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Globalization and the Future
of the National Economy

Keizai Koho Center & MIT-Japan Program Symposium
Conference Report

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I. Introduction

“Globalization” is one of the leading causes of public concern in almost every advanced industrial country. Despite this widespread anxiety, those fearful about the eventual consequences of globalization have so far received little in the way of guidance from experts. Without systematic research and thorough analysis, commonly posed questions about globalization’s impact on the strategies of individual firms, local job markets or the future stability of the world economy will remain unanswered.

Co-sponsored by the Keizai Koho Center (Japan Institute for Social and Economic Affairs) and the MIT-Japan Program, the Symposium on Globalization and the Future of the National Economy gathered experts from Japan and the United States to discuss the recently published results of a five-year study by the MIT Industrial Performance Center. The study, conducted by thirteen researchers under the leadership of MIT Professor Suzanne Berger, followed over 500 international companies between 1999 and 2004 in an attempt to discover which corporate practices are succeeding and which are failing in today’s globalizing economy. The study’s findings, published in the volume *How We Compete: What Companies Around the World Are Doing to Make it in Today's Global Economy*, represent the first major attempt to provide much needed data and analysis on what globalization means for individual firms and, by extension, national economies.¹ The goal of the project was to assess the impact of globalization on technological innovation, economic growth, social wellbeing and political stability around the world.

Following an introduction by Mr. Yoshio Nakamura, acting director general of Nippon Keidanren (Japan Business Federation) and senior managing director of the Keizai Koho Center, and opening remarks by MIT Professor and Director of the Center for International Studies Richard Samuels, Berger gave the keynote address outlining the main conclusions of the globalization study. The address was followed by short presentations from four panelists. Dr. Teruaki Aoki, advisor to the Sony Corporation, president of Sony University and managing director of the Sony Foundation for Education, outlined Sony’s operations in China in the context of its global production strategy. Dr. Robert Madsen, senior fellow at the MIT Center for International Studies and author of the Economist Intelligence Unit’s Japan Country Report, critiqued the MIT study and offered his thoughts on changes in the global finance system. Mr. Haruo Kawahara, president and chief executive officer of the Kenwood Corporation, offered lessons from his experiences reforming companies in mature product markets under global pressures. Professor Hugh Whittaker of Doshisha University presented the results of his study on Hitachi’s recent reform efforts, with particular focus on the electronic giant’s technology management strategy. The panelists then fielded questions from the audience.

¹ Suzanne Berger, *How We Compete: What Companies Around the World Are Doing to Make It in Today's Global Economy* (New York: Currency Doubleday, 2005). The book will appear in Japanese from Soshisha Publishers in summer 2006.

Taken together, the presentations addressed a wide variety of pressing questions regarding the causes, consequences, challenges, and future trajectory of globalization. Key questions addressed by the symposium's participants included:

- How should “globalization” be defined to facilitate meaningful debate?
- What changes have occurred in the global economy over the last twenty years?
- What factors have driven or enabled these changes?
- What theories best account for the changes observed in the behavior of firms?
- How should firms organize their production systems?
- Where should firms locate their production activities?
- What can national governments do to ensure their economies reap the benefits of globalization?
- What lessons can be drawn from the past about how best to maintain openness in the global economy today?

This report summarizes the major contributions of the symposium in five parts. The first section defines what is meant by “globalization” and presents the consensus view of its general causes and consequences. The next three sections recount the debate among the panelists over what these developments mean for three types of actors: individual firms, national governments, and international institutions. The final section briefly summarizes the major conclusions of the symposium.

