

A Global Perspective

THE GLOBAL ISSUES LECTURES



A World Imbalanced:

Change and Challenge in the Global Village—10 Lectures on Current Issues of Global Importance, 2004-2009

Jennifer G. Bailey

Introduction by Jon Jeter (2009)
Flat Broke in the Free World, W.W. Norton & Co. N.Y.

Background

A World Imbalanced: Change and Challenge in the Global Village

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**10 Lectures on Current Issues of
Global Importance, delivered from 2004-2009 by scholars,
diplomats and international leaders from:**

**The International Monetary Fund
The World Bank
International Finance Corporation
Economic Policy Institute**

Jennifer G. Bailey, Ph.D. Editor
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The Global Village

“Today, after more than a century of electric technology, we have extended our central nervous system itself in a global embrace, abolishing both space and time as far as our planet is concerned.” Marshall McLuhan, *Understanding Media*, 1964.

Is the world in a Survival of the Fittest Mode? How does this feel? What are its sources?

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Not since the theme of survival of the fittest emerged in Darwin's 1859 *Origin of Species*, has a global culture of survival and constant change been so prevalent;

Change—Dramatic and imperative characterizes the culture of today's life in unprecedented ways

Bailey's Imbalances

Asia/The Rest

- Economic prosperity
- Beijing Consensus
- Digital connectedness
- Job growth
- Rising State Capitalism

Africa

- Abundant Raw materials
- \$500+ Billion in aid

United States/The West

- Depressed/Stagnant Wages
- Washington Consensus
- Personal disconnectedness
- Double digit unemployment
- Free Market Capitalism

Africa

- Under-developed resources
- Pervasive, endemic poverty

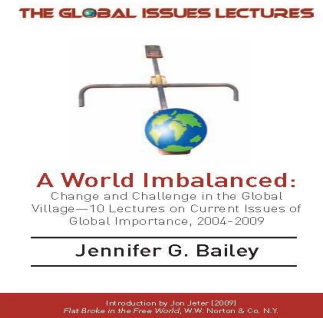
Imbalances marked by the spread of GLOBALIZATION led by US firms and market forces

Globalization: Process of interconnected finances, workforces, economies facilitated by advancements in information and communications technologies (ICTs);

Changes in any one geography generally have global impacts

The Shape of the World*

Flat World—Pre-modern cultures



Round World—The spherical world-Aristotle 300BC;
Columbus knew the world was round in the 15th century.

Flat World [2]—2000 years later Thomas Friedman
discovered the digitally interconnected global village and
the world was flat again. We're not yet finished! (2005)

Pyramid World—The Pyramid World, Leslie Gelb
(2009)

The Pyramid World—Leslie Gelb (2009)

President of the Council on Foreign Relations/State /Defense

DESCENDING ORDER

- 1. United States** -Still the single most powerful nation; largest economy; no longer has capacity to dominate
- 2. Major 8 Powers** (Britain, France, Germany, Japan, Brazil, Russia, India, China)-Share Power with Washington-Managing directors of the global realm
- 3. Oilgates-Oil & Gas States** (Saudi Arabia, Nigeria, Venezuela, Iran Russia) Power based on natural resources
- 4. Mid-Level Regionals** (Mexico, Pakistan, South Africa, South Korea and Taiwan) have a voice only when a problem erupts in their stomping ground

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5. State Responsibles (Switzerland, Singapore, Norway, Botswana, Chile)

