



**Speaking Notes**

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**“World Economic Challenges in the Era of Globalization**

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Many thanks **Madame Maurel** for that kind introduction. Bonjour Mesdames et Messieurs. It's a pleasure to be invited to speak at this distinguished institution and to discuss with you some of the important economic issues and challenges we now face in this new era of globalization. In a speech in Cape Town, South Africa, on June 7, 1966, Robert F. Kennedy observed there is a Chinese proverb which says, "‘May he live in interesting times.’ Like it or not, we live in interesting times."

Globalization is not a new phenomenon. We can go back to the end of the nineteenth century and find that trade, capital flows and migrations were no less important then than they are today. So what's all the fuss? The commotion is because there are fundamental differences that give globalization today a special, and at times sharp edge. Today's globalized world presents a new paradigm that we have never seen before.

### **Globalization: technological and policy revolution**

The earlier integration of the world economy was driven more by technological developments in transportation and communications than by policy changes. This integration was largely driven by emerging technological revolutions in transportation and communication.

Technological advances in these sectors rapidly reduced transportation and communication challenges throughout the nineteenth century. Martin Wolf, the Financial Times columnist has observed, "The first transatlantic telegraph was laid in 1866. By the turn of the century the entire world was connected by telegraph and communication times fell from months to minutes."

But today, a major component of the dramatic change is in the degree to which governments have intervened to reduce obstacles to the flow of trade and investment worldwide. The story of globalization today must be written in two inks: one colored by technical change and the other by state action.

### **Competitive pressures**

New information technologies have created a landscape where movement of services and capital are faster by several orders of magnitude. Financial turbulence is nothing new but the magnitude and speed at which it arrives is indeed, qualitatively, a different phenomenon.

This in turn has meant that the sense of vulnerability, or economic insecurity, is arguably greater today than in earlier periods because the growing integration of nations worldwide into the international economy has intensified competitive pressure from actual and potential rivals elsewhere.

All this has transformed the debate on globalization. This intensified competition has forced nations and companies to try to ensure that domestic policies ensure a level playing field. And with explosive growth worldwide, some say that globalization is at a crossroads.

### **OECD's role in a globalized world**

Let me interject here for a moment to talk about the OECD and its role as an international institution in public policy. The OECD is helping countries make the most of globalization. Through a unique system of permanent multilateral dialogue, policy experience sharing and peer pressure, the OECD is developing a common understanding of the major implications of

global challenges, as well as innovative solutions to address them. In the process, we identify and disseminate best practices and draw on our ability to build consensus in crucial areas requiring international cooperation.

The OECD is adapting in order to respond more effectively to the challenges of an increasingly interdependent world; it is becoming more global, more inclusive, and more relevant. The OECD is now initiating a new phase of the enlargement of its membership. It has begun accession talks with Chile, Estonia, Israel, the Russian Federation and Slovenia. In parallel, the OECD will strengthen our cooperation with Brazil, China, India, Indonesia and South Africa through enhanced engagement programs with a view to possible membership.

In many areas, the OECD has already become the hub of globalization. It covers the whole range of issues related to foreign direct investment. It leads the fight against international bribery, with the OECD Anti-Bribery Convention being used as a benchmark for other initiatives. The Development Assistance Committee (DAC) set the standards for best practice in promoting development through international aid. Our Model Tax Convention is the basis for thousands of bilateral treaties worldwide. And PISA is the reference point for assessing educational standards around the world.

The OECD is also trying to level the playing field worldwide.

### **Globalization's benefits**

Despite the naysayers, globalization has indeed delivered significant progress. Over the last five years the world economy has experienced one of its most dynamic expansions ever – growing a full 20%. During this period, international trade and investment flows have boosted interdependence and allowed developing countries to connect better to the global economy, already lifting millions out of poverty.

The Internet, for example, one of the main tools of globalization, has opened a flood of opportunities, generating an unprecedented global exchange of capital, information, knowledge and ideas. With nearly 1.3 billion users, the web is building ‘the most important highway for human progress’ we ever had.

### **Globalization's challenges**

But along with the progress, globalization is challenging us with new issues and problems. And while the benefits far outweigh the costs, there is a risk that those bearing the costs, along with those who fear for their futures, will trigger a backlash. If globalization is to go forward, as I strongly believe it should and will, then we have to ensure our publics and you in this room today, that the policies and initiatives are in place to ensure that both the pain and gain of globalization is managed in an equitable and sustainable way.