II. Understanding Globalization

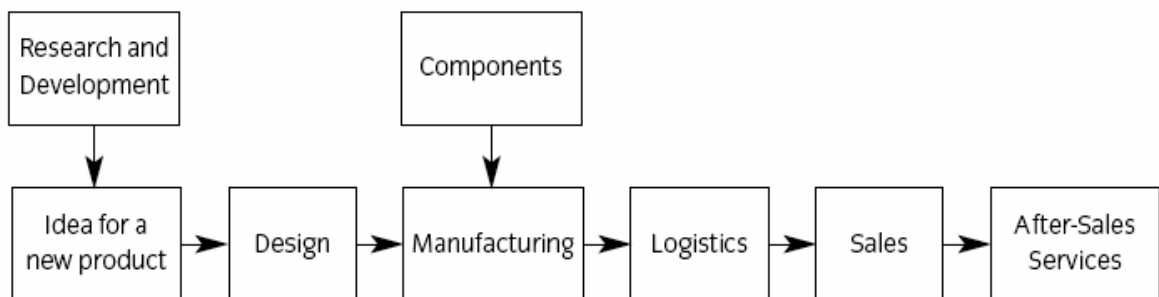
In his introductory remarks, Samuels noted that the term “globalization” means many things to many people. The “exquisite imprecision” with which the term has been bandied about has sown confusion and hampered attempts to understand both what is going on and what is at stake. To avoid this confusion, Berger and her MIT colleagues offer a precise definition: Globalization refers to “the changes in the international economy and in domestic economies that are moving toward creating one world market.”² Put another way, globalization is the process by which the prices of the factors of production (labor, capital, goods, and services) become equalized throughout the world. Although Berger is careful to note that the end state of globalization so understood—a single world market in which the costs of production are the same the word over—is unlikely ever to be realized, defining globalization as a tendency toward a

² Ibid., p.9.

specific economic outcome allows one to focus the discussion of the causes and consequences involved.

Understood this way, certain aspects of the globalization debate become less contentious. In particular, the panelists showed little disagreement on two key questions: what has changed in the global economy over the last two decades and what is behind these changes. With regard to what has changed, there was general agreement with Berger's emphasis on the fragmentation of production systems as the major development of the last twenty years. At the end of the 1980s, the key strength of successful companies seemed to be their ability to integrate the full range of production functions within their own four walls. The models of success were large Japanese firms, whose Just in Time (JIT) manufacturing system demanded high levels of integration between all stages in the production process. This meant keeping many production capabilities in-house while maintaining geographical proximity to key suppliers. However, the picture in the early years of the twenty-first century is quite different. There has been a major fragmentation of the production system, both organizationally, in the sense of which production functions are performed in-house, and geographically, in the sense of where production activities are located. To understand how this works, one must first view the production process as a set of discrete functions, as in Figure 1 below:

Figure 1: From Ideas to Customers



Source: Berger, 2005, p.63.

As production becomes more fragmented, it becomes possible to farm more of the above functions out to different suppliers or service providers. The possibility of divvying up production functions in this way has forced firms to consider what Berger and her team have labeled “reorganization” or “outsourcing”: “the strategy for selecting which of the steps, from defining a product and delivering it to a customer, should remain in-house versus the functions that will be outsourced—that is, purchased from other firms.”³

Berger also noted two other related changes to the global economy over the last twenty years. The first involves the redistribution of firms’ production functions between “home” and “host” societies. In short, the ability to fragment the production process has induced many companies to reconsider where they locate their activities so as to

³ Ibid., p.59.

maximize their access to the cheap labor, plentiful space and new customers available in foreign countries. This development is referred to as “relocation” or “offshoring” by Berger’s team. A final important change has been the re-division of functions among players in the production stream, with new patterns of interaction developing between brand makers, design firms, contract manufacturers, assemblers, distributors, and retailers. The end result of these changes has been the breakup of production systems into networked global supply chains that distribute production functions across firms and regions. These changes run counter to the lessons of the late 1980s, when firms were advised to be more like Japanese companies that integrated production functions to capitalize on the cost-savings of lean manufacturing techniques. How quickly the world has changed.

But what has driven these changes? Here again, there was little debate among the panelists. Berger’s keynote address touched on two types of contributing factors, drivers and enablers. Drivers include China’s opening to the West after 1979 and the collapse of the Eastern Bloc after 1989, which opened enormous product and factor markets to Western firms seeking cheap labor and new consumers, as well as the decision by the United States and other advanced industrial countries to liberalize capital markets and further remove obstacles to trade, which through the “Uruguay Round” (1986-1994) and the establishment of the World Trade Organization greatly expanded the possibilities for cross-border capital and trade flows. A third driver was the accompanying increase in world market volatility exemplified by the major financial crises of the last fifteen years (e.g. Western Europe (1992), Mexico (1994), Asia (1997), Russia (1998), Argentina (2002)). This fragility in the global monetary system has increased investment risks and thus the cost of capital. This has discouraged firms from traditional long-term investment in brick-and-mortar facilities and encouraged outsourcing to contract manufacturers, thereby reducing risks and capital costs.⁴