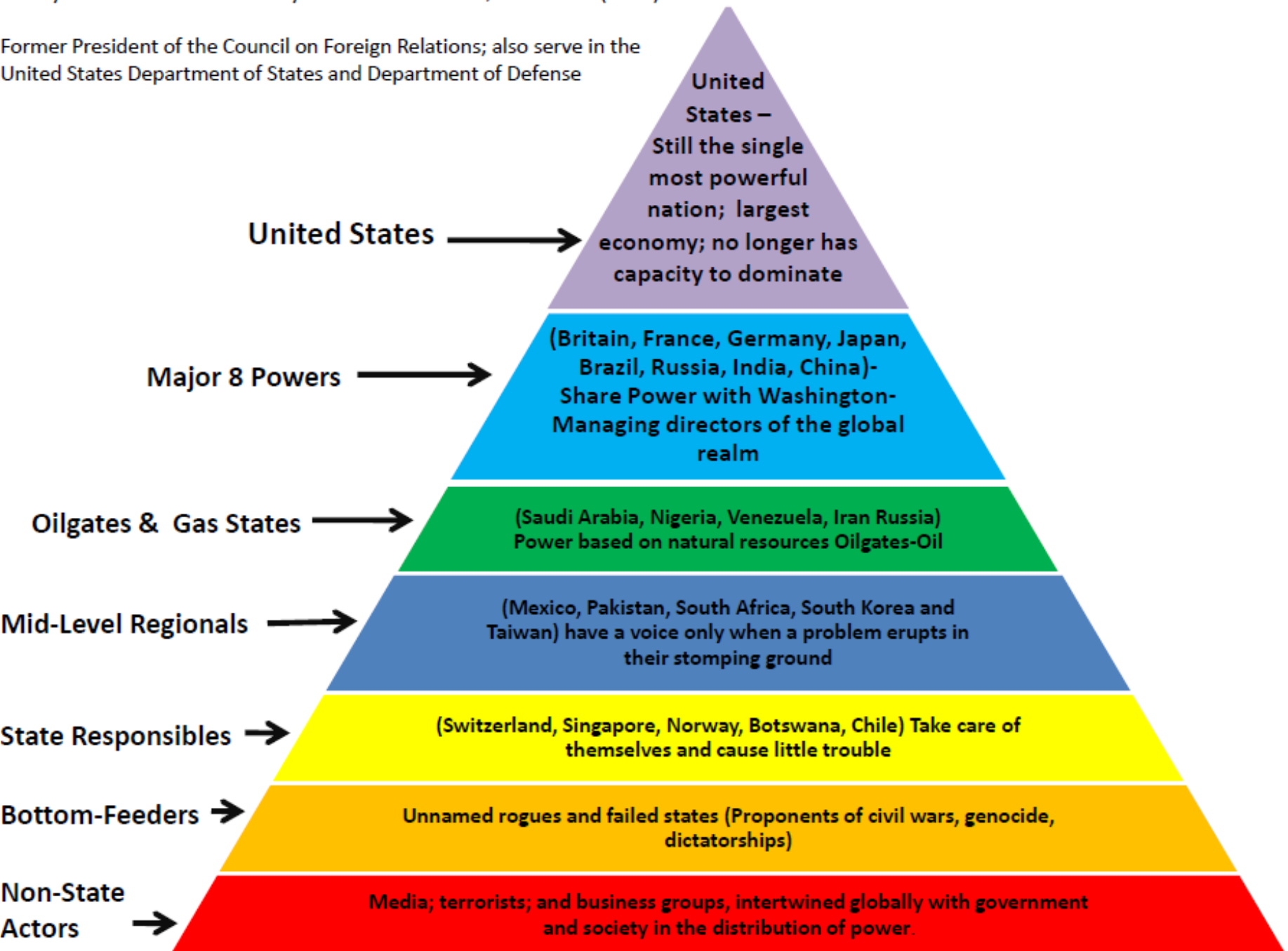
Take care of themselves and cause little trouble

6. Bottom-Feeders—Unnamed rogues and failed states (Proponents of civil wars, genocide, dictatorships)

7. Non-State Actors—Media; terrorists; and business groups, intertwined globally with government and society in the distribution of power.

The Pyramid World—A Hierarchy of Power Structures, Leslie Gelb (1990)

Former President of the Council on Foreign Relations; also serve in the United States Department of States and Department of Defense



Imbalances: Economic Prosperity

Depressed Growth

- BRICs-Brazil, Russia, India, China, accelerated economic growth and *8-10 % annual growth--South Korea, Malaysia (5-6%)*
- More savings, export growth
- 300 million out of poverty in China alone
- China's "Marshall Plan" in Africa
- U.S. 1-3%; Goldman Sachs predicts 4% growth by 2012
- Low savings, reduced exports
- Depressed/Stagnant U.S. wages and employment
- 1973 marked the end of real U.S. earnings growth

Decreased U.S earnings

Frank Levy (UM), Richard Murnane (HU)

