

**Visit to Ottawa of
Martin Wolf
Associate Editor and Chief Economics Commentator,
Financial Times
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Executive Summary

Martin Wolf, associate editor and chief economics commentator at the Financial Times visited Ottawa on February 15.

Martin Wolf has written numerous articles and columns on a wide range of subjects, but generally focuses on economic issues such as globalization, financial imbalances and trade. In 2004, Mr. Wolf authored the book *Why Globalization Works*. Wolf is a proponent of globalization and criticizes anti-globalists and the interests that oppose the global integration of markets. In his view, globalization is a force for progress and the issue is not too much globalization, but rather too little.

During Wolf's public lecture, he discussed the key drivers, consequences, and challenges of globalization. Among other things, he believes that existing multilateral institutions are ill-equipped to address globalization's new challenges. Due to the rise of China and India, developed countries will need to move away from manufacturing industries and instead focus on the knowledge-based economy. Strong universities are the key factor here. Canada, in his view, is well positioned to succeed in a new era of globalization for a number of factors, including: our proximity to the US market; openness to immigration; abundant natural resources; our financial house is in order; and we have talented labour and strong universities.

Detailed Report

Martin Wolf's formal presentation was organized and supported empirically by numerous examples. His approach consisted of identifying the key drivers of globalization; the consequences of greater economic integration; and future challenges. Wolf's complete power-point presentation is attached to this report.

Drivers

In Wolf's view, the key drivers behind globalization are declining communication and transport costs, worldwide move to the market liberalization and the incorporation of billions of people into the world market. Wolf believes that the hallmark of the first era of globalization in the late 19th and early 20th century was the reduction of transport costs (i.e. lower sea freight and air transport). In the 21st century, the big transformation will be

the reduction in the marginal cost of collating and disseminating information. Wolf argues that we already see evidence of this by increasing internet penetration. The “information revolution” is just the beginning, and its full implications are still unknown.

Since the mid-1970s the world has seen a global “liberalization revolution.” It culminated with the fall of the Soviet empire between 1989 and 1991 and reunification of Europe. Despite financial crises, terrorism and war, there has been no reversal of this trend. The second phase of globalization is well underway in Wolf’s opinion. Declining tariff rates and exchange controls are economic signals that this liberalization is continuing.

With an ever growing share of global GDP and merchandise exports, the rise of Asia as an economic power is the third key driver of globalization. This is the third great transformation since the industrial revolution. In the early 19th century we witnessed the rise of the UK and in the late 19th century and early 20th century we saw the emergence of the US, Germany, Japan, and Russia. The post-second world war period heralded the start of Asia’s dominance; first with Japan and now with China and India. Wolf sees Asia’s rise as the beginning of end of the era of dominance by Europeans and their colonial offshoots.

Consequences

As the world becomes more integrated and economic barriers are reduced, Wolf identified the increasing reliance on trade and the unbundling of the production structure as notable consequences of globalization. We will continue to see, in his view, rising levels of foreign direct investment (FDI), as economies rely on foreign know-how and organisational skills and production is integrated across frontiers.

Other consequences will include: increasing segmentation of services industries; prices for labour-intensive manufactures and tradable services will continue to fall; and, decreasing prices for information-processing. In part due to Asia’s growth, prices for industrial raw materials and energy will climb.

In advanced developed countries, there will be rising unemployment and falling relative wages for unskilled labour. Capital and highly-skilled labour are becoming more mobile and payments “imbalances” are growing in the United States. Wolf worries whether the United States will be able to sustain its large current account imbalance.

Similar to increasing trade in goods and services, the world will see increasing trade in what Wolf calls “bads” (i.e., drugs, trafficking in people, piracy). In the 20th century the rise of countries like the US, Germany, Japan and Russia led to a century of conflict; what will happen with India and China is unknown.

Challenges

Martin Wolf ended his presentation by identifying six big challenges to globalization, which include managing: i) adjustments to globalisation; ii) the fear of globalisation; iii) global macroeconomic adjustment; iv) resource pressure; v) globalisation of “bads;” and, vi) geopolitical tensions.