While the above factors have encouraged firms to fragment their production systems, an additional set of factors have made this fragmentation possible. These “enablers” include advances in communication and transportation technologies that have greatly reduced the costs of transmitting information and moving goods and even services across great distances. More specifically, Berger emphasized the importance of the development of digitized communication technologies that allow firms to codify product design specifications to a degree never before possible. While in the past the production of a new semiconductor required the designer to stand beside the technician carving the mask, today complex integrated circuit designs can be specified in exacting detail in digital software and sent across the ocean on a fiber-optic cable in a matter of seconds. It is this capability to codify and transmit complex specifications that has made it possible for firms to break up their production processes and distribute them with relative ease to multiple suppliers or contract manufacturers located throughout the world.

A central metaphor Berger used to explain this transformation in production systems was the difference between a model airplane kit and a Lego set. In the case of the model airplane kit, the prepared pieces can only be assembled in one way to produce one final

⁴ Ibid., p.15.

product. However, with a Lego set, a child could assemble the pieces in a number of ways to produce a number of different toys, even different types of planes. Berger offered Apple's highly successful iPod digital music player as an exemplar of this new Lego world. Although designed by Apple engineers in the United States, the iPod is assembled by Taiwanese companies in China out of components that come almost entirely from Japan. It then makes it into the hands of American consumers through retailers such as BestBuy or Circuit City. In essence, Apple has outsourced and/or offshored nearly all the steps in the production process with the exceptions of product development and design.

While there was little debate over the causes of recent changes in the global economy, the panelists were more divided over what these changes mean for individual firms, national governments and international institutions. The next three sections recount this debate over globalization's impact at different levels of analysis and summarizes what lessons can be drawn for each.

III. Lessons for the Firm

The central focus of the MIT globalization project was to answer two basic questions about firm behavior in the current climate of fragmented production systems. First, what functions should firms keep within their own four walls and what should they outsource? Second, what functions should firms keep in their home countries and what should they offshore? At the beginning of the project, team members held different expectations over how these questions would be answered. Some believed that companies would tend toward adopting a single set of "best practices" that would eventually result in firms within the same industries adopting the same outsourcing and offshoring strategies. This view originates largely from mainstream economic theories that predict comparative advantage in the context of liberal trade and finance regimes will lead to an equalization of factor prices across the globe.⁵ Applying this view to today's global economy, they believed that firms in the same industries would adopt similar outsourcing/offshoring strategies.

A second view held that globalization impacts different societies in different ways. In particular, scholars such as Peter Hall and David Soskice have specified two types of capitalist societies: liberal market economies, such as the United States and Britain, in which markets serve as the primary medium through which resources are allocated, and coordinated market economies, such as Germany and Japan, in which resource allocation decisions, such as whether to layoff employees or deal with a particular supplier, are mediated through a variety of non-market institutions that emphasizes long-term relationships and trust between the parties. Applying this view, firms located in these different "varieties of capitalism" should respond to globalization in different ways while those located in the same type of capitalist society should respond in similar ways. Thus, this view would predict that firms from a liberal market economy, more accustomed to buying resources from the market, might be more ready to offshore production functions

⁵ Ibid., p.36.

than firms from coordinated market economies that depend on long-term relations with their workers. The “varieties of capitalism” view also predicts that when firms from coordinated market economies do move abroad, they will try to recreate the institutions on which they depend at home. For example, a Japanese firm establishing a manufacturing subsidiary in China would be more likely than an American firm to appoint a manager from within its own ranks rather than hire one from the local labor market. In this way, firms would not converge in their strategies regarding outsourcing and offshoring but should show bifurcation in their approaches that coincides with the type of capitalism practiced in their home country.

The MIT globalization study examined these two hypotheses by conducting on-site interviews at over 500 firms based in Europe, North America and Asia. The project focused on firms in sectors located on two ends of a continuum: fast-tech and slow-tech. In fast-tech sectors, such as electronics and software, product and process technologies change rapidly and discontinuously. In slow-tech sectors, such as textiles and apparel, these underlying technologies change relatively little over time. The study also looked at some sectors in between these extremes, such as automobiles, auto parts and publishing.