Robert Lawrence (HU), Matthew Slaughter MIT)

- Before 1973 average earnings rose by 1.9% per yr-earnings doubled in the 36 years prior
- By 1973-Avg \$8.55
- 1979 males @\$40,000> college degrees grew
- 1973-1991 average rose by 5%
- By 1992-\$12.00
- 1973 end of rapid growth- never recovered
- 1979 males @\$20,000< no college degrees grew

The Rich Get Richer, Jack Rasmus 2004

- Working harder, longer hours, can't keep up with taxes, gas prices, utilities, medical, cost of education and technology so essential to function in the digital age (Telecommunications cost increases at your home);
- 1986-CEO salaries 40x workers
- 2011-CEO salaries 500x = benefits of 321x your salary

A World Imbalanced

Soft Diplomacy (BC-236)—Military Aggression

*Emphasis on shareholder ROI- De-emphasis on strategic consumer value
(HSBC) Chairman, Baron Stephen Green*

*Decades of unprecedented wealth for top 1%--Income decline for lower/mid
1/5*

State capitalism –usurping- free market democracy

*Consumerism model driven by acquisition and disposal—Plenitude at a time
of ecological decline (Judith Schor)*

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Key Contributing Factors

Falling transportation costs Cheaper for goods

Technology- Interconnectedness in all areas of life

International trade/investment agreements have spurred FDI (NAFTA, etc.)

Trebling of global workforce— Fall of communism, open markets in China, educated workforce in India—reduced the price of labor



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In the US—Robert Scott, Sale of American Brands—Boon or Bust

Takeover of US firms or location of foreign firms in the US has led to:

In-sourcing and loss of jobs in the US

Increased imports—Us Assembled

Honda--54% domestic content

Hyundai—10% US domestic content

US domestic brands—Ford

75-80% US domestic content

Cutting Unemployment Strategic versus Immediate

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Rising US imports result in growing trade deficits of
foreign MNC Affiliates in the US 1990-2006

Result:

Import/export imbalance

Fewer US jobs —hence emphasis on new home grown US energy market

Lower wages, stagnated incomes, limited income mobility



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Africa: Decline and Stagnation

Globalizees not mentioned in the Globalization Dialogue

Eugene Nyambal *in Creating Prosperity in Africa* States problems and solutions. Nyambal is a native of Cameroon, West Africa, studied in France and was at the time a senior strategy officer with the International Finance Corporation (IFC) Investment arm of the World Bank:

New competitive global setting: sell products with higher quality and/or lower cost in world markets

Competition no longer on natural resources (the poverty trap)

Competition on capabilities (capital, access to technology and markets, institutional capabilities)



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Africa in the Global Economy

Impact of globalization?

**A new international order through standard setting:
UN, IMF, World Bank, WTO, NATO**

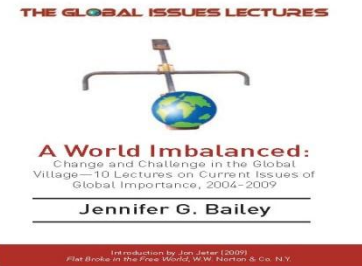
Integration of commercial, capital and cultural flows

The rise of the global consumer

Africa's performance in the global economy

- Trade: 1.7% of world exports (2001)-down from 7% in 1955
- FDI: US\$10.1 billion in 2003 vs. East Asia (us\$151billion), Latin America (us\$36.5 billion)
- Migration: brain drain, but US\$6 billion of remittances in 2003
- Declining standards of living: per capita income (US\$500 in 2003) vs. U\$680 in 1980

Why Legal and judicial insecurity and corruption, inadequate infrastructure, poor deployment of capital and narrow markets



Number of days to enforce a contract: Angola(1011), Nigeria(730), Cameroon(585), France(75), Japan(60)

Number of days to comply with import-export requirements: Sub-Saharan Africa (48.1), East Asia (25.8), Latin America (30.3), OCDE Countries (12.6)

Number of days to obtain utility connections: Sub-Saharan Africa (251.5)

Fewer paved roads than countries such as Poland

High cost of freight, energy and telecommunications

***Good Value: Reflections on Money, Morality and an Uncertain World: Baron Stephen Green, Former Chair of HSBC Bank
Currently, UK Minister for Trade and Investment***

“The crisis didn’t come out of nowhere.”

