DRIVERS OF GLOBALIZATION[[1]](#footnote-1)

ISHRAT HUSAIN

Having listened to distinguished luminaries such as Prof Ishwar Dayal there is hardly very much I can add or contribute to the discourse initiated this morning. But as a student of economics I know that I should stick to my comparative advantage. What I therefore propose to do this afternoon is to spell out what I consider are the main **Drivers of Globalization** . I would then argue that unless we understand those **Drivers of Globalization** we cannot have a picture of what the firms or business--- individually and collectively ---are going to look like in the future. Having done that , we delve into the realm of the changes in the *the state of the firm which will emerge in the light of this globalization. We should then discuss as to what will be the challenges facing the management of firms in this globalized economy. Once we have grappled with these configurations we should be in a better position to sketch out the contours of management Education required in the future globalized world.*

This is the analytical framework I propose for our discussion this afternoon. It is not very meaningful to start the conversation about *Management Education* without reference to the management challenges that the firms and businesses operating in the globalized economy would be faced with in the future. Management Education then responds to those needs and requirements and equips its graduates in meeting those challenges . I will start the ball rolling by dwelling upon the **Drivers of Globalization**.

I would submit that there are many competing theories and several hypotheses about the shape and form of globalization. There is no consensus at intellectual level about the impact of globalization. Some consider it as an evil that will create more misery for the weaker nations, fragile states and disadvantaged populations as well endowed nations, strong economies and large populous states pre-empt most of the benefits for themselves. Others feel that the dissipation of boundaries, dismantling of barriers and disappearances of borders would spread these benefits to majority of the people in all parts of the world. But at least one thing is quite obvious. We would face a lot of uncertainty during the course of coming decades. The recent financial crisis we witnessed in 2008-2009 has taken all of us by surprise. There were hardly any tremors felt before the financial tsunami engulfed all of us in its spate. Nobody had predicted the speed, intensity and extent of damage that came along with this crisis. So what is certain is that the world is going to be saddled with uncertainty, with unknowns, with imponderables, with unanticipated events which despite our best ability and foresight we are not able to predict. Its going to be a messy world, it is going to be a totally uncertain world and therefore the kind of firm which would survive under those circumstances would be one which is agile, nimble and quick in its response to the ever changing dynamic situation of the globe . The quest for fixed points, base lines, benchmarks and milestones would prove to be futile. *Management Education* should produce managers who are able to think on their feet and are able to exercise critical analytical ability to solve problem in face of incomplete information . Those who remain wedded to the practice of drawing conclusions about the future from their past experiences are most likely to get it wrong.

In my view as I see it today there are at least **6 Drivers of Globalization** . I do not rule out the possibility that all of us can have our own set of **Drivers of Globalization** . But at least these are the **Drivers of Globalization** which I see as formidable in today’ s world but they may change tomorrow or we may subtract or add to this list.

