

**The Successes of Globalization**

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## SUCSESSES OF GLOBALIZATION

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It is always a pleasure to be in Korea, to continue to watch and learn from the performance of the Korean economy, and to see old friends and make new ones. My topic for today is one that essentially addresses what to me is a huge puzzle: as I shall attempt to demonstrate (as others have also done), there has been enormous progress in improving the opportunities and material conditions for much of mankind. That progress has been in significant part been a result of globalization. Given that, the puzzle is why there are so many critics of globalization when in fact most of the critics' goals would have been even more remote and unachievable had it not taken place. The critics should be on the defensive: yet somehow, the supporters of globalization have found the critics on the offensive and they have let themselves be on the defense.

The topic is especially appropriate for Korea, as I shall argue. Korea's phenomenal economic success would not have been possible without a large number of government policy reforms and private initiatives, but even with all other things in place, Korea's performance would have been impossible without the country's globalization and integration into the world economy. Yet even in Korea, there have been repeated calls for more protectionist policies over the years, and it is puzzling why recognition of the role that globalization played has not been stronger.

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In this talk, I will first discuss what is meant by globalization and then address the factual issue: there have been huge gains in economic well-being, first for industrial countries starting around 1800, and then for almost all countries after the Second World War. The next step will be to show that globalization has been a prerequisite for these enormous gains.

Over the past two centuries, mankind's well-being has advanced enormously, by any measure. Life expectancies have risen dramatically, the incidence of debilitating illness has greatly diminished, literacy and educational attainments have increased remarkably, and, of course, real incomes have risen greatly. It is no exaggeration to say that the nature of life itself has changed qualitatively as well as quantitatively,

Moreover, the rate of improvement in these and other measures of well-being has accelerated in the sixty years since the Second World War. This is true not only of countries that did not significantly participate in the improvements prior to 1945, but also of the industrial countries.

No one can claim that all is perfection, and there remain economic problems – including the abject poverty that still exists in parts of the world – but equally, it would be difficult to contend seriously that things have not improved. Indeed, as I shall argue later, it is possible if not probable that the changes have been so great that many simply take current well being and living standards for granted and fail to recognize that life has not always been this way.

The increasing integration of the global economy been a necessary underpinning for much of the progress, but, sadly, many observers have blamed globalization for some

of the world's remaining ills, rather than recognizing its role in enabling the advances that have been made to date. So, after sketching some of the key indicators of progress in economic well-being, I will address the role of globalization in enabling it.

After addressing these factual issues, I will consider some of the factors that have possibly led to the current malaise with globalization. I will conclude by sketching some of the policy responses that are badly needed, both to enable further progress and to meet some of the legitimate criticisms of globalization and the current state of the international economy.

A first step is to define what is meant by globalization. In its broadest definition, globalization means the ever-closer interaction of people over ever larger distances. This encompasses political and social interactions, as well as political. Phrased that way, globalization has been occurring throughout recorded history. However, for today's talk, I shall focus only on economic aspects: and I shall focus on the increasing interaction and integration of economic activity over ever-longer distances.

On that definition, the Romans were great globalizers, as they built roads and shipped more goods further, especially by sea, to a much greater degree than had earlier been done. One might even nominate Alexander as an important globalizer!

But after the Romans there appears to have been little progress in improving transport routes or in further integration for almost fifteen hundred years. While there appear to have been some productivity increases starting around 1200 in manufacturing in northern Europe, population changes seem to have absorbed them, and it is quite possible that there was less integration in 1600 than there had been in Roman times. The economic historian Blanning reports that roads built by the Romans had deteriorated over

the centuries, and that in consequence times and costs of transport were probably higher in 1600 than they had been fifteen or more centuries earlier. In other parts of the world, there does not appear to have been increased integration over those centuries, either.

Integration, in the sense of increasing economic interaction and integration over distances, started once again as transport and communications costs (both time and resources) began falling. Most travel was by road: in England, Blanning estimates that travel time from London to Manchester in 1700 was 90 hours; by 1750 it had fallen to 65 hours, and by 1800 it was 33 hours. While 33 hours looks incredibly long by today's standards (and the journey was arduous as it was mostly by foot or, at best, by coaches without springs), the improvements in earlier years must have seemed huge to contemporary travelers. It is estimated that most people never were more than 5-6 miles from their places of birth during their lifetimes.