Firms were selected in this way for the following reasons. First, many people believe that slow-tech firms, which tend toward labor-intensive operations, are condemned to disappear in high-wage countries. This sector thus represents a critical case in the sense that if some of its firms continue to thrive in advanced industrial countries, it would call into question the convergence view that corporate trajectories are largely determined by comparative advantages in labor costs. Second, the study focused on industries (both fast-tech and slow-tech) that face intense competitive pressures and are able to outsource or offshore parts of their operations with relative ease. These firms are most likely to be on the frontlines of globalization and thus are most instructive as subjects of study.

The MIT team was surprised to find that neither the convergence nor the “varieties of capitalism” view was strongly supported in the responses received from firms. In fact, successful firms had followed a variety of different strategies with regard to outsourcing and offshoring. More surprisingly, Berger and her team found that these successful strategies did not correlate across specific industries, as the convergence theory predicts, or within capitalism types, as the varieties of capitalism view would have it. Instead, they found that how individual firms managed their “dynamic legacies”—understood here as the stock of experiences, skills, talents, organizational capabilities, and institutional memories—determined their success or failure in the face of global pressures. In other words, the firms that were able to recombine the elements of their legacies in new ways in response to the opportunities afforded by globalization succeeded while those that were unable to take advantage of these resources did not. The end result is that firms with different legacies found different ways to succeed in the global market even if they occupied places in the same industry or were founded in the same country.

A firm’s legacies are generated from the circumstances of its birth, its institutional connections to its society of origin, and the numerous decisions of its executives over the years. Noting that these legacies are the product of learning over time, Berger cited the

example of Hong Kong garment manufacturers, whose early contacts with buyers in either the United States or Europe tended to determine whether they specialized in large-run, low-price apparel or small-run, high-price clothing. Although these firms started out with similar backgrounds (Shanghai businesses that fled to Hong Kong following the Communists takeover in 1949), their experiences with customers led them to develop very different production and design capabilities. These experiences made them into very different companies by the late 1970s, when they were confronted with a new opportunity, the opening of China. These firms then again made different decisions about whether to move operations to the mainland, decisions that were variously affected by their past histories with the China market and their established capabilities. For example, firms that had developed design capabilities and specialized in high-quality garments were better able to continue to compete successfully in the relatively high-wage Hong Kong market and were thus better positioned to remain as local producers.

Based on these findings, Berger and her team arrived at several lessons for firms competing in today's global markets. First, they noted that convergence does not appear to be occurring with regard to the outsourcing and offshoring strategies of successful firms. Instead, completely different models of success appear within even the same product fields. For example, Apple outsources all of its laptop production to Taiwanese original design manufacturers, while Sony continues to make half of its successful Vaio laptop line in its own factories in Japan. Such contrasts were also observed in slow-tech sectors. Although Gap and other US clothing companies outsource and offshore all of their production, the fastest growing clothing manufacturer in both the United States and Europe today is the Spanish company Zara, which produces half of its products in the high-wage environment of northern Spain. It seems, as Samuels observed, that managers are by no means as constrained as is commonly thought. Individuals and organizations have been able to find different workable solutions to the same problems.

Facing a world of possibilities instead of a world of constraints makes deriving lessons for firms a more complex endeavor, but Berger and her MIT colleagues offered several points of advice. On the question of what firms should outsource, the MIT team recommended that firms follow a hedging strategy in which they maintain only two types of functions in-house: activities in which they are competitive with market leaders and activities that may be important to the development of future businesses. While the former is somewhat obvious, the latter may prove a harsh lesson for many firms. For example, Berger noted that firms that have outsourced all manufacturing functions may find it difficult to adapt to future changes in product or process technologies. Kawahara reinforced this point with his warnings on the pitfalls of "going fabless." In his view, outsourcing all manufacturing operations eventually leads to a reduction in competitiveness due to the inability of in-house designers to follow-up on developments on the factory floor, an increased rigidity in production costs, and the dangerous loss of managerial expertise in production processes. In short, "fabless" firms no longer have the ability to adapt efficiently to major changes in production costs and technologies. The degree to which this represents a threat to firm survival, however, may vary across industry and time. Among the companies examined in the MIT study, Berger suspected that American firms may have been excessive in their enthusiasm for outsourcing

manufacturing functions, while Japanese firms may have been too rigid in adhering to strategies that have kept most such functions in-house.

