
 - (4) Rapid rise in **crime rates**.
 - (5) Rapid increase of student loans, as cost of living and education skyrocket.- **Affordability of education?**

Homeless children in the United States
in millions



Negative Social Impacts of Globalization – Cont'd

B. To Developed nations, such as USA and Western European countries-Cont'd

- 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 has created:
Rapid deterioration in environment due to over-consuming, cost-cutting in industrial productions for better profits, outpaced government regulations and inspection, and lax government restrictions. Outpaced government planning, e.g., quality air, serious shortage in clean water supply, sanitation and sewage treatment – a serious social welfare problem – a major social injustice!
- Loss of **manufacturing jobs** to the receiving countries in outsourcing – creates **high unemployment rates** in manufacturing and traditional industry sectors. – a social injustice.
- Many developed countries, such as USA suffer huge **trade deficits** due to lack of competitiveness to international competitions, resulting huge **national debts**(**current debts at \$20 trillion, projected to be \$30 trillion in 2030!**) – Heavy national debts result in: lagging behind in investments in: infrastructure (a vicious cycle for economic growth), and social welfare and public education and healthcare – causes for **major social injustices!**

Negative Social Impacts of Globalization – Cont'd

C. To Developing nations, such as China, India and other emerging nations –Cont'd

- Globalization resulted in more rapid income inequality in these countries. It has created many rich upstarts, resulting in serious **social polarization**. - **worsening the already social injustices!**
- Globalization resulted in **rapid urbanization**, as what has happened in developed nations, resulting in inhumane treatments to migrant workers – **a negative social justice!**
- Globalization offers less incentive for many of these countries to improve or change of **already sub-standard labor practices** – **a gross social injustice!**
- Globalization nurtures corruptive government officials and banking systems.
- Regional political conflicts often result in major **disruptions on the order of global economy**. An example of this is the massive exits of refugees from recent conflicts in the mid-East and North Africa – **major social justice and also a human rights issues**

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:**

Rank	Countries	GDP (\$10B)
1	China	5,850
2	India	4,412
3	USA	3,410
4	Indonesia	1,050
5	Brazil	754

** PwC=Pricewaterhouse Coopers LLC

A serious question to ask by many of us is:

“How can we make America Great again?”

I would like to offer the following answers to this question:

- (1) Enter free trade agreements with as many countries as possible;
It will mean greater choice for consumers at lower prices for American goods and services - leading to great prosperity for our country,
- (2) Invest heavily on infrastructures: There has been no major such development in this country since the “Freeway network” instituted by President Eisenhower in the 1950’s – **No adequate infrastructures, no economic growth!**
- (3) Globalization promotes competition among nations of the world.
We should not be afraid to compete because we will be the winner.
- (4) Foremost important - 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 that are lost-Simple Darwin’s theory applies!!.

THANK YOU FOR YOUR ATTENTION & INTEREST

**Wishing you all enjoying and thriving
in this “hot, flat and crowded”**

(A book title by Thomas L. Friedman, 2008)

, and competitive global village,



GOOD LUCK TO YOU ALL