GLOBALIZATION

Come to think of it, I have been exposed to Globalization in some form ever since my childhood in the 60s. My father worked for Firestone and served with American expatriates who used to constitute the senior management. We used to hear stories about his boss "Anderson" and various anecdotes about life in America and thus developed this mental image of ("God's own") country where everyone was smart and rich. America was the dominant nation on earth and Hollywood confirmed this image worldwide.

Fast forward to 1984 and I am leaving to the US for a programming assignment in New York, USA, home of IBM, the Mecca of everything related to computers. And I am not surprised when an executive from a local firm asks me "Why in the world does the US, which has the smartest people in the world, need Indians to do their programming work?"

So what happened over the last 25 years that today reams of paper are being written about the decline and fall of the American (economic) Empire? In his book "The Post-American World", Fareed Zakaria calls it the "the rise of the rest". He states that over the past few decades, countries all over the world have been experiencing rates of growth that were once unthinkable. To illustrate his point, he adds, (at the time his book was written, a couple of years ago) "the tallest building in the world is now in Taipei, the world's richest man is Mexican, the largest traded corporation is Chinese, etc, etc." Another interesting example he gives is that now "Everyone is Playing the Game". He uses a tennis analogy to make his point. In 1982, in the US Open tennis, Americans made up 78 out of the 128 players in the draw – in 2007, only 20 Americans made the draw. According to him, more than illustrating the decline of tennis in the US, it represents the fact that a whole lot more countries (Russia, S Korea, Serbia, Austria, Spain and France) have significantly improved their tennis programs.

The question still remains – is the Age of Globalization that is upon us a universally good thing (for the US and other countries)? One statement that probably best responds to this is made by Joseph Stiglitz, the Nobel Prize winning economist who states, in his book Making Globalization Work, "Economic theory does not say that everyone will win from globalization, but only that the net gains will be positive, and the winners can then compensate the losers and still come out ahead".

Coming back to my perspective on Globalization, when I was sent by my Indian employer to do a programming assignment to the US, the client company paid around $20/hour for my services while a US citizen contractor with the same skill sets billed around $100/hour. Once Indian programmers established their credibility, it was a no-brainer for US corporations to toss out the US citizen contractor and use the savings to employ 5 Indian programmers in his place (a simple case of "labor arbitrage"). Thus the business of "body shopping" was born – the winners were the US corporation, the Indian vendor and the Indian programmer (for whom even $10/hour was a princely sum in those days) – the loser was the American contractor/programmer who was out of a job.

Subsequently, with the advent of cheap and reliable telecommunications in the mid-1990s, the "body shopping" racket (as some chose to call it) was replaced by the offshoring business, meaning that instead of bodies (programmers) being shipped to the US, work got shipped offshore. However, the net result for American programmers was the same – information technology jobs were disappearing overseas leaving behind thousands more unemployed US programmers.

Now there are contrasting opinions as to whether all this disruption in the name of Globalization is good for the US or not. On one side we have Thomas Friedman, the New York Times columnist and author of the book "The World is Flat" and on the other we have Pat Choate, 1996 Vice Presidential running mate of Ross Perot (of the "great sucking sound" fame) and author of the book "Dangerous Business – The Risks of Globalization for America".

According to Friedman's theory, if all barriers to trade are removed in every nation and the education of American workers is improved, then the ultimate result will be more trade and more global prosperity which will eventually create more democracy around the world and more peaceful relations among countries. He says that, the education of every American must be upgraded and the US must "churn out knowledgeable workers who are able to produce idea-based goods that can be sold globally and who are able to fill the knowledge jobs that will be created".

