**Globalization: Pros and Cons**

Globalization is one of the 21st century’s most important political topics. You might have heard the term globalization used before, whether in an economics lecture or in a political debate.

As the world grows more connected through the Internet and greater international trade, globalization is becoming more important – and more controversial – than at any other point in history.

In this blog post, we look at the benefits, the downsides, and the interesting realities of globalization. Whether you’re an economics expert or someone with an interest in the future of the world, you’ll gain a well-rounded understanding of the pros and cons of globalization.

**What is globalization?**

What exactly is globalization? Simply put, globalization is the process of changing to an integrated world from an isolated one. Globalization can be summed up as a long-term change towards greater international cooperation in economics, politics, idea, cultural values, and the exchange of knowledge.

Globalization has largely been made possible by advances in technology, particularly the Internet. As the world grows more connected, people in all nations achieve a far greater level of interdependence in activities such as trade, communications, travel, and political policy.

It’s easy to assume that globalization is an entirely modern phenomenon driven by inventions like the telegraph or the Internet. In many ways, globalization has been taking place for centuries.

From the Silk Road, which spanned from Europe all the way to East Asia, to the invention of steamships and railroads, humans have engaged in cultural exchange and international trade for centuries.

In the 20th century, this international exchange and trade was made far easier by the invention of airlines and road vehicles. What was once a slow process became a far simpler one. In the late 20th century, the invention of digital communications tools like the Internet made modern globalization a reality.

While globalization covers a wide range of topics, ranging from cultural values and information to economics and international trade, most modern discussion of the pros and cons of globalization is focused on economics and culture.

**What are the core features of globalization?**

From an economic perspective, globalization has truly changed the world. The core features of globalization are increased free trade between nations, easier movement of capital between borders, and a massive increase in foreign investment.

This has resulted in growth for both small businesses and multinational companies, which can now access new markets across the world. It’s also resulted in increased transport and communication between countries and continents.

**What are the key benefits of globalization?**

There are many pros and cons of globalization, ranging from economic benefits to a freer, more equal labor market. Let’s start by looking at the most discussed benefit of globalization: free trade.

Free trade reduces the barriers that once stood between nations trading freely with one another. When companies in different nations don’t face any barriers to trade in the form of import or export restrictions, they can engage in free trade.

An example of a free trade agreement is the North American Free Trade Agreement (NAFTA), which allows Mexico, Canada, and the United States to exchange products and services without significant import and export restrictions.

Free trade has numerous benefits for economies and consumers. Consumers enjoy a greater choice of goods and services, since foreign companies can easily offer their products for sale. They also benefit from lower overall prices for goods, as a greater variety of goods for sale increases competition and drives prices down.

Manufacturers in countries with free trade agreements also benefit from free trade in the from of a larger export market. Rather than being able to export to just a few countries, exporters can now sell their goods to wholesalers and consumers in a large variety of counties.

Free trade also allows nations and economies to specialize, producing higher quality goods at better prices. If a country, for example, has large oil reserves but little land that’s suitable for farming, it can focus on oil production while importing fresh food from abroad.

Another key benefit of globalization is the free movement of labor. In a globalized world, workers can more easily move from one country to another to market their skills to employers and contribute to the economy.

In many cases, free movement of labor allows economies to fix ‘gaps’ that exist in their labor markets. For example, the United Kingdom has hired nurses from India to fill positions in its public hospitals that were previously empty due to local labor shortages.

Companies can also hire workers in foreign countries to work for them using online tools and telecommunications. Learn more about the theory and decisions behind this in our Business Process Outsourcing course.

The benefits of free movement of labor also work in the other direction. If a country has too few jobs and too many workers, people can easily move to markets in which the job market is better. An excellent example of free movement between countries can be seen in the European Union, particularly the Schengen Area.

**What are the downsides of globalization?**

While many features of globalization have been beneficial, others have resulted in problems for certain economies and countries. Each of the benefits of globalization, from free trade to the free movement of labor, can also be a downside for specific countries and economies.

One of the biggest downsides of globalization is the harm it can cause to economies at an early stage of development. Free trade forces all countries to compete using an even playing field, which critics claim puts smaller, less developed countries behind their more developed counterparts.

Some economists believe that free trade is only possible if industries in developing countries are allowed to grow under a certain level of economic protection. This is known as the Paradox of Free Trade, and it is a core argument among economists.

Another downside of globalization is the phenomenon known as ‘labor drain.’ Since globalization allows workers to easily move from one country to another, countries with limited job opportunities often find it difficult to encourage skilled workers to stay in their countries.

You can learn more about how labor drain relates to the current economic climate in our course, Capitalism in Crisis: The Global Economic Crisis Explained.

This is particularly problematic in countries with extensive publicly-funded higher education systems. After receiving training in their home countries, many people emigrate and spend their professional career in a more lucrative economy at the expense of their home country.

Globalization can also have a significant negative impact on taxation. Since many companies are able to trade with one country while being based in another, large corporations often exploit tax havens such as Luxembourg, Switzerland, and Hong Kong to avoid paying taxes in the countries where they generate their profits.

