



Keynote Address

**The Honorable
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U.S. Mission to the OECD**

**“The U.S. and Advanced Industrialized Democracies
Facing Globalization”**

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A New World Order

- **Thank you Mr. President (Ned Gubbins) for that kind introduction and for inviting me to address you today. It's a great pleasure for me to be here amongst such distinguished company as the Harvard Club of France and the Club des Conseillers du Commerce Extérieur de la France. Chacun des deux apporte une contribution conséquente à la croissance économique globale.**
- **Harvard University will always remain dear to my heart having spent a very memorable period there as a Visiting Fellow at the Kennedy School of Government in 2003. It is an institution with a rich academic history and one that graduates some of the brightest and most successful alumni in the world, like those of you here today. I was honored to have had the opportunity to be a small part of the institution.**
- **What struck me during my time at Harvard was its relentless yearning to be at the forefront of new thinking and innovation. It challenged its students in every way in an effort to prepare them**

for a world where the forces of competition would require them to become leaders in their fields.

- **Not so long ago, those forces of competition for Harvard graduates came from within the borders of the United States. Today, things have considerably changed, and there are no borders that remain.**
- **We now live in a globalized world where the forces of competition come from every corner of the earth. Whereas many of us in this room had only to compete for jobs early in our careers within our respective cities and towns, perhaps for some even as wide as our State or Provincial borders, the children of today in the United States and Europe will compete for the jobs of tomorrow not just with their fellow countrymen, but with fellow nations – countries as far flung as China, India, South Africa and Russia.**
- **And while there is much debate about this new globalizing world, with many who fear its consequences, one thing is absolutely certain – globalization is upon us and there will be no return. And**

not only is it here, it is happening at warp speed. We cannot stop the forces of globalization, just as we could not stop the forces of industrialization. What is vital therefore, is to ensure that we are as ready and well-prepared as possible to meet the challenges that it will most certainly impose. Without question, the world has now become a single market, a single ecosystem, and a single community.

- **This fast pace of change has put enormous pressure on societies to adapt and create the new skills necessary for this modern global environment.**

Today's Global Economy

- **Just how integrated is today's global economy? One indicator is trade, now a major engine of growth in developed and developing countries alike. The volume of world merchandise traded today is about 22 times what it was in the 1950s. During the same period, the value of the world's output has increased seven times over. Perhaps the deepest integration of all has been the cross border link-ups between enterprises. The share of OECD countries'**

capital formation supported by foreign direct investment rose to more than 10% in recent years, having stood at around 4% for decades.

- **According to the OECD, China could overtake the USA and Germany to become the largest exporter in the world during the next 5 years. The transformational role of the BRICS – Brazil, Russia, India, China and South Africa - by 2007 could together equal half the economic power of the present G7 and in 40 years outstrip the whole of the G7 in dollar terms. The primacy of economic powerhouses such as the United States and some European countries will be challenged by the BRICS and by 2050 China is predicted to become the world’s largest economy.**
- **Even Mexico, where the Virgin of Guadeloupe is one of its National treasures, is now outsourcing the manufacture of these statues to China, where it is cheaper and most cost-effective to produce.**

- **As its manufacturing productivity increases, China is losing jobs in manufacturing - many more than the U.S. is - and gaining them in services, a pattern which has been playing out in the developed world for many years. In OECD economies, the service sector now accounts for over 70% of total employment. And it accounts for almost all employment growth in the OECD area.**
- **Increasingly, OECD countries are facing stiffer competition from countries such as China and India. China's real long-term strategy is to outrace America and EU countries to the top, not 'to the bottom' as some have argued, and China is off to a good start. Chinese leaders are very focused on how to train their young people in math, science, and computer skills required for success in a globalized world. China wants to ensure that it's not just 'making' clothing or airplane wings but actually 'designing' them in China as well.**
- **Between 1995 and 2000, China's university enrollment grew by two-thirds, and in India it grew by one-third to 8.8 million students. Last year, China's institutions of higher education**

awarded 600,000 engineering degrees, while India awarded 350,000. The Unites States, by comparison, awarded just 70,000. In China today, Bill Gates is Britney Spears; in America, Britney Spears is Britney Spears. This is definitely a race to the top.

