LEADING IN A GLOBAL ENVIRONMENT

Remarks by Lael Brainard
Vice President and Director
Brookings Global Economy & Development
Bernard L. Schwartz Chair in International Economics
Tuesday, October 24th, 2006
The New Wave of Globalization

- More of the Same?
- How Sustained?
Unprecedented New Chapter in Globalization

- Speed
- Scale
- Scope
Unprecedented New Chapter in Globalization

- Speed
- Scale
- Scope
Foreign Direct Investment into China

Billions of Dollars

China – Export Led Growth on Steroids

Years of Economic Expansion

Percent of Total World Exports

Source: IMF International Financial Statistics
Shift in Origin of U.S. Manufacturing Imports

U.S. Manufacturing Imports as a Share of GDP

- China
- Korea
- Taiwan
- Japan
- ASEAN
- Mexico
- Canada
- EU Top 4
- Rest of World

U.S. Dominates Manufacturing but Challenged

Manufacturing Value Added by Country


Trillions

$0.0

$0.2

$0.4

$0.6

$0.8

$1.0

$1.2

$1.4

$1.6


United States

Japan

China

Mexico

Brazil
Unprecedented New Chapter in Globalization

- Speed
- **Scale**
- Scope
Massive Labor Force Integration

Source: World Development Indicators
Dwarfs Previous Episodes of Integration

Source: World Development Indicators
New Paths out of Poverty

Annual Per Capita Income, 1995 $US

Source: World Bank
Unprecedented New Chapter in Globalization

- Speed
- Scale
- **Scope**
Different Growth Models with Different Impacts

Share of World Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>India</th>
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<tbody>
<tr>
<td>1989</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>1991</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>1993</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>1995</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>1997</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>1999</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>2001</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>2003</td>
<td>9%</td>
<td>2%</td>
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</table>

Source: BEA and Treasury
Manufacturing Migration
Business Processing Migration
Annual Layoffs Relative to US Total

Millions of Jobs

Source: Forrester and BLS
### Perceptions of Complexity Are Complementary

<table>
<thead>
<tr>
<th></th>
<th>US FIRMS</th>
<th>UK FIRMS</th>
<th>Indian BPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK FIRMS</td>
<td></td>
<td>.89</td>
<td></td>
</tr>
<tr>
<td>Indian BPO</td>
<td>-.47</td>
<td>-.56</td>
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<tr>
<td>Singaporean BPO</td>
<td>-.54</td>
<td>-.63</td>
<td>.84</td>
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**Correlation: Codifiability & Complexity**

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<tr>
<td>US FIRMS</td>
<td></td>
<td></td>
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<tr>
<td>Indian BPO</td>
<td></td>
<td>-.52</td>
</tr>
</tbody>
</table>

Source: Aron (2005)
The New Economy

- Each country does what it's best at.

China

India

U.S.

I'd like to take out a third mortgage on my house so I can buy more stuff.

Manufacturing

Software Design

Loans

I'll have to ask China or India for the money.
New Global Distribution of Power

Major Shift in Resources Market

→ Major Shift in Global Distribution of Power

→ New Players

→ New Rules?
Tectonic Demographic Shift

Projected Population in 20 Years

Percentage of Population under the age of 14

Prices Surge for Key Resources...

Average US Market Spot Prices, Indexed to 1996 Prices

Source: Robert F. Westcott, Keybridge Research
…Where China’s Demand has Grown
China’s Share of World Imports of Metal Ores & Concentrates

Source:: Robert F. Westcott, Keybridge Research
New Players ➔ New Rules?

“All across Africa today, China is acquiring control of natural resource assets, outbidding Western contractors on major infrastructure projects, and providing soft loans and other incentives to bolster its competitive advantage.”

CFR Task Force
“Russian Aluminum Producer Seeks Edge in Global Market; Rusal-Sual Combination Would Create Powerhouse Larger Than Alcoa, Alcan”
The Wall Street Journal, August 31st, 2006

“Zambian Hopeful Takes a Swing at China; Presidential Challenger Stirs Resentment at Asian Power's Growing Influence in Africa”
The Washington Post, September 25, 2006

“China Competes With West in Aid to Its Neighbors”
New York Times, September 18, 2006