This can often hurt consumers in the form of higher taxes on consumer products and property. Since countries often have little control over where big companies register to avoid tax, they are often forced to raise other taxes in order to make up for lost revenues due to corporate tax avoidance.

Many economists and environmentalists have criticized globalization due to its environmental impact. Learn about the environmental effects of globalization in Energy Economics and the Environment.

Finally, globalization has had a cultural impact on many countries that have been subject to large-scale immigration. Many critics of globalization feel that the free movement of labor has resulted in the weakening of specific cultures in favor of greater economic and cultural hegemony.

**An iPod Has Global Value. Ask the (Many) Countries That Make It.**

By HAL R. VARIAN

Published: June 28, 2007

Who makes the Apple iPod? Here’s a hint: It is not Apple. The company outsources the entire manufacture of the device to a number of Asian enterprises, among them Asustek, Inventec Appliances and Foxconn.

But this list of companies isn’t a satisfactory answer either: They only do final assembly. What about the 451 parts that go into the iPod? Where are they made and by whom?

Three researchers at the University of California, Irvine — Greg Linden, Kenneth L. Kraemer and Jason Dedrick — applied some investigative cost accounting to this question, using a report from Portelligent Inc. that examined all the parts that went into the iPod.

Their study, sponsored by the Sloan Foundation, offers a fascinating illustration of the complexity of the global economy, and how difficult it is to understand that complexity by using only conventional trade statistics.

The retail value of the 30-gigabyte video iPod that the authors examined was $299. The most expensive component in it was the hard drive, which was manufactured by Toshiba and costs about $73. The next most costly components were the display module (about $20), the video/multimedia processor chip ($8) and the controller chip ($5). They estimated that the final assembly, done in China, cost only about $4 a unit.

One approach to tracing supply chain geography might be to attribute the cost of each component to the country of origin of its maker. So $73 of the cost of the iPod would be attributed to Japan since Toshiba is a Japanese company, and the $13 cost of the two chips would be attributed to the United States, since the suppliers, Broadcom and PortalPlayer, are American companies, and so on.

But this method hides some of the most important details. Toshiba may be a Japanese company, but it makes most of its hard drives in the Philippines and China. So perhaps we should also allocate part of the cost of that hard drive to one of those countries. The same problem arises regarding the Broadcom chips, with most of them manufactured in Taiwan. So how can one distribute the costs of the iPod components across the countries where they are manufactured in a meaningful way?

To answer this question, let us look at the production process as a sequence of steps, each possibly performed by a different company operating in a different country. At each step, inputs like computer chips and a bare circuit board are converted into outputs like an assembled circuit board. The difference between the cost of the inputs and the value of the outputs is the “value added” at that step, which can then be attributed to the country where that value was added.

The profit margin on generic parts like nuts and bolts is very low, since these items are produced in intensely competitive industries and can be manufactured anywhere. Hence, they add little to the final value of the iPod. More specialized parts, like the hard drives and controller chips, have much higher value added.

According to the authors’ estimates, the $73 Toshiba hard drive in the iPod contains about $54 in parts and labor. So the value that Toshiba added to the hard drive was $19 plus its own direct labor costs. This $19 is attributed to Japan since Toshiba is a Japanese company.

Continuing in this way, the researchers examined the major components of the iPod and tried to calculate the value added at different stages of the production process and then assigned that value added to the country where the value was created. This isn’t an easy task, but even based on their initial examination, it is quite clear that the largest share of the value added in the iPod goes to enterprises in the United States, particularly for units sold here.

The researchers estimated that $163 of the iPod’s $299 retail value in the United States was captured by American companies and workers, breaking it down to $75 for distribution and retail costs, $80 to Apple, and $8 to various domestic component makers. Japan contributed about $26 to the value added (mostly via the Toshiba disk drive), while Korea contributed less than $1.

The unaccounted-for parts and labor costs involved in making the iPod came to about $110. The authors hope to assign those labor costs to the appropriate countries, but as the hard drive example illustrates, that’s not so easy to do.

This value added calculation illustrates the futility of summarizing such a complex manufacturing process by using conventional trade statistics. Even though Chinese workers contribute only about 1 percent of the value of the iPod, the export of a finished iPod to the United States directly contributes about $150 to our bilateral trade deficit with the Chinese.

Ultimately, there is no simple answer to who makes the iPod or where it is made. The iPod, like many other products, is made in several countries by dozens of companies, with each stage of production contributing a different amount to the final value.

The real value of the iPod doesn’t lie in its parts or even in putting those parts together. The bulk of the iPod’s value is in the conception and design of the iPod. That is why Apple gets $80 for each of these video iPods it sells, which is by far the largest piece of value added in the entire supply chain.

Those clever folks at Apple figured out how to combine 451 mostly generic parts into a valuable product. They may not make the iPod, but they created it. In the end, that’s what really matters.

**China’s Economy Now Number One? Not Quite**  
  
Following the announcement by the International Monetary Fund (IMF) that China’s economy [has just surpassed that of the United States](http://ftalphaville.ft.com/2014/10/07/1998332/moneysupply-the-new-world-economy-in-four-charts/?%20), headline writers and establishment economists had a field day. According to the *Wall Street Journal’s* Business Insider, “China Just Overtook the US as the World’s Largest Economy,” while London’s *Daily Mail*chortled, “America Usurped: China Becomes World’s Largest Economy — Putting USA in Second Place for the First Time in 142 Years.”