**“Shift in emphasis from a sustainable Business Model
to a focus on shareholder value”**



- The crisis came out of a global macroeconomy getting increasingly imbalanced.”
- Shift from sustainable business models versus shareholder value
- Proposes: New Capitalism that brings together good business and good ethics

What kind of state spurs development?

- Strengthen the state's strategic capabilities (Strategic Advisory Agency, Science & Technology Agency, Infrastructure & Disaster Management Agency, Trust Fund)
- Improve the efficacy of civil service (supplier of public goods)
- Decentralize power to citizens (portfolio of economic regions)
- Strengthen the intermediary bodies of civil society (associations, think-tanks, NGOs, media, churches)

WHY RICH COUNTRIES ARE RICH AND POOR COUNTRIES POOR

Excerpted from Nyambal, Eugene *“Creating Prosperity in Africa” (2007)*

Found in: *A World Imbalanced: Change and Challenge in the Global Village*

Author: Jennifer G. Bailey (2010), 202-297-0508, baileyjg@gmail.com

Rich Countries

- Leadership
- Progressive vision of the world
- Belief they can control time/space
- Spirit of curiosity and conquest
- Open to discovery and individual improvement
- Diffusion of positive values--reinforce social capital and trust
- Purpose, trust, hard work, reward of talents
- Scientific rationality, risk taking, duty toward society
- Spread and value of learning and knowledge

Poor Countries

- Leadership
- Mired in superstition and history
- Unwillingness to learn from others (China, Argentina-Past; Africa-Today)
- A spirit of dependency incompatible with development (Africa, Nepal)
- Immoderate sense of hospitality (Native Americans and Africans)
- Internal divisions and conflict (Native Americans and Africans)
- Natural resource curse (Africa, Latin America [past]; the Middle East)
- Lack of incentives to improve society and the living conditions of the average citizen (*No Thomas Paine-Common Sense*)

WHY AFRICAN COUNTRIES ARE POOR

Moyo, Dambisa (2009), *Dead Aid: Why Aid is not Working and How there is a Better Way for Africa*, Farrar, Strauss, Giroux, N.Y.

Cut International Aid:

- Aid fuels corruption; foments conflict; low **local** financial development; chokes export sector and economic growth;
- \$500 Billion in aid to Africa since 1970s yielded no demonstrable progress
 - Africa's endemic poverty and lack of education the worse in the world
 - Africa's HDI index lowest
- Spending of aid money often dictated by donors and outside forces
- Huge % of aid funds spent outside the recipient country- Insufficient skilled manpower and financial investment opp .

Without international aid

- Raise finance on the open market (Bonds); Ghana's success v/s Uganda (B/Fitch Rating); and Tanzania
- Develop an agenda based on internal priorities (China, Brazil)
- Strengthen the export sector through entrepreneurship
- Attract Foreign Direct Investment (FDI)
- Nurture an educated middle class as a check and balance on the power of government (Scientists, educators, business sector)
- Collect taxes—People are invested in an infrastructure they pay for;
- Reduce the size of government;
- Curb rampant corruption;

Seven Obstacles to Africa's development

- **Africa cannot project itself as a distinct cultural entity** (the Berlin Conference of 1884-1885, partitioned Africa to most of the borders we know today. Peoples and lands were arbitrarily divided to benefit the colonizers. No native African was present at that conference.
- **A dependent spirit incompatible with development**
- **The political and social culture is not geared towards the creation of wealth**
- **Poor reckoning of knowledge and innovation**
- **Africa has refused to master space and time**
- **The spirit of superstition and fatalism is widespread**

HOW DID THE RICH GET RICH?

The British technological pioneer: activist policies (protection, infrastructure, conquering new markets)

The American model or the advent of the large modern enterprise

- Spirit of pioneers;
- Activist government policies (Protection, R&D—Travels of a T-Shirt/Cotton subsidies; Agricultural subsidies);
- Enabling business environment (legal & regulatory)
- Modern infrastructure (communication and transportation systems and electricity) and financial systems

How Did the Rich Get Rich?

- Continuous development of technology

Intense domestic competition in a large and expanding domestic market

- Building of competitive production and distribution systems (production, distribution & management).