Today, one of our greatest threats is the loss of public confidence in our political and business leaders to deliver a safer and more prosperous world

for the next generation. A recent poll carried out for the World Economic Forum found that only 19% of Western Europeans and 26% of Americans believe the world will be more prosperous for the next generation. Another recent public opinion survey by the Pew Research Center revealed still more of Americans' concerns -- 1 in 3 Americans don't believe in the benefits of globalization.

### **Globalization misconceptions**

While the fears are very real, much of them however are based on misconceptions about trade and liberalized markets. Globalization has become the whipping boy for the social ills and fears that domestic audiences hold generally – fears about losing national identities and cultures, fears about migration, fears about foreign influence and investment, fears about multinational corporations, and fears about job loss and security.

But if one looks closer, globalization has indeed been the engine of economic prosperity around the world. In the U.S. alone, the lower trade barriers achieved through past trade agreements have added an extra \$56 billion in income annually to the U.S. economy. Since 1993, exports alone have accounted for one-third of U.S. economic growth; and more than 12 million Americans owe their jobs to exports. If trade liberalization were halted at 1993 levels, wages of U.S. skilled workers would decline by an estimated 2-5% by the year 2013, compared with what they would be otherwise, while wages of unskilled workers would remain unchanged.

OECD figures show that close to 30% of jobs in France depend directly or indirectly on foreign direct investment. Fully 80% of French foreign direct investment is directed towards other OECD countries, suggesting that wage considerations play a relatively marginal role in shaping French firms' investment location decisions.

Few sectors illustrate more how globalization is shaping and improving our lives than consumer electronics. There are now 25 consumer electronic devices in an American household – whereas there was just one such device only 30 years ago. Think about applying this velocity of change to rapidly emerging economies of India, Brazil, and China. U.S. exports already account for \$328 billion of the \$3.2 trillion market, and some 300,000 American jobs were created in this sector between 1990 and 2005.

Nearly one in five U.S. jobs is dependent on imports and exports, and yet 28% of Americans don't believe in globalization. It is critical that global publics understand more fully the benefits of trade liberalization. We have a lot to be optimistic about.

### **Globalization's challenges**

Having said that, there are undoubtedly many challenges to globalization as well. First is the rapid and widespread technological change – what some refer to as a paradigm shift because these changes have been so sweeping that they affect all industries and activities.

The explosive growth of financial markets, the spread of off-shoring and outsourcing, the development of global supply chains are just some of the

examples. The most likely scenario for the future is one of continuing and rapid and transformative technological change, but with a difference.

In the past, it was the rich countries that were the principal sources of new technology, leading to new industries. In this model, old industries such as clothing, shoes and plastic toys migrated to the developing world while the rich countries developed the new industries of computers, mobile phones, jet aircraft and pharmaceuticals.

But in this new paradigm, we are likely to see the emerging market economies become not only the producers but also the initiators of new technologies. Countries such as China and India are investing heavily in higher education and research, and starting to develop world-scale companies. At the same time, multinationals are locating R&D activities in these countries, reflecting confidence in the skills of their scientists and engineers. Taiwan and South Korea are two excellent examples of economies which have become world centers for the electronics industry.

This points to a quite different global competitiveness environment, one where the capacity for innovation will become much more crucial. Those countries which are able to close the links between their universities and their businesses, and successfully commercialize new knowledge, will have the edge in the future.

Another great challenge of globalization is the steady erosion of barriers to international trade and investment, the increased mobility of people, and the more rapid spread of ideas and new knowledge.

Since World War II, globalization has been a reality for only a small part of the world – namely Western Europe, North America, Japan, Australia and New Zealand – current OECD countries. The Soviet Union and China were closed to the world. Latin America, as well as India, was inward looking.

But over the past couple of decades, almost every country has joined the global economy, adding one billion new workers to the global work force, with the prospect of another billion workers over the next 25 years, virtually all of them in the developing world.

This has had a radical impact on the location of activity in the global economy. Low-cost and hard working labor in Eastern Europe, Russia, Latin America and many parts of Asia, but notably China and India, led to increased flows of foreign direct investment into these countries, for production designed both for rich-country markets and domestic demand in these countries.