A cursory glance at the charts and graphs provided by these worthies shows the size of the U.S. economy at $17.4 trillion by the end of this year compared to China’s, which is predicted to be $17.6 trillion. The IMF estimated that as recently as 2005 China’s economy was less than half that of the United States, and forecast that in another five years it will be 20 percent larger than that of the United States. By that time the IMF estimates that the U.S. economy will be at $22 trillion to China's almost $27 trillion.

All this is based on so many ethereal and esoteric assumptions as to be borderline ludicrous. The first assumption is that the comparison, based on something called “purchasing power parity," is fair and honest. The idea is that the purchasing power of the yuan inside China differs substantially from the purchasing power of a dollar inside the United States. And so the worthies involved pored over reams of statistics to determine how to calculate China’s GDP when compared to that of the United States.

This makes things look a lot better for China than if the dollar/yuan exchange rate were used. In that case, China’s economy is less than $10 trillion in size.

This is not to denigrate the remarkable achievements in China since the economic reforms were installed in December 1978 by reformists inside the Communist Party led by Deng Xiaoping. That program came in two stages starting in the late '70s and into the early '80s, which involved the decollectivization of agriculture, the opening up of the country to foreign investors, and granting of government permission to citizens to start their own businesses.

The second stage of reform, about a decade later, involved the privatization and contracting out of much of state-owned industry, along with the lifting of price controls, which had greatly reduced incentive to producers. Many protectionist policies were eliminated, as well as some of the most onerous regulations.

From then until now, China’s economy has grown at nearly 10 percent a year. Put in the simplest terms, it doubled every seven years since 1978. In 2010, it became Asia’s largest economy (surpassing Japan), and the world’s second-largest.

One of the assumptions underlying the IMF’s report, however, is that the numbers coming out of China under its communist-controlled information outlets can be relied upon. Another is that China’s economy will continue to grow at more than nine percent, at least over the next five years — far outpacing (at least on paper) growth in the United States.

There are numerous grievous challenges and difficulties facing China that the establishment media pundits and economists failed to mention. For instance, since 2005, the Hu-Wen administration has reinstituted many of the previous restrictions lifted under Xiaoping.

In addition, much of the growth in China is phony. In August, CBS News rebroadcast Leslie Stahl’s program *China’s Real Estate Bubble* from March, 2013, where she visited the ghost cities of China for the very first time. The program opened with this:

As we first reported in March last year, [Chinese authorities] may have created the largest housing bubble in human history. If you go to China, it’s easy to see why there’s all the talk of a bubble. We discovered that the most populated nation on earth is building houses, districts and cities with no one in them.

Stahl took with her on her revelatory trip Gillem Tulloch, a financial analyst from Hong Kong, who was one of the first to expose China’s real estate bubble. She questioned Tulloch:

**Stahl**: “How important is real estate to the Chinese economy? Is it central?”

**Tulloch**: Yes. It is the main driver of growth and has been for the last few years. Some estimates have it as high as 20 or 30% of the whole economy.

**Stahl**: But they’re not just building housing. They’re building cities.

**Tulloch**: Yes. That’s right.

**Stahl**: Giant cities being built with people not coming to live here?

**Tulloch**: Yes. I think they’re building somewhere between 12 and 24 new cities every single year.

Stahl continued,

Unlike our market-driven economy, in China it’s the government that has spent some $2 trillion to get the cities built as a way of keeping the economy growing.

The assumption is “If you build it, they will come.”

But no one’s coming.

And then there’s what the *New York Times* called “China’s Brutal One Child Policy” written about by Ma Jian in his novel*The Dark Road*. According to Jian, since 1971, China has conducted 336 million abortions and 222 million sterilizations. “These figures are easy to quote," he wrote, "but they fail to convey the magnitude of the horror faced by rural Chinese women” under that policy. He concluded:

The atrocities committed in the name of the one-child policy over the last three decades, rank among the worst crimes against humanity of the last century. The stains it has left on China may never be erased.

One of those stains has been a fertility rate in China that has for years remained substantially under the replacement level. In developed countries the fertility rate must be at least 2.1 children born per woman. Less than that and the population begins an inexorable decline. Since at least January 2000, China’s fertility rate has been below that number and is currently at 1.66. Simply put, China’s one-child policy is slowly depopulating the country.

Economist Mark Perry reviewed the IMF report, ran some numbers, and concluded, “There’s really nothing that the US has to feel sorry about. We’re still almost 75 years ahead of China when we consider economic output per person.” With China’s population more than four times that of the United States, the average output per Chinese citizen is about where it was in the United States back in 1940.

Perry also noted that even if China grows as the IMF estimates that it will, it will take another 10 years for its per capita GDP to reach the level that the United States hit in 1965. And it would take another 20 years after that for per capita GDP in China to reach where it is in the United States today.