The World Is Flat

- **Pulitzer Prize winning author Thomas Friedman in his latest work has concluded that the ‘world is flat’ - the global competitive playing field is being leveled and it is countries such as China and India that are helping to flatten it. He warns that if Americans and Europeans want to benefit from the flattening of the world, “they will have to run at least as fast as the fastest lion”, adding that lion will likely be China and India, and that will be ‘pretty darn fast’.**
- **The outsourcing of jobs to developing countries such as these have largely been attributable to the digital world, which is continuing to revolutionize business and making it all possible in a way that is digital, mobile, and virtual.**

- **Downloading speeds and storage capability are growing exponentially and the computational capacity of computers has become mind-boggling. Computer microchips are measured in millions of instructions per second: in 1971, the Intel processor produced 60,000 instructions per second. Today, that Intel processor now has a maximum of 10.8 billion instructions per second. Advances in fiber-optic cable are yet another example of how the world is revolutionizing and flattening: fiber-optic cable will soon allow 1 terebit per second. With 48 cables in a fiber, that's 48 terabits per second – in other words, you could transmit all the printed material in the world in minutes within a single cable. This means unlimited transmitting capacity at zero incremental cost.**
- **Just imagine what this means to commerce - it means you can do business to and from practically anywhere in the world with few limitations. And if current labor market costs are cheaper in places like India and China, this is naturally where business not only will want to do business but can and will do business, often**

more efficiently and effectively than ever before. The Internet now makes the world like one marketplace.

- **In 2004, thanks to the Internet, some 400,000 U.S. tax returns were processed in India and the industry is expected to outsource even more of this work in the future so that American tax consultants can focus on value-added work with clients. Today, if you have problems with your Dell computer and call its Help Desk, the person answering and introducing himself as Randy is actually Rasheed from the India Call Center. These are just two examples of a world exploding in both outsourcing and offshoring.**

Dynamic Employment Policies

- **Fears that ‘globalization’ implies job losses and lower wages is a very real aspect of what is happening, and anxiety of both government and the public is rising. Wolfgang Munchau writing in the Financial Times described European debate on globalization involving 25 heads of state and government as a “modern version of hell”.**

- **The former Chancellor Gerhard Schroeder railed at globalization at his last European Council Summit, protesting that attempts to ‘elevate the market and pursue never-ending liberalization’ was to betray Europe’s basic beliefs and values.**
- **The French government seems to be grappling with its own backlash to this new paradigm. The recent strikes in many cities across France hopefully represent only a temporary setback in ongoing labor market reforms rather than the start of a reversal. The strikes, as you know, were in reaction to a new law that was to have extended to two years the trial period during which time companies could hire young people, letting them go with few restrictions if things did not work out.**
- **By giving employers more flexibility in taking a chance with new recruits, the reforms would have helped young people gain a foothold in the labor market - particularly those young people who are otherwise considered hard-to-employ, from minority or underprivileged backgrounds. This is the focus the government**

tried to pursue. Honest people can debate the degree to which the controversial law did so.

- **The recent 2006 second edition of OECD's "Going for Growth" study notes that France has undertaken a number of labor market reforms that are starting to have a positive effect on raising employment rates, though unfortunately, the unemployment rate remains stubbornly high. For 15-24 year olds the unemployment rate is almost 23%, nearly double the national average.**

Undoubtedly, labor reforms will be a preoccupation of the French government as they grapple with getting more young people to work.