Evidently, travel on the continent was even more arduous than in England. While water routes (the Rhine, in particular) were an alternative for much of what did move between places barge animals dictated the pace of travel inland, and prevailing winds set the pace for seagoing vessels. Even then, tolls were a heavy burden on river traffic, as Eli Hecksher so well documented.

Because the costs and difficulties of moving between places were so high, and because most productivity of persons engaged in agriculture (probably more than 90 percent of the population) was so low, there was very little interdependence. Most goods consumed had been produced within a short distance of the consumption point. We all know about the spice trade: but spices were among the few goods with a sufficiently high value-to-weight ratio to be economic for trade at longer distances. For the average

person, what went on even a hundred miles away was probably of little relevance to their everyday life. In that sense, we can conclude that integration, and hence globalization, was minimal between Roman times and 1700 or thereabouts.

Economic historians estimate that living standards in 1700 were little, if at all, better than they were two thousand or more years before. Indeed, Clark reports that for England (for which the best data are available), “Real wages in England showed remarkably little gain in the six hundred years from 1200 to 1800. The fluctuations over that period are much more dramatic than any long-run upward trend. Thus in thirty-nine of the sixty decades between 12—and 1800 real wages for farm workers are estimated to be above their level in 1800. The highest real wages are found in the interval 1400-1549...” He also concludes that “there is no sign of any improvement in material conditions for settled agrarian societies as we approach 1800. There was no gain between 1800BC and AD1800 – a period of 3600 years.”

By 1800, however, transport costs were falling, and trade between Europe and the western hemisphere had started. But, starting about 1870 – the date now chosen by most economic historians – the decline in transport costs became precipitous. Data given by Mohammed and Williamson indicate that, while the decline varied between routes and types of cargoes, but overall, real ocean freight rates declined of 78 percent between 1870-74 and 1975-79. In addition to declining costs, transport times were much faster, while undoubtedly enabled shipment of goods that earlier could not be transported. And, of course, developments since the 1970s, have further reduced costs with containerization, and later the ability to ship at least some high value and/or perishable goods by air.

As well as transport, the cost, timeliness, and ease of communications is also crucial for many economic transactions, and, if anything, the drop in costs and pickup in speed in communications has been even more dramatic than in transport. It was 84 days after the Treaty of Nanjing before the report reached London in 1842, and 46 days before the Indian Mutiny of 1857 was reported. By contrast, news of Lincoln's assassination reached London in 12 days in 1865. And only 17 years later, the assassination of Alexander II in St. Petersburg was news in London in 1881 a half a day later; the Japanese earthquake of 1891 was reported within a day. These sharp changes were of course attributable to the introduction of the telegraph and the telephone. It constituted a major revolution in communications. But costs were still high, especially for overseas calls (although as late as 1890 there was one telephone line for calls between New York and Chicago). One frequently cited and dramatic number is that a New York-to-London 3 minute telephone call cost \$290 (in 2000 prices) in 1930 and cost only a few cents by 2000. Currently, of course, the price is even lower and the internet makes instantaneous communications virtually cost-free.

Falling costs of transport and communications enabled increased integration of domestic economies as well as of the global economy. Transactions between distant parts of individual countries obviously became more economic as the costs and difficulties of doing business at a distance fell.

Until the Second World War, though, transport and communications costs were so high that increasing economic integration – globalization – was primarily the result of the technological and other changes that enabled transport and communications costs to fall so dramatically. With very high transport costs, tariff barriers did not constitute the

biggest obstacle to trade: with a 20 percent tariff and transport costs of 50 percent, a reduction of the tariff to 10 percent – halving it, that is - would have resulted in a reduction in the imported price of a good of only about 6 percent. At the end of the Second World War, however, high barriers to trade imposed by governments constituted the more important deterrent for people in most countries. Removal of quantitative restrictions under the GATT, the WTO, and self-interest of countries, combined with multilateral and unilateral tariff reduction, brought about large reductions in costs of doing business across borders.

In the mid 1940s, it is estimated that the average tariff on manufactured goods among the industrial countries was between 45 and 50 percent, while transport costs for manufactured goods averaged around 20 percent. The calculus had changed and with it, international political economy. Successive rounds of trade liberalization under the GATT brought the average tariff among industrial countries on manufactures down to around 2 percent. Simultaneously, many developing countries, which had had (and still have) much higher trade barriers than the industrial countries, recognized the harm those measures inflicted on their economies and were dismantling their restrictions (both tariffs and quantitative restrictions on imports).