A second lesson emphasized by the panelists is that firms need to be careful not to build a new competitor as a consequence of their outsourcing strategy. When firms outsource functions, they often share skills and technologies with their providers, who may go on to use them to develop their own product lines. Berger and Samuels both noted that this was a lesson learned by Japanese firms in the 1990s. Strapped for capital in the midst of a domestic banking crisis, Japan's leading electronics manufacturers partnered with Korean and Taiwanese collaborators to share costs, but, in the process, transferred key technologies in fields such as LCD production only to find themselves facing stiff competition from these same "partners" shortly thereafter. As a consequence, according to Samuels, Japanese CEOs now routinely speak of "black-boxing" their technologies before entering into outsourcing or offshoring arrangements. Aoki reinforced this view when he cited the danger of intellectual property rights infringement as one of the chief risks involved in Sony's investments in the China market.

On the other hand, some firms are moving in the opposite direction. IBM, for instance, announced in 2005 that it would make several hundred of its patents available for use without charge. Seeking to generate network effects and to take advantage of the synergies produced by open standards, these firms are becoming more open with their proprietary know-how. Berger observed that this is not an unreasonable strategy for a world of fragmented production systems and global supply chains. However, while she argued that Japanese companies have perhaps become too cautious with their technologies, she fears that American companies, in their enthusiasm for outsourcing, are letting too many of their technological assets slip into the hands of potential competitors. Whittaker, in his presentation on Hitachi, noted that the Japanese electronics giant has recently resolved to move toward a more open stance vis-à-vis its technological capabilities, although its research and development still remains a relatively closed process.

What should firms keep in their home countries and what should they offshore? Berger's response to this question generated significant debate among the panelists. Citing another conclusion from the MIT project, she argued there are no "sunset industries"—industries that are condemned to disappear in high-wage economies due to the forces of globalization. In the dynamic legacies model, it is a firm's capabilities, not its industry or sector that matter. Thus, although some strategies may be rendered unviable by shifts in the global economy, firms with the right capabilities should be able to persevere even in mature product markets in advanced industrial countries. Berger cited as an example the Italian shoe manufacturer Geox. Founded in 1995, Geox has rapidly become the world's fourth-largest shoe brand on the strength of new technologies and innovative designs. Although the firm now manufactures its shoes in low-wage countries, it continues to locate research, design and management functions in Montebelluna, Italy, in order to take advantage of the region's skilled and experienced labor force. Geox's success is thus startling evidence that a company based in a high-cost country can leverage its legacies to

remain competitive even in a mature industry dominated by low-cost producers from countries like China and Vietnam.

Citing the example of the 19th-century British textile industry, Madsen challenged the conclusion that there are no sunset industries and argued there was a bias in the way the MIT research was conducted. To him, a “sunset industry” is one that declines in a particular country until only a few firms remain. These surviving firms will often see themselves as successful and respond positively when questioned about the health of their business. Since the MIT researchers examined only existing firms, they failed to get the perspective of firms that had already failed as a consequence of global pressures, particularly due to differences in labor costs across countries. In this sense, according to Madsen, the design of the MIT project limited its ability to capture secular trends in the rise and decline of industries. Whittaker responded to this critique by citing the example of the textile firms in Japan, where high wages have not driven the industry out of existence. Although these firms have hemorrhaged jobs over the last decade, many have survived and some have even engineered comebacks by following innovative strategies, such as outsourcing spinning or targeting global niche markets. He concluded that there are ways for today’s managers to adapt to global pressures and that the Japanese textile industry need not disappear like its British counterpart. In the end, the differences between Berger and Whittaker, on the one hand, and Madsen, on the other, may lie in their choices of different levels of analysis. While the former focus on management decisions from a micro perspective, the latter’s approach is centered on outcomes at the macro-level.