Informal Remarks

As part of his informal remarks, Martin Wolf provided comments on a variety of global issues. The most comprehensive ones are identified below:

The United States

On the issue of the large US current account imbalance, Wolf is hopeful that an orderly adjustment will occur. As combined holders of over a trillion dollars in US bonds, China and Japan will likely play a constructive role in preventing an adverse adjustment in the US. In addition, due to the magnitude of the imbalance, Wolf believes we cannot use history as a predictor of what might happen. Wolf also sees continued US anxiety over China’s growth given America’s geopolitical interest in remaining the world’s leading superpower.

Manufacturing industries and the knowledge-based economy

In Wolf’s opinion, developed countries should “get out of manufacturing.” Manufacturing industries in the West are being “hollowed-out” by competition from China and India. For developed countries, their advantage will be in the knowledge-based economy. Manufacturing is a zero-sum game while knowledge production is not. Universities will be the key to future prosperity in the knowledge economy. Wolf applauded the UK, historically a “collection of craftsmen,” for moving away from manufacturing industries. He also noted the UK’s openness to foreign direct investment (FDI) as a key forward-looking policy decision in this regard.

Wolf regards the West as having a significant advantage over India and China in the area of knowledge creation and development. In his view, there is a reason why financial markets continue to be located in places like New York and London. Free and open societies have more successful universities and this is the key. Interestingly, this may in fact be an advantage India has over China. He emphasized his point by noting that in 1000 AD, the centres of knowledge were in the Islamic world. Unfortunately they lost this leadership, but there’s no reason why the West should lose it now.

Canada's prospects

Wolf sounded an upbeat note on Canada's future prospects. Citing abundant natural resources; a sound fiscal house; proximity to the US market; openness to immigration; a talented labour supply and good universities; Wolf proclaimed Canada is ready for the future. Wolf suggested that Canada had survived its greatest period of mismanagement during the Trudeau years. A counter example to Canada is Japan. Wolf believes that the Japanese will face particular challenges adjusting to globalization primarily because of their aversion to immigration and importing talent.

Multilateral institutions

Wolf does not see any multilateral institutions as capable of managing his six challenges to globalization. The WTO is an anomaly in his mind as it is the only institution that is capable of making the US comply with its decisions. The UN is good for diffusing tensions, but not solving problems. The type of reforms necessary to change the UN, in his view, would make it unrecognizable.

The IMF is losing its role of managing the global financial system. Wolf believes the IMF lost credibility because of its response to the Mexican and Argentinean financial crises. In Wolf's view, the IMF is being relegated to a think-tank-like organization, with its focus shifting to technical advice, surveillance and evaluation. Wolf does not see countries like Russia and China borrowing from the IMF, although Brazil and India might. Wolf praised the World Bank's policy capacity; however, he believes Wolfowitz's leadership has been more conservative than expected.

In Wolf's view there is no multilateral institution to address global energy and resource issues.

Human trafficking, terrorism, the drug trade - global "bads" in Wolf's words - are domestic policy issues. Combating these problems requires the cooperation of 200 governments worldwide.

Wolf predicts that Africa's prospects are limited and that it will, unfortunately, fall further behind during this current phase of globalization.

China and India

On China and India, Wolf does not see them failing or reversing their course to industrialization. History has taught us that the process of industrialization cannot be stopped. The last 150 years have been punctuated by wars, disease, carnage, catastrophe, but this never stopped industrialization. Once the process begins the only thing that institutions can do is adjust to it. The only thing which could stop it is nuclear war or a dramatic reduction in resources.

Wolf sees an increase in foreign assets held by the Chinese, since China is awash in foreign reserves. Wolf predicts that the Chinese Yuan will eventually replace the Japanese Yen as a global currency. Parenthetically, Wolf believes there should be 10 global currencies, but likely 50 will be retained in the long-run.