As a result of all these factors, the costs of trading at any given distance have fallen dramatically over the past two centuries. Whether that fall was greater in the twentieth century with the development of transport and communications via the internet, airplanes and containerization, or in the 19<sup>th</sup> century with the telegraph, telephone, steam engine, is an open question. But the economics of doing business at a distance certainly changed.

The result has been increased economic integration worldwide. Whereas farmers and people in villages doing farm-related activities constituted over 90 percent of populations almost everywhere and were relatively self-sufficient in 1700, in advanced countries today fewer than 3 percent of the population is engaged in agricultural activities and, even then, they rely on goods produced at considerable distances both for consumption and for inputs (such as fertilizers and farm machinery) into production. Clark presents estimates that, prior to 1800, laborers (in England, a country for which the most reliable data seem to be available) are estimated to have spent 75 percent of their incomes on food and drink, 10 percent on clothing and bedding, and 25 percent on housing. Today, less than 20 percent of income is spent on food in industrial countries, and much of that 20 percent consists of services such as processing and restaurant-provided meals. Obviously, much of the 80 percent of nonfood expenditures (as well as the nonfood) originates from much greater distances, and has much greater variety than 200 years ago.

As a result, the degree to which workers and employers are integrated into the world economy is much, much greater. Not only is the share of goods and services entering international trade much greater now than it was earlier, but in addition, the speed with which events in far-flung parts of the world affects each economy has greatly accelerated. Interdependence has increased not only through the exchange of goods and services, but also because economic shifts anywhere in the world affect others much more directly and more quickly.

The trend has been almost unrelentingly for increased global integration except for the period from 1914 to 1945, when the global economy disintegrated and with it,

living standards fell sharply. The reversal started with World War 1, which raised the costs of shipping dramatically. While there was some recovery to prewar levels in the 1920s, the Great Depression of the 1930s and the policy measures associated with it (especially competitive devaluations and rising tariff barriers) continued the disintegration. But after the Second World War, the globalization resumed and economic integration has increased continuously.

There is little doubt that globalization will continue, barring a major geopolitical event or severe policy reversals. But one can question whether the pace of change, and the degree to which perceptions of interdependence have increased over the past several decades, will be sustained. The world is already so closely linked that it is difficult to imagine sustaining the pace of the past half century.

Let me then turn to the changes in well-being over the past two centuries. That these improvements have been huge is unquestionable, but they are now so often taken for granted that it is worth reminding ourselves of them.

It is difficult to know where to start. One dramatic and telling statistic is that economic historians estimate that, as late as in 1900, only about 6-7 percent of the American population had incomes sufficient so that they would have been classified as above the poverty line by today's American standards. And real incomes in the richest industrial countries are estimated to be 10-20 times higher than they were in 1800. Over that long time period, those whose incomes rose most rapidly were unskilled workers.

But if there are claims that living standards are "just material", there are other indicators. Life expectancies have increased enormously, and those increases have come about as real incomes have risen. Life expectancies at birth in the United Kingdom are

estimated to have been 38 years in the last half of the 16<sup>th</sup> century, 35 years in the last half of the 17<sup>th</sup> century, and 38 years in the last half of the eighteenth century. Estimates for other countries and early times are similar: French life expectancy at birth is estimated to have been 28 years in the second half of the 18th century, the same as China's over the 5 centuries after 1300 and rural Egypt's over the period 11-257 (urban life expectancy is estimated to have been lower). Much of this low life expectancy resulted from high infant mortality rates, as well as deaths of those surviving birth but dying before the age of 15. By contrast, life expectancies in the rich countries today are approximately double those of earlier years, and continued to rise throughout the twentieth century.

Most people know that those in the industrial countries are better off today than were their parents, who in turn were better off than their parents, and so on. More observers question, or fail to recognize, the improvements in quality of life that have occurred in most other countries. Yet there have been enormous achievements in those countries that were identified as "developing" in the 1950s.

