

## Toward a Global Economy

Globalization isn't new. The ancient Silk Road, a 4,000-mile overland route stretching from the Mediterranean to Imperial China, was an early conduit of international commerce. In the rapidly industrializing 19th century, steamships, railroads, telegraphs and other advances in communications and commerce ignited a vigorous round of worldwide economic integration.

These earlier periods of globalization couldn't be sustained. Desert sands swallowed the Silk Road in the 15th century. The great 19th century globalization slammed into reverse as trade and foreign investment collapsed in the face of two world wars and the widespread protectionism of the 1930s. Economic

activity's retreat behind borders left the world a far poorer place.

The present episode has its roots in the years after World War II, when the U.S. and other nations, mindful of the hardships wrought by the prior globalization's collapse, opened their economies. Since then, globalization has gained momentum as countries have prospered by freeing their economies from restraints that hinder greater integration with the rest of the world. (See Exhibit 6.)

Economies can grow without good policies—for a time. Consider China. Although freer than it was, its economy maintains vestiges of its state-dominated past. Scores on many policy measures are still low. On labor flexibility, for example, China ranks with Peru and Venezuela, far below the United States.

Despite these handicaps, China has been able to grow rapidly, largely because abundant, cheap labor fuels exports and foreign investment. The country, though, remains relatively poor, and its hidebound policies—if left unchanged—will ultimately hinder economic development.

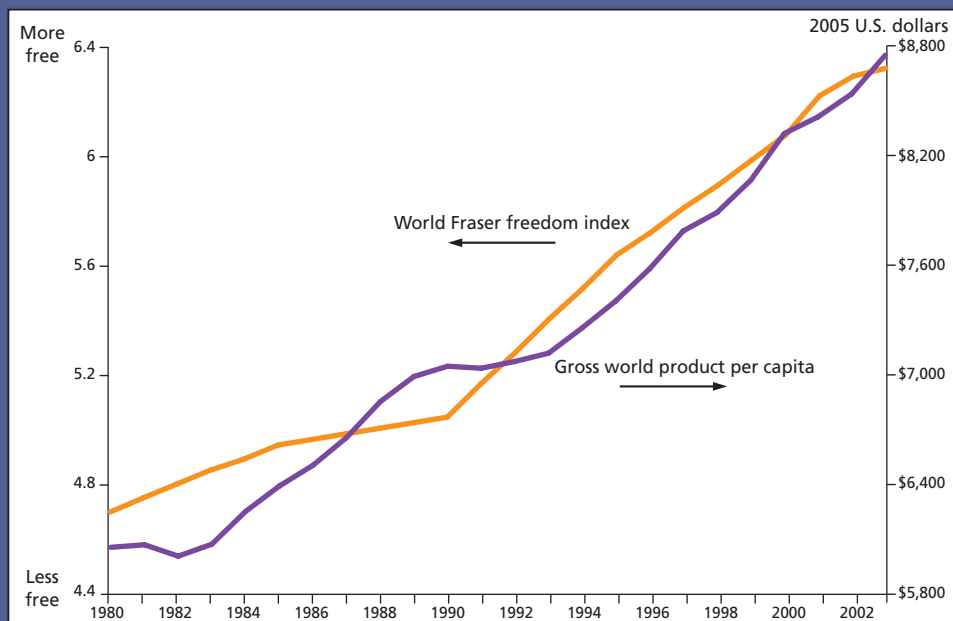
Countries that resist globalization's imperative for adaptability and retain rigid economic structures are likely to lose ground. Germany, France and Italy, for example, have seen per capita GDP slip to where it was in the 1970s relative to the U.S. level.

History teaches this lesson: Globalization is natural, but it's not inevitable.

Economies grow closer because of powerful forces celebrated since the time of Adam Smith—self-inter-

### EXHIBIT 6 Richer and Freer

The past quarter century has brought a surge of economic freedom as nations in all parts of the world have jettisoned many restrictions on the private sector. Adopting free market policies has led to improved living standards, as measured by per capita income.



est and economic freedom. Left to their own devices, companies and individuals will usually do business with whoever offers the best deal, regardless of nationality.

Through literally billions of diverse transactions, economies will interconnect and intertwine to the extent governments refrain from erecting barriers to commerce or adopting policies that cripple cross-border business.

If nations can avoid past mistakes, our times are primed for further globalization. The Internet and other technologies have made telecommunications, travel and transport cheaper and faster. They allow companies and individuals to take greater advantage of the trend toward more open, market-oriented policies that favor globalization.

Some will still resist, fearing the inevitable disruption that follows opening to the world. When critics call for isolation and protectionism, we should remember this: The two most recent periods of globalization—the one that began in the 19th century and our own—have been marked by rapid economic growth, great strides in technology and vastly improved living standards. It was the widespread rejection of economic openness between the two globalizations that brought the miseries of world war and the Great Depression.

For America, globalization holds promise and responsibility. Our \$13 trillion economy, the world's largest by far, scores well year after year in competitiveness studies. Unlike Japan and Germany, we haven't handicapped our system with excess labor

regulations that rob the private sector of its flexibility and adaptability.

We are technologically adept. We employ a skilled workforce, augmented by the best and brightest from around the world. We have a wealth of managerial talent—millions of able, committed professionals who on a daily basis face the challenges of an interconnected world economy.

The United States stands to prosper in a more globalized world. The world's largest economy can lead by example to help foster a consensus on open markets. If we surrender to calls for policies that thwart globalization, other nations may do the same, creating a race to the bottom. If our country shows the way toward globalization, others will follow in a race to the top. ■