The Industrial Transformation of Mauritius

- Development strategy identifying sources of growth and combining restrictive import policies with active support of export-oriented sectors
- Good governance, Political, economic and social stability
- Business friendly environment
- Positive use of ethnic diversity: foreign business networks
- Activist technological policy: awareness and productivity campaigns, human capital
- Diversified financial sector and high quality infrastructure (roads, ports, airports, water, electricity, telecommunications and industrial parks)

LEADERSHIP FOR ECONOMIC DEVELOPMENT

Leadership: dividing line for prosperity

- **(successful vs. poor nations)**

Leadership and the social contract

- **general welfare vs. small group of beneficiaries)**

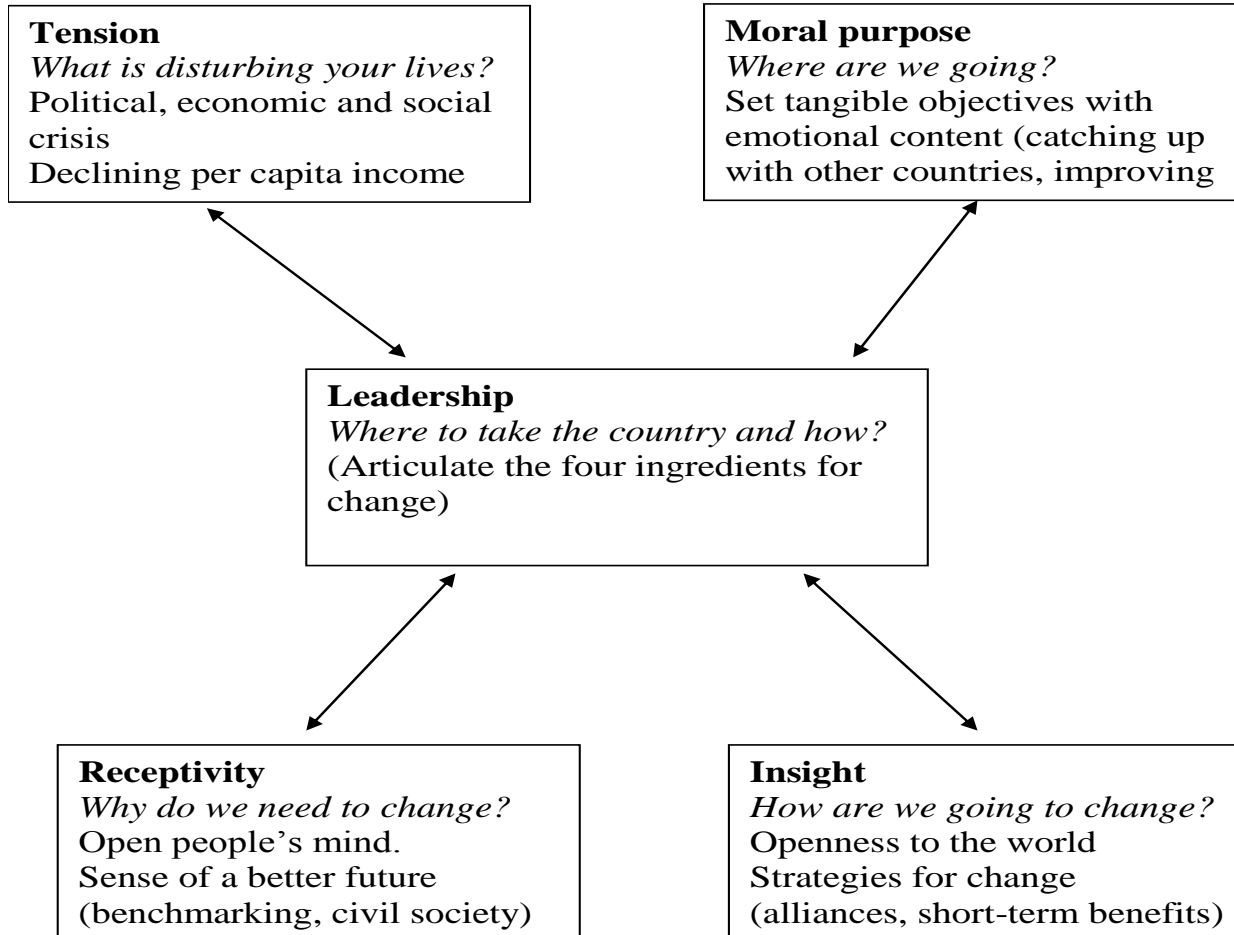
Transformational leadership

- **Mahatir Mohamad (Malaysia)**
- **Lee Kuan Yew (Malaysia)**
- **Nelson Mandela (South Africa)**