The gains of developing countries, even in the first twenty-five years of development, were significantly greater than had been thought attainable. In surveying the first twenty-five years of development for the World Bank, Morawetz concluded that "On average per capita income the developing countries grew more rapidly between 1950 and 1975 – 3.4 percent a year – than either they or the developed countries had done in any comparable period in the past. They thereby exceeded both official goals and private expectations...Increases in life expectancy that required a century of economic development in the industrialized countries have been achieved in the developing world in two or three decades. Progress has been made in the eradication of communicable

diseases. And the proportion of adults in developing countries who are literate has increased substantially.” And that was up to 1975. Economic growth has accelerated since 1975, while the rate of population growth has slowed. Indeed, over the past several years, developing countries as a group have achieved an average rate of economic growth well over 5 percent, contrasted with 2 percent in high income countries.

Per capita incomes have risen rapidly in most, but not all, developing countries over the past several decades. Everyone here is familiar with the success of the East Asian “tigers” – Hong Kong, South Korea, Singapore, and Taiwan. Each experienced sustained rates of growth of real GDP and per capita incomes well above any the world had earlier witnessed, doubling per capita income every decade from 1960 into the 1990s. In so doing, their economies and the quality of their peoples’ lives were transformed. South Korea went from being one of the poorest countries in Asia (and the world) as late as 1960, to its current classification as a rich country by the World Bank. South Korea’s living standards grew more in any decade prior to 1995 than British living standards did during the entire nineteenth century. Other countries in southeast Asia began following the Tigers’ examples and growing rapidly in the 1970s. China followed suit in the 1980s and India began growing at accelerated rates in the 1990s. In these and other emerging economies, even those failing to experience such rapid rates of growth, real incomes have risen at far higher rates than had been experienced in earlier years.

These higher incomes have been accompanied by dramatic changes in life expectancy. Life expectancy in India, for example, is estimated to have been around 30 years in the late 1940s and was 64 years in 2005. And in Korea, life expectancy (with per

capita income at around \$20,000) in 2005 was estimated at 78 years, the same as the United States and one year less than the United Kingdom.

It is important to recognize that life expectancies have risen not only proportionately but absolutely more in developing countries than in developed countries. Moreover, those countries with more rapid economic growth have generally experienced greater increases in life expectancies than more slowly growing countries. Even in those developing countries where growth rates were discouragingly low, life expectancies and other health indicators were improving until the AIDS epidemic began taking its toll in the 1990s. For many, life expectancies have risen even when per capita income growth has been anemic or virtually nonexistent.

Poverty reduction within individual developing countries has generally been greatest with more rapid per capita income growth. That poverty in China has been reduced by 300 million people is a widely-repeated statistic; poverty in India has begun dropping more rapidly as economic growth has accelerated. It is widely expected that the global millennium development goals with respect to poverty reduction will have been met by 2015 because of the successes of China and India.

Literacy rates have also increased, and more so in countries with higher growth rates of per capita income over sustained periods. Whereas many poor countries had literacy rates of 20-30 percent in the late 1940s, those same countries now report rates between 60 and 80 percent. While there are still many educational deficiencies including both the failure to provide universal primary education and the low quality of education in many cases, there can be little question that rising real incomes have contributed significantly to this result.

Some developing countries have not achieved rapid growth, and indeed, in some living standards actually fell in the last two decades of the twentieth century. To trace the reasons for their poor performance would take us too far afield, but almost all of the poorly performing countries remained inner-oriented, remained dependent on primary commodity exports, and failed to undertake measures sufficient to enable them to integrate with the global economy.

To give an idea of what a dramatic difference growth can make, consider the relative positions of Ghana and South Korea. The relative positions of South Korea, a dramatic success story, and Ghana, a country which has experience much greater economic difficulties have changed dramatically.. In the 1950s, estimates of per capita incomes put that of Ghana more than two and a half times that of South Korea. By 2005, South Korean per capita income is estimated to be almost seven times that of Ghana! When discussions of poverty were held in the 1950s, most observers regarded Asia as the poorest continent: South Asia's 1950 average per capita income was estimated to have been \$85, and East Asia's \$130 (not including Japan), while Africa's was \$170. Now, most East and many South Asian countries have living standards and life expectancies well above those of most SubSaharan African countries.