Berger offered another surprising lesson for firms: the pursuit of cheap labor has not proven a winning strategy in the current age of globalization. Although managers repeatedly listed labor cost savings as their primary goal in offshoring production, they usually also admitted that labor costs were only a minor part of the total cost of production. Berger argued that the limited savings achieved through offshoring did not always appear to justify the costs and risks involved. Although companies are often attracted by the low wages of developing countries, in the end, what matters are unit labor costs—the labor needed to produce a given value of production—and these are often higher than one might expect. Factors common in low-wage countries, such as political instability, inexperienced workers, poor infrastructure, and excessive fluidity in local labor markets, often increase unit labor costs and reduce the ultimate benefit of offshoring.

This view was shared by many of the panelists. Kawahara noted that producing in Japan can sometimes be more cost effective than offshoring to low-wage Asian countries. For example, Kenwood relocated production of its portable mini-disc (MD) player from Malaysia back to its factory in Yamagata, Japan, because better worker productivity, improved quality, and faster speed-to-market offset the higher wage bill. Aoki emphasized the risks of relying too heavily on production in China, including the dangers inherent in China’s immature constitutional government, the specter of rapid labor cost increases in urban areas, the danger of intellectual property rights infringement, the difficulties caused by the Chinese government’s efforts to institute its own technological

standards (often to the disadvantage of foreign competitors), and the possibility of a future yuan revaluation, among others. Although Sony has expanded production in China significantly in recent years, it currently represents only about a tenth of the firm's total production. In fact, despite the allure of lower wages in nearby Asian countries, Sony plans to keep half its production in Japan in order to promote innovation in production processes and to maintain "mother plants" to control production in overseas facilities. In addition, Aoki noted that Sony does not see China simply as a low-wage export platform: the firm's presence there is also focused on expanding access to the growing Chinese consumer electronics market.

In his introductory remarks, Samuels placed the experiences of Kenwood and Sony in context. According to government statistics, the "hollowing out" trend in Japan's manufacturing sector has recently reversed: domestic capital investment increased by more than 40% between 2003 and 2004. Matsushita, Toray, and Sharp have all announced new production lines in Japan, while Canon has joined Sony in pledging to keep half of its production in domestic facilities. The accounts of Kawahara and Aoki are thus in step with larger trends in the Japanese electronics sector.

Although none of the speakers denied the potential advantages of offshoring production, they cautioned against strategies that relied solely on the pursuit of cheap labor. As Berger observed, following such a strategy condemns a firm to a "bottom-feeder" existence in which facilities are constantly relocated in pursuit of the lowest wages and razor-thin profit margins. Instead, Berger and her MIT colleagues concluded that the only winning strategies in today's global economy are ones that differentiate a company by developing unique capabilities.

The discussion of firm-level outcomes continually returned to China. Berger was particularly struck by differences her team discovered between the strategies pursued by Japanese and American firms in the China market. While American firms most often outsource production to Taiwanese firms operating on the mainland, Japanese firms are more likely to establish their own production facilities in China. As a result, Japanese manufacturers have learned more about how to be successful in the China market, a fact that Berger believes may be helped Japan avoid huge trade deficits like the one the United States currently has with China (about \$162 billion in 2004).

Although German companies have also established many of their own facilities in China, a fact that would seem to support the varieties of capitalism argument, Berger noted a key difference between the Japanese and German approaches to the China market. Japanese firms such as Matsushita have begun targeting all segments of China's consumer market, from high-end products such as digital cameras to low-end products such as conventional refrigerators, while German and American firms have continued to focus mainly on high-end product markets. According to Berger, the Japanese seem intent on using what they've learned from their local operations to compete with low-cost Chinese producers on their own ground.

