“Globalization – a China/Baltic Sea Region Perspective”

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1. Stages of modern globalization

Modern globalization – which according to my definition started in the late 1970s – can be summed up in several stages. These stages include (roughly speaking and partly overlapping; their starting points in brackets)

- the more pronounced opening of trade barriers (1970s)
- the deregulation of financial markets (late 1970s)
- the globalization of information technology (1990s)
- the globalization of foreign direct investment (1990s)
- the globalization of production and labor markets (1990s)
- the globalization of education and research (2000s)

This ongoing economic globalization is happening without weapons. Hopefully, it will remain so – and also without a trade war, new dangerous political constellations and crucial dependence.

One of my personal favorites among the leading economists – Nobel Prize Winner Paul Samuelson – described globalization some years ago for me as “the ruthless economy”. Of course, Samuelson is right, at least partly. Globalization can sometimes be ruthless.

The objective of each government and company should therefore be to avoid ruthlessness that could create strong opposition against globalization.

As shown by Professor Jagdish Baghwati, millions of poor people have benefited from globalization in the past two decades. Globalization is not a zero sum game when developing under reasonable market conditions. I think this conclusion is widely shared for example in China, the Baltic states, Poland, Russia and all the traditional OECD countries in the Baltic Sea region and the rest of the world.
2. New trade patterns

However, globalization is not always easy to manage, for example when a Swedish or Finnish town is confronted with outsourcing or offshoring. On the other hand, it is insufficiently explained that globalization can secure other jobs at home and give us investment from abroad.

Even worse: The positive complexity of globalization is not discussed in an understandable way either. There is, for example, research concerning China and Poland showing that more than half their exports can be related to production that is linked to foreign investors. Foreign investors are able to achieve substantial rises in productivity and, consequently, to increase potential rates of economic growth.

The improved conditions for exports from emerging markets make it possible to increase their imports. Increasing imports from emerging markets and new EU member countries mean at the same time new opportunities for Danish, Finnish, Swedish, Norwegian, Icelandic or German exporters.

To give you some examples. The share of Swedish exports to emerging markets increased in the past decade by about 10 percentage points to more than one third of all Swedish exports. China climbed to the number three position among the world’s leading exporters and to number 3 when it comes to global imports.

I remember very well the time in the 1990s when China tried in vain to get a position among the top ten exporting countries several years in a row – and also when China finally achieved that position less than ten years ago. I happened to be in Beijing the day this news was announced. I really met a very proud China at that occasion. And where is China now?

Let me also very briefly mention to our Chinese guests the dramatic export shift that Estonia, Latvia and Lithuania achieved in the past 15 years. They managed to direct almost all their exports from the “planned economy buyers” to new customers basing their purchases on market conditions, mainly in EU countries. This is really an impressive success story considering the starting point in the early 1990s. The same can be said about Poland. Russia is also performing better in economic terms than in the 1990s.

3. The Baltic Sea region – a very dynamic European region

Many developments in the Baltic Sea Region are very positive. Only a few weeks ago, my colleagues and I published a forecast on GDP growth in the Baltic Sea Region in 2006/2007, comprising nine countries around the Baltic Sea and Norway. We forecast a growth rate of 3.3% for 2006 and 2.6% for 2007; our corresponding figures for EMU countries are 2.5 and 1.8%.

It should also be mentioned that the potential growth rate of the Baltic Sea region is higher than in EU and in EMU countries.

However, the individual countries still have their own characteristics and challenges. The main challenges of the Baltic growth tigers Estonia, Latvia and Lithuania are their big current account deficits and inflation pressure. Poland has to reduce its budget deficit and Russia to improve its institutional and micro-
economic framework. And all these five countries have to concentrate much more on research and development.

Sweden, Denmark, Finland and Norway are performing nicely these days – but they also have to do their structural homework in a globalized world of steadily increasing competition. Sweden has to improve parts of its education system and the labor markets and, consequently, offer more jobs to labor market outsiders. The Finnish labor markets needs structural improvements, too. Denmark is more advanced in this important aspect. Norway’s concerns are still very limited, due to the oil.