So, there is no question that globalization has been occurring or that many developing countries have achieved remarkable success in raising health, educational, and living standards in their countries. Those propositions take us immediately to the question of the role of globalization in achieving the enormous material progress, and accompanying improvements in economic well being, of the past two centuries

Three lines of argument, or proof, all point to the central role of increasing integration as a component of, certainly as a necessary condition for the tremendous increase in the efficiency, or productivity, of the global economy. The first is that no country, or group of countries, has for any considerable period of time sustained reasonable (or faster) rates of growth of real per capita incomes without integrating into the international economy as they did so. The second has to do with the economics of productivity gains, as first noted by Adam Smith: the size of the market is an important determinant of productivity. The third is the record of what happened to inner-oriented countries when they changed their economic policies

Let me elaborate briefly on each of these, only pausing first to note that, quite clearly, other factors such as innovation also contributed to growth and enabled the integration that took place. Without the introduction of the steam engine and many other productivity-enhancing innovations, there would have been no opportunity for integration. But, had authorities fought the technical changes that were occurring, as for example, by prohibiting imports of now-cheaper goods, increases in economic well being would have fallen far short of the major accomplishments of the past two centuries.

With that in mind, we turn to the first line of argument as to the role of economic integration. Every country that has grown rapidly has been increasingly integrated with the world economy as it did so. That trade has been an "engine of growth" has been recognized by all for the past half century. To be sure, integration with the rest of the world has generally been more crucial the smaller the domestic economy. But even among economies with large populations, trade in goods and services has generally increased as a percentage of GDP as the economy has grown. For the world as a whole,

trade as a percentage of GDP has increased over the past sixty years, and had been growing during the 19<sup>th</sup> century until 1913. It is estimated that trade volumes (the sum of imports plus exports) in 1800 were about 2 percent of global output, and about 22 percent in 1913. By 1938, that figure had fallen to 9 percent (below even the level of 1870). But since 1945, the importance of trade has increased dramatically. It is estimated that trade (again, exports plus imports of goods and services) as a percentage of world GDP was 40.1 percent in 1990 and 58.3 percent in 2005.

Moreover, the growth of trade relative to real GDP has generally been most rapid for those growing most rapidly. This has been true of both industrial and of developing countries. During the European Union's period of rapid growth, trade increased sharply as a proportion of GDP. The same has happened in the United States since growth rates accelerated in the mid-1990s. And, of course it has happened for the world as a whole.

But in developing countries where trade barriers were even higher, the association has been even stronger. As you know, when Korea embarked upon the export-oriented growth strategy, for example, exports were 3 percent of GDP. Less than thirty years later, during which time incomes had doubled every 7 years, exports constituted almost 40 percent of GDP. No one who even looks at Korean economic history can doubt the major role that trade opening and integration with the world economy played.

Taiwan, Singapore, and Hong Kong recorded the same sorts of sharp increases in the role of trade. And countries that later accelerated growth, most notably India and China, have experienced share increases in the importance of trade for their economies. In the case of China, trade rose from almost zero in 1980 to 63.5 per cent of GDP in 1995 and 70.7 percent in 2005; in India, over the 1990-to-2005 period, trade rose from 16.5

percent of GDP to 36.7 percent. Accelerated growth reflects the facts that the earlier inner-oriented trade strategies had high costs and that globalization has large economic benefits. While other countries have liberalized more gradually and often to a lesser degree, the association between more openness and growth holds over the developing world as a whole.

The second set of linkages between growth of the relative importance of trade and economic well being of people, especially the poor, has to do with the effects of trade. In all countries, growth is faster when there is more competition; when trade barriers are reduced, competition is increased. For many developing countries, high barriers to trade conferred monopoly positions on the elite few, and kept the majority of the labor force in agriculture or the informal sector. Opening up to trade meant that entrepreneurs had to compete for business, often with dramatic increases in productivity. Often, new exports were manufactures, employing considerable unskilled labor where there was comparative advantage. At the same time, having the world for a market enabled producers to take advantage of economies of scale.

Much more could be said about the enormous progress in the international economy and the contributions of globalization to it. But I think I have said enough, especially before a globally-oriented Korean audience, to convince us that globalization has on net bestowed major benefits on those countries willing to take advantage of it. And Korea certainly did do that.

But there remains a question: why, given all those benefits, which in this country have been so amply realized, is there not more support for the international economic system? Why are there such opponents to further liberalization? And why is there not

much stronger support for the open multilateral system, especially through the Doha Round of trade negotiations?