This competitive pressure will undoubtedly continue, which I believe is essential, and ultimately leads to higher living standards and lower prices. But this means that attention must be paid to the barriers to innovation – whether they are high costs in starting a new business or a lack of skilled workers with post-secondary education. Getting the fundamentals right on fiscal and monetary policy, competition policy and regulatory practices is critical.

### **The protectionists**

But what is a concern and should concern all of us, is the emergence of protectionist sentiment and possibly the expansion of protectionist policies. One example that has received a lot of attention in the press recently has been Sovereign Wealth Funds (SWF). These large pools of capital that are controlled by governments but invested in private markets abroad are not new, but their spectacular growth and some high-profile investments have led some to question the wisdom of allowing the free flow of capital.

Today, there are about 40 Sovereign Wealth Funds with assets on the order of \$2 to \$3 trillion U.S. dollars. With a few exceptions there is little information on the SWFs corporate governance policies and objectives, and the funds' practices vary widely. Some have expressed concern about the potential for investments to be motivated by political, rather than economic, concerns. Others worry about the impact of investments by these funds on "strategic" industries.

All of these are legitimate questions, but it is also clear that global financial stability and an open investment climate benefit both sovereign wealth funds and the countries where they invest. We believe that an open policy discussion is the way forward, and we support OECD work on best practices for countries receiving investment flows, and look forward to a report on its work in time for the OECD Ministerial in June.

The open investment climate shared among OECD members has been a tremendous success and is a valuable part of the global economy we will work to safeguard.

The structure of our economies is much different from what it was 25 years ago. Our sources of wealth creation have changed significantly, from steel, shipbuilding, coal mining and heavy industry to knowledge-based activities and services. Our economies will change significantly again over the next 25 years and we need to ensure that we are prepared to make the necessary adjustments to allow our citizens to benefit most.

Another great globalization challenge is the poverty which still afflicts much of the world. The great potential benefits of globalization will not be achieved unless we can ensure that globalization works for all.

Today, a large portion of the world's population remains marginalized. More than 1 billion people live in extreme poverty, on less than \$1 a day, and the number living on less than \$2 a day is about 2.6 billion. Today, official development assistance from OECD countries amounts to \$107 billion annually. Greater focus should be on improving aid effectiveness.

Liberalized trade can be a powerful engine for economic development and has helped lift millions out of poverty. Since its accession to the WTO, China's global trade has been growing faster than any other developing country, reaching 60% of its GDP in 2005. More recently, India has set off on a similar route. Latin America is going through one of its strongest economic expansions ever, based on a central turbine – \$1.2 trillion of annual trade-flows; the equivalent of 45% of regional GDP. Clearly, trade

has an important role to play in the development of these emerging economies.

### **Enhancing global education**

In a globalized economy, where knowledge is the driving force of growth and development, education has become more vital than ever in determining people's capacity to prosper, and in helping economies to bloom. There are still 800 million people in the world who lack basic literacy skills and women account disproportionately for two-thirds of this total. We must ensure that our education systems live up to the challenge of providing the knowledge and problem solving skills that are needed in a globalized world. The international comparison of education results in OECD's PISA study shows that there is a strong correlation between best performers in education and thriving economies.

### **Reaping the benefits of globalization**

These are indeed challenging times but they are equally exciting. While this new world paradigm has created many challenges and risks, the benefits far outweigh them. The real challenge, ladies and gentlemen, is how well we manage these challenges today so that we are able to reap the benefits of globalization for generations to come. Never in the history of mankind have we had the power, as we do today, to effect positive change for all of the world's citizens. Globalization has the ability to transform economies, to lift people from poverty, to provide basic human rights and dignity to citizens everywhere. But it must be managed and managed well.

The youth here today are the ones who hold the key to the future. You are well-educated and armed with the necessary tools to make the right decisions. Globalization is here and here to stay. Make the most of what it has to offer.

As has been wisely observed, “The human race has had long experience and a fine tradition in surviving adversity. But we now face a task for which we have little experience... the task of surviving prosperity.”

Merci encore et je serais tres interesse de connaître les perspectives de mes collegues distingues ici-presents aujourd'hui.