It is helpful to remember that the United States is not only the world’s largest producer of oil and natural gas, but also the largest manufacturer on the planet, generating 1/5 of the total global output. Of the world’s 500 largest companies, 132 of them are headquartered in the United States — twice that of any other country.

There are many lessons to be learned in the IMF report. First, not every number is to be believed. Second, not all numbers were considered. Third, China’s one-child policy is killing off its population and sending it into what may be terminal decline. Fourth, the U.S. economy is beginning, albeit slowly, to recover from the Great Recession, so just when China’s economy is beginning to slow, that in the United States is accelerating.

Another important lesson is just how remarkable the free market is when it is left unfettered and free to flourish. In the space of less than 36 years, China’s relatively free market has turned a stagnant, inward looking country into a major economic powerhouse. It can only be hoped that those policies will be continued and expanded, and that self-destructive policies and overweening regulation by China’s Communist Party that are now threatening that growth will be reversed.

So remarkable has been China’s astounding emergence from a backward country over the last three decades or so that it might cause sufficient numbers of politicians and elected officials to consider unleashing the same free market here.

**Ethiopia Becomes China’s China in Global Search for Cheap Labor**

Ethiopian workers strolling through the parking lot of Huajian Shoes’ factory outside Addis Ababa last month chose the wrong day to leave their shirts untucked.

Company President [**Zhang Huarong**](http://search.bloomberg.com/search?q=Zhang%20Huarong&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja), just arrived on a visit from China, spotted them through the window, sprang up and ran outside. The former People’s Liberation Army soldier harangued them loudly in Chinese, tugging at one man’s aqua polo shirt and forcing another’s shirt into his pants. Nonplussed, the workers stood silently until the eruption subsided.

Shaping up a handful of employees is one small part of Zhang’s quest to profit from Huajian’s factory wages of about $40 a month -– less than 10 percent the level in China.

“Ethiopia is exactly like China 30 years ago,” said Zhang, 55, who quit the military in 1982 to make shoes from his home in Jiangxi province with three sewing machines and now supplies such brands as Nine West and Guess?. “The poor transportation infrastructure, lots of jobless people.”

Almost three years after Zhang began his Ethiopian adventure at the invitation of the late Prime Minister **[Meles Zenawi](http://search.bloomberg.com/search?q=Meles%20Zenawi&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja" \o "Search News)**, he says he’s unhappy with profits at the Dongguan Huajian Shoes Industry Co. unit, frustrated by “widespread inefficiency” in the local bureaucracy and struggling to raise factory productivity from a level he says is about a third of China’s.

Photographer: Ilya Gridneff/Bloomberg

*Ethiopian employees work inside the Huajian Shoes' factory outside Addis Ababa.*

**Four Tongues**

Transportation and logistics that cost as much as four times those in China are prompting Huajian to set up its own trucking company. And the use of four languages in the plant -- Ethiopia’s national language, Amharic; the local tongue, Oromo; English and Chinese -- further complicates operations, Zhang says.

It takes two hours to drive 30 kilometers (18 miles) to the Huajian factory from the capital along the country’s main artery, illustrating the challenges. Oil tankers and trucks scream along the bumpy, potholed and, at times, unpaved road. Goats, donkeys and cows wander along the roadside and occasionally into bumper-to-bumper traffic. Minibuses and dented taxis, mostly blue [**Ladas**](http://www.telegraph.co.uk/motoring/picturegalleries/9211301/Top-10-Lada-jokes.html?frame=2196460) from the country’s past as a Soviet ally, weave through oncoming traffic coughing a smoggy exhaust.

Huajian is nonetheless becoming a case study of Ethiopia’s emerging potential as a production center for labor-intensive products from shoes to T-shirts to handbags. In a country where 80 percent of the labor force is in [**agriculture**](http://www.et.undp.org/content/ethiopia/en/home/countryinfo/), manufacturers don’t have to worry about finding new workers. Its population of about 96 million is Africa’s second-largest after Nigeria’s.

**[](http://www.bloomberg.com/photo/ethiopia-chants-in-chinese-as-profit-hunt-offsets-potholed-roads-/-iw9i5.yTfaPc.html)**Photographer: Ilya Gridneff/Bloomberg

*Chinese and Ethiopian work supervisors stand for inspection by their President Zhang...*[**Read More**](http://www.bloomberg.com/news/2014-07-22/ethiopia-becomes-china-s-china-in-search-for-cheap-labor.html)

**Seeking Investment**

A combination of [**cheap labor**](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/12/14/000333038_20121214023043/Rendered/PDF/NonAsciiFileName0.pdf) and electricity and a government striving to attract foreign investment makes Ethiopia more attractive than many other African nations, said [**Deborah Brautigam**](http://search.bloomberg.com/search?q=Deborah%20Brautigam&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja), author of “The Dragon’s Gift: The Real Story of China in Africa” and a professor of international development and comparative politics at Johns Hopkins University’s School of Advanced International Studies in Washington.

“They are trying to establish conditions for transformation,” Brautigam said in a telephone interview. “It could become the China of Africa.”