IV. Lessons for National Governments

Although the symposium focused largely on firm-level outcomes, the panelist also offered opinions on how national governments should respond to recent changes in the global economy. One area of agreement among the panelists was the need for national governments to implement policies designed to sustain public support for maintaining openness in the international economy. Both Madsen and Berger emphasized how the perceived costs of globalization can turn local regions and even entire countries against openness. To make this point, Madsen noted that today only three developing countries (Turkey, South Africa, and India) run significant current account deficits. Despite the fact that this reluctance to import capital likely shaves one or two points off their annual gross domestic products, developing countries have largely stopped borrowing money from the developed world. Madsen sees this as a response to the currency crises of the 1990s, when developing countries such as Mexico, Thailand, Indonesia, Russia and Argentina were devastated by currency shifts caused by the rapid withdrawal of foreign capital. The economic hardships and political upheavals that ensued have discouraged Third World countries from relying again on foreign borrowing to finance domestic growth. Although Madsen was not certain which policies could remedy this situation, he pointed to efforts to encourage China to fix its domestic financial system and stop exporting so much capital as a good place to start.

The loss of enthusiasm for openness, however, is not confined to the Third World. Berger pointed out that a majority of Americans think globalization is bad for the job market. And they may have a point—a recent study concludes that, while most who lost their jobs over the last three years have found new ones, two-thirds of these jobs pay less than the jobs that were lost.⁶ Although Berger believes the number of jobs lost to globalization is likely exaggerated in the media, she stressed the need for national governments in North America and Europe to implement policies designed to maintain the consensus in support of openness. But how can this be done?

Maintaining openness will likely require reforms in social welfare, technology and education policies. First and foremost, Berger stressed the importance of national governments finding ways to compensate citizens who are adversely affected by globalization. In part, this means guaranteeing access to healthcare and old-age pensions. Although some may question this approach as economically inefficient, Berger noted the vitality of the Swedish economy over recent years. Despite having a large welfare state, Sweden has experienced solid economic growth. Second, as private firms in developed countries like the United States have moved away from funding corporate labs to do basic research, government support for research and development in university and public laboratories has become much more important. Pointing to the large number of biotechnology firms clustered in the corridor between MIT and Harvard, Berger posited that one way to make industries and jobs sticky is to continue to invest in innovation. If biotechnology does become the next great growth industry, many of the key innovations will likely begin as research projects in university laboratories supported by public money.

⁶ Ibid., pp.21-22.

Berger and Madsen both stressed the need for education reforms. To Berger, the continuing inability of the United States to provide a large portion of its citizens with any education at the post-secondary school level creates a vast potential reservoir of anti-globalization. When large numbers of American are simply not given the tools necessary to succeed in a global economy, it seems inevitable that the country's commitment to open competition in the international economy will eventually wane. Taking a different tack, Madsen criticized the tightening of immigration policies that has made it more difficult for foreign students to study in American universities since the terrorist attacks of September 11, 2001. Madsen argued that keeping universities open to international students, who after graduation will often work for a time in the United States before returning to their home country, is essential to maintaining the United States at the center of world business culture. One should not underestimate the advantages for US firms of the current global trade and finance regimes, which often equate world business norms with those that prevail in the United States.

V. Lessons for International Institutions

A final area in which the panelists pointed out problems and considered solutions involved the international institutions that govern the flow of trade, services, capital and people between countries. This discussion was largely framed through a comparison between the current round of globalization and the one that occurred between 1870 and 1914. Berger pointed out that during this "first globalization" capital mobility, trade and immigration among countries were by some measures even higher than they are today. What can be learned from this first globalization? Berger offered a sobering observation. Despite being driven by irreversible technological advances (e.g. the advent of steamships, international telegraph and telephone services, etc.), the first round of globalization came to an end in a single day. The walls around countries went up after the outbreak of World War I in August 1914 and did not come down again for seventy years. In fact, it was not until the 1980s that the world returned to the levels of cross-border exchanges reached during the first globalization. The lesson here is that globalization is not irreversible.

It is thus important to be aware that easily imaginable events, such as dramatic acts of international terrorism or the outbreak of epidemics such as the avian flu, could cause serious problems for the current round of globalization. Even events such as the recent surge in anti-Japan protests in China may serve to give pause to Japanese firms considering where to locate their production operations. As Berger concluded, the political will to maintain openness in cross-border exchange remains a necessary condition for the continuation of the current round of globalization. It thus falls on national governments and the international institutions they create to continue to overcome the challenges to globalization that will inevitably arise.