1. The first and the most important- there is a huge **Demographic Transition** which has already started but is going to intensify in the next four or five decades. . Most of the European countries , Japan and United States are going to have a higher proportion of aged population compared to the younger population and the Dependency ratio will rise. These countries will face labor shortages if they do not allow immigration into their countries. China is going to enter that phase a little later which is 2050 onwards. The only region where the proportion of the younger population is actually rising and will continue to have an upward trend is the South Asia region . This is something which the policy makers in this region have to take cognizance of and prepare their respective national labour forces for taking over as work force of the globe. The more skilled our labor force is , the better off we will be in capturing a large share in the Global job market. So this **demographic transition** can become a huge premium, a plus, a potential for higher economic development for South Asia Region. And if we put our act together today then the chances for this generation of younger students present at the conference will be much brighter than it was for our generation or our parents in South Asia. So, this is clearly a positive factor, but this can also turn into a night mare, a bleak scenario . The sheer thought of seven million new jobs to be created in India annually to absorb the new entrants to the labor force is simply overwhelming. This poses a tremendous challenge for the policy makers and the businesses. So, if we do it wrong that is if we produce wrong kind of manpower--- ill equipped or unskilled or poorly trained , uneducated and illiterate ---then we are going to face rising unemployment, high inequalities and a social upheaval. The choice clearly rests with us but more important is the urgency of action .
2. Second there is an explicit and **projected shift in balance of economic power**. If we look at all the projections it shows that China is going to overtake United States. It has already overtaken Japan to become the second largest economy in the world. When will this happen? Some people say, 2025, some others put it 2020 or anywhere in between China will become the world’s largest single economy. China is already world’s largest single exporting nation .Most scholars and analysts have termed the 21st century as Asian Century and so the balance of economic power is going to migrate from Japan, Europe and the United States towards Asia and the model which is actually helping the Asian countries is the intra regional trade. In place of the traditional production processes we are witnessing a new phenomenon of value chain . It starts with the components, raw material and parts coming from different parts of Asia on the basis of their quality and competitive pricing and ending up in China in form of final assembled goods. So although it is true that the origin of the good is recorded as from China there are many countries which are the beneficiaries and within these countries a growing number of firms which are participating in this process . So, vertical Integration is no longer a viable business model as far production is concerned. On the other side , India is becoming the centre not only for IT Services but if we look in the last few years we can see R&D centers in Pharmaceutical Industry, financial services industry locating in India because of the kind of trained manpower which is available here. It is efficient, is high quality, but is cheaper. Those are the advantages that are making India the preferred location for Services industry.. So the goods are being manufactured in the world’s factory which is China and the services are coming more and more in the lap of India. These two are going to emerge as the economic powers in the next thirty to forty years at the expense of other OECD countries or the developed countries . The growth rate in most developed countries is hardly averaging 2 to 3% per annum while in addition to China, India, countries such as Indonesia, Vietnam, Malaysia, Thailand are all growing in the range of 7 to 10 %. So the differential growth rate is going to make a difference as far as the shift in the economic power is concerned.
3. The third driver is the **speed of technology dissemination and assimilation** . It is so rapid that it does not really bind itself to any particular geographical boundaries or territory. It is *pan global*. The internet , the software applications, the rising connectivity , the spread of mobile phones in developing countries and more user friendly technologies like the search engines have enabled us to access , assimilate and apply new knowledge and techniques without leaving our shores and incurring any additional expenses. Knowledge is a public good with a characteristic that the more it is utilized the better off the society is. World Wide Web and Search engines have allowed us to tap into data bases such as Google Scholars and we can find out all the scholarly academic knowledge about a particular sub-discipline of a larger discipline. Technological tools have allowed knowledge to be at the finger tips of both the students and the teachers as well as the practitioners in all parts of the world and the speed of diffusion is going to be further accelerated. The talk about Digital Divide is passé. Therefore, the differential among nations and among countries based on comparative advantage in technology is likely to disappear, and there will be a seamless boundary as far as spread of technology is concerned. And those countries which are able to take advantage of these seamless boundaries would be able to do much better than other countries.
4. Related to this is the fourth point i.e. the **explosion in information**. Younger students who are studying business administration would find that five years from now all that they have learned in their classes, books, reading materials would be outdated. The obsolescence of human knowledge is now going to be as strong as obsolescence of machinery. The machinery-we can lubricate it, we can replace a part, we can change certain processes and make it functional, we can upgrade the machinery. But the up-gradation of human minds requires very complex dynamics. And the human being himself has to be in the driving seat. If the human being, himself or herself is not interested in continuous learning, lifelong education and up-gradation of knowledge the chances are that individual is going to be obsolete and unemployable and that will be a deadweight loss as far as the economy is concerned. And now, how do we incentivize, motivate these individuals to invest in the lifelong continuous learning is a major issue that all of us have to come to grips with. Assessing quality of initial degree and education for purpose of recruitment to the labor force will no longer be the principal preoccupation for HR professionals but recharging the intellectual batteries of their employees over life cycle of professional career will be . It will not be so easy, it is a very complex phenomenon , and extremely difficult to operationalize. We know how to fix a machine even the most sophisticated ones. With human beings, it is next to impossible to fix human mind sets the same way. So this challenge of information explosion and its sifting and transfer to the human minds for the benefit of the firm or the enterprise is going to face us starkly in the future.
5. Fifth, the **world is becoming quite conscious of social and environmental values**. The headquarters of world’s largest fast moving consumer goods industry Unilever, was besieged by Green Peace volunteers. The reason --- Unilever was buying its palm oil from Indonesia, where they had carried out deforestation in order to plant oil palm. This created a huge hue and cry worldwide and Unilever had to pledge itself that it would no longer purchase any supplies originating from deforested areas. It also subscribed to the campaign against deforestation. There are other examples where Nike was stopped to pull out of a country because the shoes were being fabricated by child labor. So the values of environmental sustainability and social responsibility are going to emerge in a globalized economy much sharper. Narmada Dam movement in India was precursor for a new thinking about human resettlement. At that time the forces of globalization were not as strong as today but the awareness which was created by the civil society of India reverberated throughout the world. A powerful institution like the World Bank had to abandon the financing of Narmada Dam, because of the issues of resettlement and displacement of human beings agitated and brought in forefront by the Civil society organizations . Imagine, if there was even a proposal for a dam much smaller than Narmada Dam today how quickly the world community would actually react. Therefore, the adoption of ethical, social and environmental values will have to be integrated to make a more viable business model . Simply, maximizing short term profit maximization for shareholders would no longer be acceptable. Environmental sustainability and Social responsibility have also to be taken into account not just profitability. So this is something which we have to integrate in our thinking in the business schools and in the state of the firms.
6. And finally we have seen immense **financial integration**. We have seen consequence of financial integration in form of 2008-2009 crisis. Even countries like India, Pakistan and China which are not so strongly linked with international financial system , had pursued cautious liberalization and kept Capital Account not totally open were hit by the contagion effect of the crisis which originated in the US. . China and India recovered quite quickly because their economies are quiet resilient. But the fact remains the cost both on the real economy, as well as the human cost of social sufferings are going to be quite large because of financial markets not behaving in some parts of the world. And look at what is happening today. US Fed Reserve is following a very loose monetary policy –Quantitative easing (QE) --and who is suffering as a result of this policy? Countries such as Brazil and India are faced with capital inflows. If they don’t sterilize these capital flows, then they are faced with competitiveness issue. If they sterilize them they have an expansion in money supply causing an inflationary pressure on the economy. So emerging economies with sound economic management are in worst of both the worlds. Therefore how to handle the financial integration and financial markets will require a lot of ingenuity on the part of national economic managers.

Let me conclude by submitting that any scenario analysis, which we do, has to take into account the fact that the world ahead is going to be more uncertain. There will be lot of unintended consequences of policies not made in the country but originating from outside the country. Our capacity to react at the national level to global events , the firms’ capacity to respond and the managers’ ability to handle are likely to be the critical success factors. That is what we should be educating our younger management graduates in the future.

Thank you very much

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