Huajian’s 3,500 workers in Ethiopia produced 2 million pairs of shoes last year. Located in one of the country’s first government-supported industrial zones, the factory began operating in January 2012, only three months after Zhang decided to invest. It became profitable in its first year and now earns $100,000 to $200,000 a month, he said, calling it an insufficient return that will rise as workers become better trained.

**Fleeing China**

Under bright fluorescent lights, amid the drone of machines, workers cut, glue, stitch and sew [**Marc Fisher**](http://www.bloomberg.com/quote/0222816D:US) brown leather boots bound for the U.S. Meanwhile, supervisors monitor quotas on whiteboards, giving small cash rewards to winning teams and criticism to those falling short.

China, Africa and global retailers all have stakes in whether Ethiopia and such countries as Tanzania, Rwanda and Senegal become viable production bases for labor-intensive products. Promoting trade, boosting employment and spurring investment are among the topics that will be discussed on August 4-6 at the first White House [**U.S.-Africa Leaders Summit**](http://www.whitehouse.gov/us-africa-leaders-summit) in Washington.

African nations have a compelling opportunity to seize a share of the about 80 million jobs that China will export as its manufacturers lose competitiveness, according to [**Justin Lin**](http://search.bloomberg.com/search?q=Justin%20Lin&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja), a former World Bank chief economist who now is a professor of economics at Peking University.

**‘Manufacturing Powerhouse’**

Chinese Premier [**Li Keqiang**](http://search.bloomberg.com/search?q=Li%20Keqiang&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja) and Ethiopian Prime Minister **[Hailemariam Desalegn](http://search.bloomberg.com/search?q=Hailemariam%20Desalegn&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja" \o "Search News)**, who met on May 4, backed the move of Chinese industries to Ethiopia. China is “supporting Ethiopia’s great vision to become Africa’s manufacturing powerhouse,” Hailemariam told reporters at a joint press conference in Addis Ababa.

Weaker consumer spending in the U.S. and Europe after the financial crisis prompted global retailers to hasten their search for lower-cost producers, said Helen Hai, head of China Africa Consulting Ltd. in Addis Ababa. She ran Huajian’s Ethiopia factory until July of last year.

While China’s inland regions offered manufacturers a cheaper alternative to the export-linked coastal areas, rising costs and a limited pool of available workers now are undermining that appeal.

Average factory pay in [**Henan**](http://www.bloomberg.com/quote/CHAWMAHN:IND), about 800 kilometers from the coast, rose 103 percent in the five years ended in September and 80 percent in Chongqing, 1,700 kilometers up the Yangtze River. In the same period, salaries rose 82.5 percent in [**Guangdong**](http://www.bloomberg.com/quote/CHAWMAGD:IND), where Huajian has its base in the city of Dongguan.

**‘Great Potential’**

Cost inflation in countries including China has prompted Hennes & Mauritz AB, Europe’s second-biggest clothing retailer, to work with three [**suppliers**](http://www.bloomberg.com/news/2014-07-22/%5Csustainability.hm.com%5Cen%5Csustainability%5Cdownloads-resources%5Cresources%5Csupplier-list.html) in Ethiopia. The nation has “great potential” for production, H&M head of sustainability Helma Helmersson said in an April interview.

China’s average manufacturing wage is 3,469 yuan ($560) per month. Pay at the Huajian factory ranges from the basic after-tax minimum of $30 a month to about twice that for supervisors. By contrast, average [**manufacturing wages**](http://beta2.statssa.gov.za/publications/P0277/P0277March2014.pdf) in South Africa, Africa’s biggest manufacturer, are about $1,200.

The duty-free and quota-free access that Sub-Saharan Africa enjoys for the U.S. and EU markets gives additional savings thanks to the African Growth and Opportunity Act for the U.S. and the EU’s[**Everything But Arms**](http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150983.pdf) accord for the poorest countries. Import tariffs on shoes made in China range from 6 percent to as much as 36 percent, Zhang said.

**Past-Future Business**

A spokeswoman for Guess? confirmed that a licensee has done business with the Huajian Ethiopia factory in the past and may do so in the future.

A spokesman for Sycamore Partners, which owns Nine West, declined to comment on its business relationships and whether it has a relationship with Dongguan Huajian Shoes Industry Co. Marc Fisher Footwear is making shoes in the Ethiopia factory, Jaclyn Weissman, a spokeswoman for the company, wrote in an e-mail.

Signs of Ethiopia’s allure include factories outside Addis Ababa set up by [**leather goods**](http://www.pittards.com/news-page/99/pittards-ethiopia-now-on-tumblr) maker Pittards Plc of the U.K. and Turkish textile[**manufacturer**](http://www.bloomberg.com/news/2014-07-22/%5Cwww.aykatextile.com%5C) Ayka Tekstil. Foreign direct investment in the nation surged almost 250 percent to $953 million last year from the year before, according to estimates by the United Nations Conference on Trade and Development.

Zhang spends about half his time in Ethiopia, he says. During the visit last month, he spoke to about 200 uniformed Huajian supervisors, a mix of Ethiopians and Chinese, gathered in the parking lot. A giant plasma screen mirrored the crowd as Zhang hurried onto the stage.