One part of the answer is clearly that people everywhere have somewhat exaggerated fears of the unknown. In part, this is a natural reaction, but in part it originates in a failure to recognize the extent to which trade has been beneficial. While those in protected industries know who they are and fear the consequences of trade liberalization, it is not possible to know which new economic activities – new factories as export orders expand, entirely new products, and so on – will arise with further trade liberalization. So those in protected industries are vocal in their opposition to further liberalization, even in instances where they will benefit, while others who may be employed in expanding activities and gain probably do not even know who they are.

A second part of the answer is that those who are benefiting by the open multilateral trading system, and that includes exporters, believe that they have already benefited and may have little more to gain by further trade liberalization. Up to a point, that belief may even be correct. But failure to achieve a satisfactory conclusion to the Doha Round will certainly constitute a setback for the open international economy and provide support for protectionists (who would reverse the trend toward integration) everywhere.

A third part of the answer is surely that many people are unaware of how much they have gained by trade liberalization. There can be little question, for example, that real incomes of most Koreans are greatly above what they would have been had trade liberalization not taken place. Yet, judging by some reports of reactions here to the proposed Korea-U.S. Free Trade Agreement, it seems a reasonable guess that many did

not recognize the role of trade liberalization in Korea's economic success over the past fifty years.

A fourth part of the answer is that integrating further in the global economy has never been an entirely smooth process as it by definition involves change. Some people are much better off, and some are left behind – at least in the short run. Finding better ways to smooth adjustment and to facilitate change is certainly a high priority policy. In the Korean case, the financial crisis of 1997-8 was certainly seen as a major cost of globalization. On the one hand, it certainly was, and there have since been many measures to strengthen the economy's ability to cope with changing international circumstances. On the other hand, it is also evidently true that, even with the very real hardships of the crisis almost all were much better off than they would have been had inner oriented policies been followed after 1960: surely the result would have been much lower living standards.

Even with all of these considerations, however, it still remains a puzzle as to why there is not more support for globalization. It may be that economic education needs to be strengthened or that ways need to be found to indicate the extent of globalization's successes. But, in countries such as Korea where the gains from integration with the global economy have been huge, it is to be hoped that more leadership in international for a such as the WTO will be forthcoming.

## CONCLUSION

Let me conclude. The world is a very imperfect place. Millions of people live in miserable conditions, with poor health, poor nutrition, and little hope. But the world is a much better place than it was two centuries ago. Much has been learned about the process

of economic growth and rising living standards, and policies needed to achieve them, over the past half century, and many have escaped poverty. The world is thus a much less imperfect place than it was. The now-industrial countries have living standards that would have been beyond recognition two hundred years ago. Globalization has been a major contributor and there is every prospect that integration will continue, and as that happens, living standards and attainable economic welfare will continue to improve.

But despite the enormous successes of the international economy, to date support for the open multilateral system has not been sufficiently strong to permit its successful continuation. The Doha Round of trade negotiations has not yet been completed, yet there are huge gains to be had by further liberalization in many areas. Antiglobalizers have been vocal, while most of those benefiting from globalization have remained silent.

To be sure, there is still much to be learned and much to be done to make globalization function more smoothly. But in decrying the continued existence of poverty and other ills, the critics blame globalization, failing to recognize that poverty and its associated evils existed long before globalization. Efforts to reverse globalization, or to discourage those still-inner-oriented countries from embracing it, will diminish the prospects for those countries to accelerate their growth. For the world as a whole, a setback to globalization of the sort advocated by the antiglobalizers might succeed in reversing rising living standards in developing countries and reducing trade flows.

Without a healthy and growing international economy, the outlook for continued economic progress in the industrial countries would greatly diminish, and world economic growth would surely slow, if not grind to a halt. That would greatly reduce the prospects for countries just starting to embark on trade liberalization, and the very poor

countries that have yet to alter policies. Stronger support for the open multilateral system is surely called for from the beneficiaries of globalization in order to diminish that risk.

Globalization is not a cure-all. But it is a necessary condition for continued economic progress. Attention needs to turn to finding policies to ease the adjustment process and increase the flexibility of economies to adapt to changing conditions. Trying to fight globalization would be to kill the potential for tackling the very problems that globalization's critics raise.