Qualities for transformational leadership:

- **A change agent: where he wants to take the community and how?**
- **A vision to shape the mind and hearts for change (sense of urgency and possibility)**
- **Ability to build winning coalitions for change**

Are You Ready For Change?



10 KEYS TO GETTING OUT OF POVERTY

- **Promote a new social contract based on the leadership's ability to improve the general welfare of society.**
- **Provide more legitimacy to the creation of wealth and facilitate, beyond sports and music, the rise of new role models for the youth.**
- **Reform the education system to eradicate illiteracy and spread know-how and values necessary for a successful market economy.**
- **Reinforce the strategic capabilities of the State, strengthen institutions underpinning the well functioning of market economy, decentralize power to citizens and strengthen intermediate bodies of civil society to encourage the emergence of viable democracies.**
- **Foster Africa's integration to create a homogeneous political, economic, social and cultural sphere, powerful enough to become a significant player in world affairs, and attract trade and investment and raise the cost of foreign control over individual countries.**

Ten Keys to Getting out of Poverty

- Promote longer-term population growth policies by forcefully fighting pandemics such as HIV-AIDS and malaria and malnutrition.
- Set an ambitious development vision and benchmark competition in the implementation of reforms in areas such as business environment, infrastructure, labor productivity, and set up Free Processing Zones to gain access to international markets.
- Create an enabling environment to attract mature technologies in Africa and encourage domestic learning and use of technology, especially in agriculture to eliminate food dependency.
- Shift IMF and World Bank policies toward promoting growth and employment, encourage the most promising African countries to exit from IMF lending and shift the European Union's aid policies from humanitarian concern to the promotion of economic development.
- Stop providing sustained financial assistance to governments with an established track record of corruption and regimes that have failed over an extended period of time to improve the standard of living of their populations.

Growing South-South Trade: China, India, Africa

Emerging trend, fraught with imbalances

Harry Broadman, PhD. Addressed this in his 2007 book and lecture

China and India's "new-found" interest in trade and investment with Africa

Presents opportunity for growth and international integration of Africa

China and India's South-South commerce with Africa is about far more than oil;

Opportunity to process commodities and supply goods and services to Asia

Imbalances in South-South Trade

China, India, Africa—Study of 4 countries*

A few Chinese and Indian firms in Africa are global, have world class-technologies; foster global *and regional* integration of African businesses.

But there are major asymmetries in this South-South commerce; while Asia is a significant part of Africa's trade flows, Africa is a very small part of Asia's trade

Trade policy reforms appear less important than reforms '*behind the border*', '*between the border*', and actions that leverage trade-FDI linkages