**Chant, March**

He berated those assembled for a lack of efficiency, then praised them for their loyalty to Huajian, his words translated into Amharic and [**Oromo**](http://www.oromodictionary.com/). He ordered them to march on the spot, to turn left and to turn right, all chanting together in Chinese.

“One two one,” they chanted. “One two three four,” as they marched in step. Slogans followed: “Unite as one.” “Improvement together.” “Civilized and efficient.”

They sang the “Song of Huajian,” whose words urged “We Huajian people” to bravely move forward, to hold the banner of Huajian high and to “keep our business forever.” Chinese supervisors led the song, their Ethiopian colleagues stumbling over some words and struggling to keep up.

Later, Zhang explained that he can’t be as tough on the staff as he would like.

“Here the management cannot be too strong as there will be a problem with the culture,” he said via a translator. “In China you can be strong, but not here. The conditions here mean we have to show respect. On one hand we have to have strict requirements; on the other hand we have to take care of them. They have their own dignity. They may be poor but we have to respect their dignity.”

**Labor Demands**

About 200 of the workers rebelled in early 2013, going on strike for two days after demanding a share of profits following a period in which Huajian’s orders surged, said Hai. The incident was resolved with the help of Ethiopian labor officials, she said.

Five workers interviewed at the factory on July 10 described a workplace of strict standards, with rewards for good results and penalties such as docked pay for ruined shoes.

Taddelech Teshome, 24, said her day starts at 7:20 a.m. after her Chinese employers provide employees with a breakfast of bread and tea. When her morning shift ferrying shoes from the factory floor to the warehouse is over, she gets fed the national staple, [**sour bread,**](http://www.pitt.edu/~kloman/mesobacrossamerica.html)for lunch. After work, a Huajian bus takes her to nearby Debre Zeit, a town where she rents a room with her sister for $18 a month.

**Following Sister**

She came to Huajian just over a year ago from her home 165 kilometers away in Arsi region after her sister started at the factory.

“The work is good because I pay my rent and I can look after myself,” she said, wearing an aqua Huajian polo shirt. “It’s transformed my life.” Taddelech said she wants to work for two more years at the plant and become a supervisor. She eventually aspires to build her own house.

With inflation at 8 percent -- down from 40 percent in July 2011 -– saving cash is tough. Mohammed al-Jaber, who earns $30 a month for gluing shoe linings eight hours a day six days a week, said he can add to his pay with perfect attendance each month -- a $7.50 bonus -- and overtime. Any extra gets sent home to his family in the Arsi region.

Once famine-plagued Ethiopia, run by former rebels since they overthrew a socialist military junta in 1991, is seeking investment to support a[**growth**](http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/tblparta.pdf)[**rate**](http://www.imf.org/external/np/sec/pr/2014/pr14304.htm) that’s expected to fall to 7.5 percent this year from 9.7 percent in 2013. The population is expanding annually by 2.9 percent, at a time when the urban unemployment rate is 17.5 percent.

**Economic Transformation**

Ethiopia aims “to transform the economy” via industrialization by attracting foreign investors to zones where key public services will be concentrated, State Minister Of Finance Ahmed Shide said in an interview in Addis Ababa.

One appeal for China: Ethiopia follows a similar tightly controlled, state-heavy economic model. Opposition parties won only one out of 547 parliamentary seats at the last election in 2010.

Ties are strong between the Communist Party of China and the Ethiopian Peoples’ Revolutionary Democratic Front: On July 10, Central Committee Political Bureau member **[Guo Jinlong](http://search.bloomberg.com/search?q=Guo%20Jinlong&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja" \o "Search News)** visited Ethiopia and met with Prime Minister Hailemariam. The two [**pledged**](http://english.peopledaily.com.cn/n/2014/0712/c90883-8754554.html) to enhance cooperation, the official Xinhua news agency said.

**Key Bottlenecks**

Ethiopia’s heavy public investment in infrastructure using credit from Chinese state banks promises to relieve some key bottlenecks. The Export-Import Bank of China is funding a railway from Addis Ababa to landlocked Ethiopia’s main port in neighboring Djibouti. Ethiopia lost its coastline when Eritrea became independent in 1993.

The Chinese and Ethiopian governments also are investing in hydroelectric plants -- including what will be Africa’s largest, the domestically funded Grand Ethiopian Renaissance Dam on the Blue Nile -- that should increase Ethiopia’s power supply five-fold by 2020.

That may help overcome obstacles including the supply of electricity and cumbersome customs and tax procedures. In May, a World Bank team went to visit a textile factory in the Eastern Industrial Zone, where the Huajian plant is located, and found they are faced with daily power outages lasting for hours, Ethiopia country director Guang Zhe Chen said.

**Sustainable Power**

“There’s a big issue if you can’t ensure sustainable power supply for industrial zones,” he said.

While countries like Ethiopia have the potential to host Asian manufacturers, a “surge” hasn’t occurred, in part because of trade logistics constraints. “Getting things in and out of Ethiopia is very expensive and time consuming.”