But Pat Choate disputes this theory. According to him, the US economy was NOT developed under the principles of free trade. Protectionist barriers put in place circa 1790 lasted till around 1930 and were only removed piece-by-piece only post 1930. These were the barriers that made the US into such a prosperous nation, according to him. He correctly (in my opinion) points out that the offshoring and outsourcing that Friedman views as free trade are actually "arbitrage economics" which, according to him, is the very antithesis of free trade which is built on the assumption that the factors of production (capital, labor and technology) are immobile with each nation doing that in which it has a "comparative advantage" (an economic concept that comes from the works of Adam Smith and David Ricardo). Today capital, technologies and labor (especially high knowledge workers) are totally mobile. Nations which can combine imported capital and technology with low wage labor have an unbeatable "absolute advantage" which the US and other developed countries cannot overcome.

However, take a look at IBM (an American icon) that has thrived in this age of Globalization. IBM now says it have moved from being an International Corporation to a Multinational Corporation to become today a "Globally Integrated Enterprise" which utilizes Global Resources, Global Production and Global Infrastructure (according to a presentation made by Bill Payne, VP, at The 2009 World Outsourcing Summit). He says that a Globally Integrated Enterprise shapes its strategy, management and operations in a truly global way. It locates operations and functions anywhere in the world based on the right cost, the right skills and the right business environment. And it integrates these operations horizontally and globally. Such companies operate in an environment of free trade, overseas investment, IT revolution, open standards of technology and processes and focused on optimizing operations beyond country boundaries. Obviously, IBM appears to assume here that the Age of Globalization is irreversible.

IBM's new business model is so successful that now that Indian vendors like Infosys, Wipro and TCS are now trying to emulate this model (Business Week, August 3, 2009). These companies have realized that 90% of their income still come from short term projects based on the age-old tried and trusted labor arbitrage model. They have noted that among the 90,000 workers that IBM has in India, they have far more PhDs and experienced engineers than all the Indian vendors put together. Hence IBM handles more sophisticated projects which helps IBM to earn 3 times as much revenue per employee compared to Wipro. Also, only 5% of the Indian vendors' revenues come from complex consulting jobs (rest come from plain vanilla services) while 50% of IBM's revenue comes from such sophisticated engagements.

And to put things in perspective, IBM's Total Revenue for 2008 was over $100 billion (refer page 60 of 2008 IBM Annual Report) compared to about $4 billion in 2008 annual revenues for the largest Indian outsourcing vendor, TCS.

So from the perspective of the US, the way I see it, the jury is still out regarding whether this current Age of Globalization is good thing or not. Successful US based multi national corporations which outsource / offshore a significant part of their business processes (example IBM) and those that procure cheap goods from abroad (example Walmart), successfully reduce their cost of operations, improve their competitiveness, generate revenue and make huge profits by providing their services and goods both in US and foreign markets. Their stock holders and US based employees are obviously "winners". The losers are the former employees of these companies, suppliers, etc in the US whose jobs got offshored, who are not able to learn any new skills to allow them to find comparable jobs which would allow them to make a reasonable living. These citizens are then no longer in a position to consume goods and services produced by US corporations and fuel the market-driven economy of the US. And if there continues to be massive immigration into the US (both legal and illegal) of people with little or no skills while the US economy needs people with higher education and skills, these immigrants will drag the US economy down even further.

To conclude on a personal note, the fact that I am here today in the US and having a way superior standard of living compared to where I came from is because of Globalization. And also the fact that today I am having difficulty finding gainful employment and making reasonable income could also be attributed to a large extent due to Globalization which has compounded the effects of the recession (due to the interconnected nature of the world economy). And I do not see the genie of Globalization going back into the bottle any time soon. Having no control over the macro economy, all I (and all other unemployed and under employed individuals in developed nations like the US who find themselves in my position) can do is to improve my skill sets to avail of new opportunities in this brave, new age. And given that higher education is America's best industry by far (a well known fact and confirmed by research quoted by Fareed Zakaria in his book) with a very high percentage of US universities figuring among the top 100 in the world, at least in theory, the US should be able to rapidly reeducate and retool its work force and thus continue to be the biggest beneficiary of the Age of Globalization.

GLOBALIZATION

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