- **Clearly, labor market reforms are necessary in all OECD countries if we are to meet the challenges of this new world order. In its recent "Employment Outlook", the OECD told its member governments that efficient policies to encourage employment and combat unemployment are essential if countries are to reap the full benefits to globalization and avoid a backlash against open trade.**

- **Job losses in some sectors, along with new job opportunities in others, are inevitable and should not be seen only as the results of globalization. Changing consumer tastes, technological modernization, and other factors have historically meant the end of some jobs and the creation of new opportunities: and that is still the case today. The challenge is to ensure that the adjustment process involved in matching available workers with new job openings works as smoothly as possible.**

- **Specifically, the OECD urges governments to:**
 - **Ensure that work is more rewarding financially than living off welfare, if necessary through in-work benefits that supplement wages.**
 - **Provide adequate income support in the event of job loss and help job-seekers find new jobs quickly by providing**

effective counseling, training and other re-employment assistance.

- Ensure that employment services are managed effectively in order to provide as much individualized support to job-seekers as possible.**
 - Ensure that firms anticipating lay-offs give their employees sufficient advance notice, and that effective re-employment services are provided during the period of advance notice.**
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- The OECD's call to action is urging the need for reforms in its member countries in order to withstand competition from emerging economies. Employment levels are picking up slowly in OECD countries, however on current trends, OECD countries will still have around 36 million job-seekers in 2006 (or 6.4% of the labor force), compared with 37 million in 2004 (or 6.7% of the labor force). About 35% of people of working age are without a job, and there are few signs of significant improvement in the next two years.**

- **Rising imports, outflows of foreign direct investment, and inflows of immigrants all contribute to the rising job insecurity in OECD countries. The rapid integration into the world trading system of China and India, with their huge pools of low-wage labor, and the recent enlargement of the European Union have fuelled fears of job losses and wage cuts.**
- **While anxieties about globalization, though widespread, may not always be justified, the OECD acknowledges that adjustment to these new conditions “is neither automatic nor painless.” Workers that tend to lose their jobs often find it harder to get new jobs and may have to accept pay cuts. In many cases, they are older and less educated than other job-seekers, with skills that no longer correspond to current needs.**
- **Having said that, however, it is very important to note that only a fraction of the job losses in OECD countries is likely to be directly attributable to trade and investment liberalization. Claims that globalization is the main cause of the labor market problems experienced by OECD countries are “exaggerated.”**

- **Ensuring that labor markets are dynamic and that people of working age have opportunities to work is more important than ever. Failure to acknowledge the worker adjustment challenges of globalization, and to implement the necessary reforms, may erode much-needed public support for open trade policies.**

Liberalization and Better Living Standards

- **Evidence of past episodes of trade and investment liberalization indicates that these have been important sources of rising employment and living standards. Increased market openness creates new business opportunities for all participating countries, promotes consumer choice and makes room for higher real incomes. Past experience shows that protectionist policies are a blind ally: countries that have been more open to trade have also tended to experience higher economic growth than less open economies.**
- **Yet realizing the gains from trade requires the move of production factors away from activities in which a country is**

relatively less efficient than its trading partners towards activities where it is relatively more efficient. This means that job losses in some sectors, along with new opportunities in others, are an inevitable part of globalization. I reiterate, the challenge is to ensure that policies ensure the adjustment process can take place, and with minimal disruption.

- **The size of the adjustment challenge needs to be put into perspective. As I mentioned, only a fraction of job losses recorded in OECD countries is attributable to trade and investment liberalization. To illustrate this, the data for 15 OECD countries over the period 1900-2000 show that the high import-competition industries within manufacturing only accounted for 4% of total employment on average. However, adjustment is neither ‘automatic nor painless.’ Workers losing their jobs in high import-competing industries are slower to be re-employed and experience larger wage cuts once re-employed than other job losers.**

- **The challenges of trade displacement are not very different from those arising from job loss in general. Therefore the overriding policy requirement here is to foster their move into new jobs, while at the same time providing temporary income support to job losers in general.**