Ethiopia [**slipped**](http://www.bloomberg.com/news/2014-07-22/%5Cwww.doingbusiness.org%5Cdata%5Cexploreeconomies%5Cethiopia) one place to 125th in the World Bank’s 2014 Doing Business rankings for 189 economies. It was behind China, at 96th, and ahead of competitor Bangladesh, which ranked 130th, the Washington-based lender said on its website.

It’s easy to forget that China’s infrastructure also was rudimentary at a similar stage of development, said Lin. He recalls that the first time he made the 96-mile trip between Shenzhen and Guangzhou in southern China in the early 1980s it took more than 12 hours, including long waits for ferries to cross rivers. The same trip now can be done in two hours.

“There were no bridges,” Lin said in an interview.

Nor were workers accustomed to modern production techniques. When auto-parts maker Asimco Technologies Ltd. began manufacturing in China in the 1990s, workers weren’t responsive to training, said [**Tim Clissold**](http://search.bloomberg.com/search?q=Tim%20Clissold&site=wnews&client=wnews&proxystylesheet=wnews&output=xml_no_dtd&ie=UTF-8&oe=UTF-8&filter=p&getfields=wnnis&sort=date:D:S:d1&partialfields=-wnnis:NOAVSYND&lr=-lang_ja), former president of the Beijing-based company and author of a memoir, [**“Mr. China.”**](http://www.bloomberg.com/news/2014-07-22/%5Cwww.amazon.com%5CMr-China-Memoir-Tim-Clissold%5Cdp%5C0060761407)

**Smiling Politely**

“It was very difficult to deliver improvements at individual factories,” he said. “You could do training, and everyone smiles politely and then continues doing what they were doing before.”

Now, rising Chinese wages that Zhang calls “an inevitable trend” are pushing Huajian to try to increase its workforce in Ethiopia to as many as 50,000 within eight years.

A model of a planned new plant at the edge of Addis Ababa is displayed at the factory. The 126-hectare (341-acre) **complex**, partly financed by more than $300 million from Huajian, will include apartments for workers, a “forest resort” district and a technical university.

At the gathering in the parking lot, after supervisors sang Huajian’s company song, Zhang dismissed the Ethiopian contingent. Then he continued haranguing the Chinese managers. To make his point that structure was needed to keep employees in focus, he thrust a broomstick toward them repeatedly, then toward the remote camera that was feeding to the plasma screen, the image blurring with each prod.

Then he left the stage, laughing and raising a triumphant fist.

**Economic globalization boosts Asia, bogs down U.S. middle class**

Much has been made recently about stagnating wages for the middle [classhttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) and the growing gap between the rich and the rest in America. But that’s only one small part of the story.

Taking a step back and looking at the global picture, most of the growth in incomes since the turn of the century has gone not just to the world’s wealthiest citizens but to the rapidly rising middle classes in [China](http://www.washingtontimes.com/topics/china/), [India](http://www.washingtontimes.com/topics/india/) and other emerging Asian economies, which have been the biggest beneficiaries of the historic [globalizationhttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) of the economy and expansion in world trade of the last two decades.

The biggest losers in the great global redistribution of income and trade since the fall of the Berlin Wall in 1989 have been the middle class and lower-income groups in the U.S., Japan and other developed countries. That is the conclusion of recent [studieshttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) by the [World Bank](http://www.washingtontimes.com/topics/world-bank/) documenting the aftermath of the dramatic opening up of borders and trade since the collapse of communism in Eastern Europe and Russia, [China](http://www.washingtontimes.com/topics/china/)’s entry into the World Trade Organization and other seminal events that have transformed the world economy in the last two decades.

[World Bank](http://www.washingtontimes.com/topics/world-bank/) researchers found that the average person in the middle of the income spectrum in [China](http://www.washingtontimes.com/topics/china/), for example, enjoyed a near-tripling of income between 1988 and 2008. Middle-income Thais and Indonesians nearly doubled their incomes, while [India](http://www.washingtontimes.com/topics/india/)’s middle class saw income growth of about 50 percent in the same time period. The income of a typical middle-class worker in the U.S., by contrast, rose by only 26 percent, while a middle-class German’s wages grew by 7 percent and Japan’s middle-income workers actually lost ground in the same time period.

“Nine out of 10 of the winners were from resurgent Asia,” while “the losers were predominantly the people [in the developed world] who belong to the lower halves of national income distributions,” said [Christoph Lakner](http://www.washingtontimes.com/topics/christoph-lakner/), co-author of the studies and [consultanthttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) at the [World Bank](http://www.washingtontimes.com/topics/world-bank/).

Add in the enrichment of the wealthiest 5 percent of the world’s population from globalization, and it’s been “the most profound reshuffle of individual incomes on the global scale since the Industrial Revolution,” he said. The huge global shift of income and economic activity from the West to the East also raises “profound” political and social questions, he said.

“Does the growth of [China](http://www.washingtontimes.com/topics/china/) and [India](http://www.washingtontimes.com/topics/india/) take place on the back of the middle class in rich countries?” he asked. Although it’s difficult to prove that Asian workers are getting richer primarily because [corporationshttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) shifted millions of jobs and billions of dollars in income to Asia while closing plants in the West in the last two decades, the trends almost certainly are related, he said.