Madsen also expressed concern for the future of openness in the international economy. Although levels of trade today are somewhat higher than a hundred years ago, the speed

and volume of today's cross-border financial flows vastly outstrip those achieved during the first globalization. As a consequence, shocks are much more pronounced today. For example, when capital flows reversed direction in Asia in 1997, countries like Indonesia and South Korea lost both good and bad companies and suffered great dislocations within their societies. Easing the negative impacts caused by this volatility should thus be on the top of the agenda for those committed to maintaining the current round of globalization. However, in Madsen's opinion, the international institutions of today are actually less effective at managing the dangers inherent in these enormous capital flows than those that existed during the first era of globalization. In what was perhaps the most controversial observation of the symposium, Madsen pointed to the empires of countries such as Britain and France as key factors that sustained openness in the face of volatility during the 19th century. These vast empires were more willing than countries of today to let international markets work, as, by virtue of their vast holdings, losses in one region would likely be offset by gains in another. Madsen argued that today's national governments and international institutions are less committed to openness and less willing to shoulder temporary losses in favor of future gains.

By way of example, Madsen noted how the world responded to the accumulation of excess savings in Japan during the postwar period. This phenomenon occurred often during the 19th century, when imperial trading blocks countenanced such imbalances for long periods of time. Rather than letting markets do their work, however, national governments placed great pressure on Japan over the last twenty years to export more capital and correct the imbalance in its capital account. Madsen thus concluded that key actors in today's international economy are less willing to allow markets to function as economic textbooks prescribe. In his view, the global system is less flexible than it used to be, governments are intervening too often, and the international institutions set up to manage these interventions are not effective enough.

VI. Conclusions

Despite some areas of disagreement, the symposium participants came to similar conclusions on many of the questions surrounding globalization. First and foremost, everyone viewed globalization in economic terms while at the same time acknowledging its important political underpinnings. Berger's definition of globalization as the process of moving toward a single world market for the factors of production thus provided a useful frame for panelists addressing different parts of the globalization puzzle. Second, there was little disagreement over what has changed at the firm level since the 1980s. All the panelists devoted at least part of their presentations to addressing issue related to the fragmentation of production systems. Finally, there was also little disagreement over the factors that have brought about this change. These include efforts on the part of advanced industrial countries to promote further liberalization, the opening of China and the former Eastern Bloc countries to the global economy, increased volatility in global financial markets, as well as the development of digital communication technologies that allow the codification and rapid transmission of complex production techniques.

The panelists were somewhat less unified on what these changes mean for individual firms. Although they agreed that firms should be careful in their outsourcing strategies so as not to build a competitor or surrender functions that might produce future businesses, they disagreed over whether the fragmentation of production obviated the possibility of “sunset” industries. In particular, Berger and Whittaker argued that this change has now made it possible for any industry to survive, as long as its firms choose to compete on the functions in which they retain advantages as a consequence of their dynamic legacies. Madsen, on the other hand, argued that the forces of globalization are such that industries dependent on labor intensive operations are still likely to disappear in high-wage countries. However, the majority of the panelists did agree that the pursuit of cheap labor has not proven a winning strategy in today’s global economy. Berger, Aoki, and Kawahara all cautioned firms to be aware of the full risks involved before deciding to offshore significant amounts of their production to low-wage countries.

The consensus returned, however, when the discussion turned to what national governments should do to maximize the benefits of globalization for their citizens. Here, Madsen joined Berger in encouraging governments to work to sustain support for openness in their societies. To do this, national governments will have to compensate losers by increasing access to healthcare, pensions and education. Noting that technological innovation is one way to make industries remain at home, Berger also stressed the need for governments to support basic research conducted in university and public laboratories.

Finally, several of the panelists drew lessons from comparisons with an earlier period of openness in the global economy from 1870 to 1914. Berger noted that this first globalization was driven by similar forces yet ended abruptly. Globalization should thus not be viewed as an irreversible process, but as a continuing endeavor that requires constant attention from national governments and international institutions. New challenges, such as terrorism or viral outbreaks, will inevitably arise and test the political will that underpins today’s globalization. In addition, the panelists agreed that international markets are more volatile today than in the past. In particular, the volume and rapidity of today’s capital flows represent unprecedented challenges to the global economy. Although no specific proposals were offered, several of the panelists emphasized that if new methods are not found to cushion these shocks, support for globalization may continue to fall around the world.



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