Last but not least: Germany is also a country in the Baltic Sea region. Even the German government is now reforming its economy, though very slowly. Corporate Germany, on the other hand, has already improved its global competitiveness in recent years. The whole Baltic Sea region would benefit from further structural progress in Germany and better German domestic demand. In my opinion, such a development will take place in the coming years – but not very quickly.

4. China – the Asian growth tiger

Although Estonia, Lithuania and particularly Latvia (almost) achieve current Chinese growth rates, China has to be seen as the real global growth center. I think this is a fact, despite statistical shortcomings and despite major regional growth disparities in China.

China has a leading position in many global rankings. I have already mentioned exports and imports. Measured in purchasing power parity terms, China already accounts for roughly one sixth of global production. This is quite well-known. Less well-known is that China recently made it to number five in the global ranking of patent applications. You probably read that China recently became the country with the world's biggest currency reserves. Literacy is high given the size of the country. More and more Chinese young people study at home and try to improve their skills ambitiously abroad. My own experience of Chinese students is that they are very eager to learn. This is most certainly an important asset in the long run.

In my opinion, China is clearly accepting and adapting to the six stages of globalization that are listed up in the first chapter of my speech. The big competitive advantage of China is its long-term strategy, already including concrete ways of getting there. Of course, China also has major future challenges, like any country.

The paper China Daily, for example, reports frequently about the big disparities between expanding urban and lagging rural areas and the environmental problems. Furthermore, China should focus increasingly on microeconomic and institutional conditions to ensure a good long-term growth development. This is what China needs and what the world needs, the Baltic Sea Region included. The work of Nobel Prize laureate Douglass North and his institutional school is still of significant importance and well worth reading.
5. Outlook – two dynamic partners can contribute to a good commercial future

The objective of this short presentation is to show our Chinese guests and all the other participants at this conference from the Baltic Sea region the good current development and dynamics in their partner regions. This, of course, does not rule out (temporary) growth distortions.

Both China and the Baltic Sea region still have many areas of unexploited economic potential which certainly bodes very well for future co-operation. Of course, there may be significant short-term gains. But it is even more important to take advantage of the long-term potential.

Optimizing this long-term potential means networking on all levels, nationally as well as locally. Networking includes politics, culture, sports, business and last but not least education. Globalization also goes local, which is really well indicated by all the efforts that are at present made in Kalmar, the Baltic Business School included.

However, I would like to recall some more wise words of Altmeister Paul Samuelson about globalization when he adds in this context “that there is no room anymore for comfortable ineffectiveness”. Minimizing or reducing “comfortable ineffectiveness” means increasing productivity and, thus, growth – on both macro and microeconomic levels.

Putting this message into practice, both China and the Baltic Sea region can be continuous winners in global competition. There are enough areas of conceivable common projects which could exist in IT, health care, environment, education, tourism, ordinary foreign trade etc.

Each and every country / region in our expanding Baltic Sea region has its special contribution to make. This is why singling out and doing business with the economic giant that is China appears so exciting. At the time, I feel confident that China can also benefit from the skills and developments in our Baltic Sea region.

It is not only I who believe in the future of the Baltic Sea region and China’s increasingly important role in the world economy. Many others do so as well including Swedish purchasing managers. A survey by the Swedish purchasing manager organization Silf and Swedbank last spring gave some very illuminating results, some of them concerning my topic of today.

In this survey, Swedish purchasing managers were asked a number of questions, among them the following one:

- Which foreign markets will be increasingly important for Swedish purchasing managers in the coming years?
The answer is as follows:

1. China
2. Poland
3. Germany
4. Czech Republic
5. India
6. Lithuania
7. Estonia
8. Hungary
9. Russia
10. Finland
11. Latvia

Seven, out of eleven countries outside Sweden, preferred by Swedish purchasing managers, belong to the Baltic Sea region – and China is the leader of this group.

This should be a good basis for common business between China and the Baltic Sea Region.