A recent poll by Pew Research found that Americans are deeply skeptical about the [benefitshttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) of foreign trade as a result of their experiences with job and income losses. More than half of those polled said that free trade destroyed jobs and lowered wages. But Pew found that views on free trade were much more positive in developing countries, which have benefited from the out-migration of jobs and incomes.

**West to East**

The shifting of income gains to Asian economies has gone so far, according to [Mr. Lakner](http://www.washingtontimes.com/topics/christoph-lakner/), that it has nearly enabled Asia to reclaim the prominent place in the world economy it enjoyed before the Industrial Revolution of the 1800s vaulted the West to predominance. Leading the resurgence of Asia has been [China](http://www.washingtontimes.com/topics/china/), whose rapid industrialization has lifted more than 600 million people out of abject poverty in the last two decades — an unprecedented feat in world history.

But [Mr. Lakner](http://www.washingtontimes.com/topics/christoph-lakner/) said it’s hard to know whether to celebrate the success of Asia — formerly one of the poorest parts of the globe — or rue the slow hollowing out of the industrialized West, where middle-income citizens stand to keep losing more and more income in the competition with the emerging world for jobs in coming decades. He worries that the slow but steady decline of living standards for the middle class — even as the wealthiest 10 percent grows richer — poses a threat to democracy in the West.

Tyler Cowan, economics professor at George Mason University, said the studies by [Mr. Lakner](http://www.washingtontimes.com/topics/christoph-lakner/) and co-author Branko Milanovic prove that freer trade, more open borders, greater immigration and other elements of globalization since the 1980s have succeeded at improving the living standards of large parts of the world’s population. To focus only on the increase in income and wealth disparities in the U.S. is to miss the point, he said.

“From a narrowly nationalist point of view, these developments may not be auspicious for the United States. But that narrow viewpoint is the main problem,” he said.

“The economic surges of [China](http://www.washingtontimes.com/topics/china/), [India](http://www.washingtontimes.com/topics/india/) and some other nations have been among the most egalitarian developments in history,” he said. “International trade has drastically reduced poverty within developing nations, as evidenced by the export-led growth of [China](http://www.washingtontimes.com/topics/china/).”

The migration of Latin American and Asian job seekers to the U.S. and Eastern European and African job seekers to Western Europe also has helped build wealth in the developing world, even as it has put “modest pressure” on the wages of low-skilled native workers in the West who compete with the migrants, he said.

The availability of such plentiful, cheap labor clearly has benefited the owners of corporations and other rich people, even as it has presented competition for poorer Americans, he said. Still, the era of globalization overall has brought big benefits to the human race, he said.

Moreover, the rise of the middle class in [China](http://www.washingtontimes.com/topics/china/) and other emerging countries adds to the pool of [global consumershttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) and presents businesses and workers in the West with opportunities for growth.

“Although significant economic problems remain, we have been living in equalizing times for the world — a change that has been largely for the good,” Mr. Cowan said. “Policies on immigration and free trade sometimes increase inequality within a nation yet can make the world a better place and often decrease inequality on the planet as a whole.”

**Shift in wealth will grow**

The [Organizationhttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) for Economic Cooperation and Development, which represents the world’s richest nations, recently predicted that the shift of income and economic power from the West to the East would continue and even intensify in coming decades.

By 2060 Asia and the rest of the emerging world in Africa and Latin America will constitute the largest part of the world economy, turning the current world order on its head, the group said.

As the emerging world gets richer, fewer migrants will seek to enter the U.S. and other developed nations looking for jobs. That will serve to further slow growth in the economy and labor force in Western nations, making it harder for them to increase living standards and service their large and growing debts, the OECD predicted.

The forces of globalization will continue to drive up income inequality within the U.S., as wealthier residents benefit more from increased access to cheap global labor and goods than less well-off residents, the OECD said.

[World Bank](http://www.washingtontimes.com/topics/world-bank/) President Jim Yong Kim said the rise of Asia has been both awe-inspiring and troublesome in its implications.

“In 1990 East Asia, South Asia and Africa all had the same percentage of people living in extreme poverty: 55 percent. Now East Asia is at 10 percent, and South Asia has gone down to 30 percent. In Africa it’s still 55 percent,” he said in a recent interview with Foreign Affairs magazine.

“The reality of [global markethttp://images.intellitxt.com/ast/adTypes/icon1.png](http://www.washingtontimes.com/news/2014/oct/6/economic-globalization-boosts-asia-bogs-down-us-mi/?page=all) capitalism is with us. The Chinese Communist Party and the Vietnamese Communist Party embraced global market capitalism fully,” and the results are now in: They’ve grown richer and more powerful, he said.

“The world has changed. Even very poor people are more empowered and demanding more. This is happening everywhere,” he said, noting that the dramatic growth in incomes and living standards in emerging countries increasingly is not enough to satisfy their growing middle class, which also wants political liberties and greater equality.

“Even in places like Brazil, where the last two governments have been so committed to reducing inequality, there were protests last summer. It’s just a political reality for leaders that they’ve got to pay attention to inequality,” Mr. Kim said.