The OECD and Globalization

- **Acknowledging and addressing the new demands of a global world are imperative. Gone are the days when individual nations could run a successful economic policy at home while ignoring international trends. Globalization brings both challenges and opportunities. Responding to them is a matter for governments as well as citizens. A globalized economy needs globally accepted rules of the road, and occasionally codes of behavior. Without them the results can be a disaster. The world's richest countries have a responsibility to take the lead in helping others reap the rewards of globalization. One place they do that is at the OECD.**
- **The OECD is a forum within which governments get to grips with the challenges posed by globalization. Working with each other,**

and some 70 countries outside of OECD membership, we're working hard to define the policies needed to support sound and sustainable economic growth globally, and then implement them through national legislation.

- **One of our over-arching principles is to level the playing field amongst nations: a 'flattening of the world' if you will, as Thomas Friedman writes. It's critical that countries throughout the world enhance their ability to take advantage of the myriad of opportunities that open markets offer to increase their growth and development.**
- **OECD outreach to more than 70 developing and emerging market economies including the BRICS – Brazil, Russia, India, China and South Africa – has become central to its mandate. China alone participates in some 19 OECD committees and we have just completed a China Framework, specifically designed for them.**
- **Our goal is to improve the integration of non-Members into the global economy, and to ensure that the emerging economic powers**

participate in the global marketplace with regard for its rules of the road and best practices. As their economic security and well-being improves, so will that of the rest of the world.

American Competitiveness Initiative

- **The United States is responding to globalization with policies that will help prepare us for this new world. In his recent State of the Union Address, the President announced the ‘American Competitive Initiative’, committing \$5.9 billion in FY2007 to increase investments in research and development, strengthen education, and encourage entrepreneurship. Over 10 years, the Initiative commits \$50 billion to increase funding for research and \$86 billion for research and development tax incentives, as well as \$380 million in new Federal support to strengthen the United States’ education system.**
- **This investment will ensure that R&D will generate the knowledge and tools needed to develop new technologies; prepare Americans to compete effectively in the global marketplace by improving the quality of math, science and technological**

education; support pro-growth economic policies, investing in innovation in order to remain a world leader in science and technology; and provide financial assistance so that workers and people seeking work can obtain the requisite training and education they need to increase their skills and compete for the jobs of the 21st century. This Initiative helps to ensure that the U.S. maintains its competitive edge.

Fundamental Change Essential

- **Globalization is upon all of us and we must not be left behind. Workers who find themselves seeking new employment must be given every opportunity to make a smooth transition. Training for older workers must be provided to enable them to develop new skills required for a new economy. Education must be a priority so that young people can compete with the best and the brightest – to compete with highly educated workforces in countries such as India and China. Countries will have to shift in this new paradigm and recognize that innovation and ideas are the drivers of success.**

- **Fundamental changes are occurring. Billions of people are now entering the global economy and they are sprinting onto the playing field. In this new globalized world, the winners will be the ones who learn the habits, processes and skills most quickly. And there is nothing to guarantee that the leaders of today, will be the leaders of tomorrow.**
- **At the OECD we're working hard to ensure that countries are given the tools necessary to make important choices and fundamental change. These are exciting times and they require bold and innovative measures. The challenge is to recognize the dangers and prepare for them, while seizing quickly upon the multitude of opportunities.**
- **As a former member of the U.S. Congress, I know well the impediments to making difficult choices. But we cannot fear tomorrow. While there are many aspects to this new globalized world that we do not yet know, what we do know for sure is this: there is no going back, we cannot stop it, and we must wake up each morning imagining how we can make things better.**

- **I leave you with an apt quote stated in 1967 by an American, King Whitney Jr., who told his corporate audience:**

“Change has a considerable psychological impact on the human mind. To the fearful it is threatening because it means that things may get worse. To the hopeful it is encouraging because things may get better. To the confident it is inspiring because the challenge exists to make things better.”

- **While it is human to be fearful, I hope that like me, you are both hopeful and confident that better days are ahead in this new globalized world.**
- **Thank you.**