For Africa—as well as Asia—to benefit, *all sides must pursue reforms.*

**Countries Studied: 450 firms in 4 countries—Ghana, Senegal, South Africa and Tanzania (May 2006)*

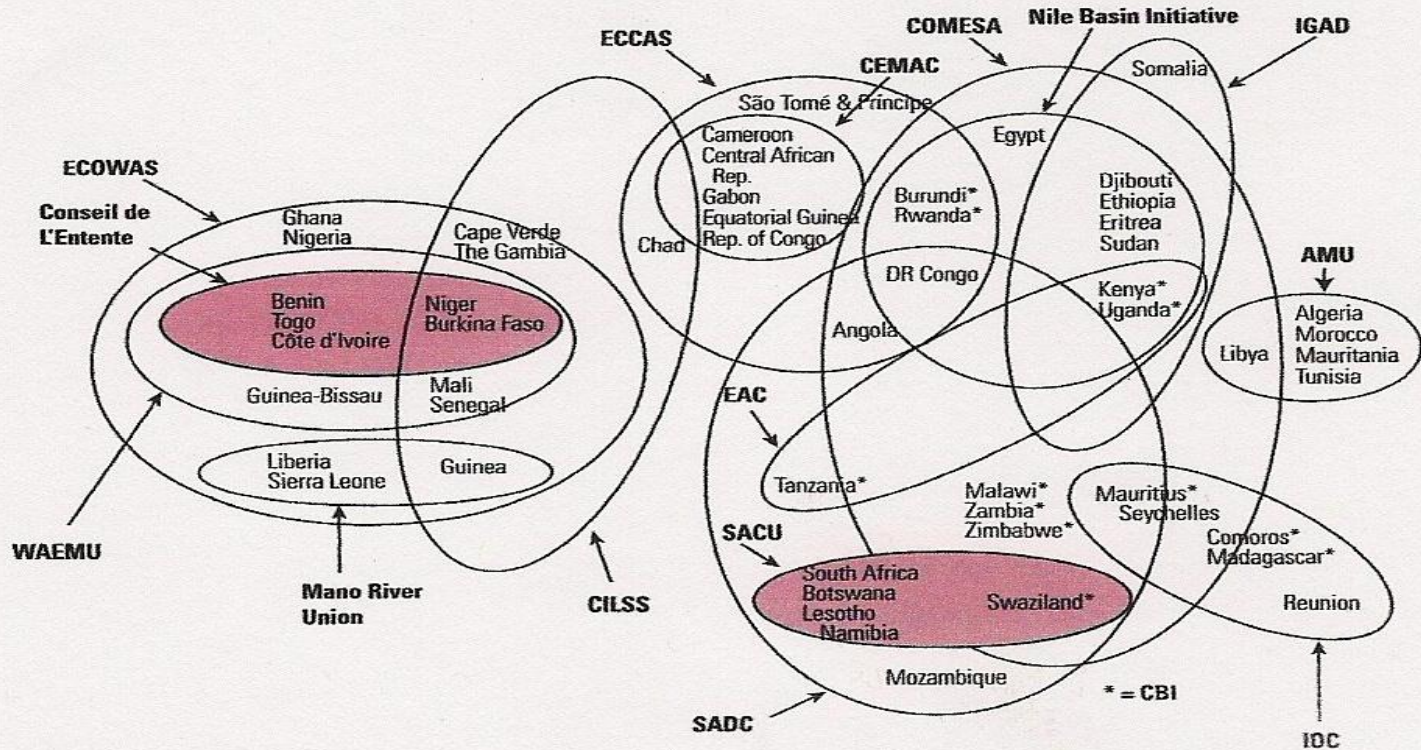
Study Focuses on Four Key Factors

- ***“Between-the-border” trade facilitation factors***
- Cross-border trade facilitating logistical /transport regimes; quantity/quality of oversea market information; impacts of tech. standards; and role of migration.

- ***Complementarities between investment and trade***
- Extent to which investment and trade flows leverage one another; effects of
- trade-investment complementarities on scale of production and integration
- across markets; participation in global production networks and value chains;
- and spillover effects of transfer of technology.

Non-Investor-Friendly Spaghetti Bowl of African Regional Trade Agreements

The Spaghetti Bowl of African Regional Trade Agreements is Not Investor Friendly



Source: World Bank.

What are your options when the world seems simultaneously imbalanced and in a dead heat race for survival at just about any cost?

- The cost to people
- The cost to the environment
- The cost of personal and national success
- The cost of peace
- The cost to posterity

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Today, we are continuing a global discussion about our options in this 21st Century scenario; I invite you to engage so each of you can make your contribution to a dialogue that is likely to continue for a long time.

Thank You

Jennifer G. Bailey, Ph.D., Editor
*A World Imbalanced-10 Lectures on Current
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President and Executive Director The Bailey Institute

Bailey Institute is a global NGO and 501(c)3 non-profit organization with a vision to eradicate global illiteracy using technology. The Bailey Institute's Technology-Driven Education Project (TDEP) at Tubman University, Harper, Liberia and elevated Mathematics and English skills of prospective university freshmen from 7th to 12th grade in 12 weeks in 2010. TDEP seeks funds to support 500 Liberian students in 2011 using Internet-delivered self-paced curricula.

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