Overview

New data and research suggest new ways in which global commitment—the choice of an individual, a company, or a community to depend for its livelihood in some way on the global economy—generates significant gains, above and beyond those captured by traditional assessments. The new research finds that globally engaged American firms, workers, and communities enjoy significant advantages over their peers that rely on American markets and American resources alone. Productivity, growth rates, wages, and job stability among the engaged and the nonengaged differ by significant amounts, from 5 to 15 percent. This means that the stakes in deeper American globalization seem to be much higher than many people think.

This study pulls together and critically evaluates this research demonstrating the underappreciated gains from global commitment. It is one of a group of studies that the Institute for International Economics calls its Globalization Balance Sheet series. Together the books in this series aim to measure globalization's underappreciated benefits and underquantified costs, culminating with a "capstone" volume that will weigh these benefits and costs against each other.[1]

1. Other volumes already published in the series include Slaughter and Scheve (2001) and Kletzer (2001). Forthcoming are Baldwin (2002) and Levinsohn and Petropoulos (2002).

Much of the new research summarized here has yet to make its way into the public policy debate over globalization. This research is based on so-called microdata sets that include large numbers of workers, firms, and communities, sometimes following them carefully over time (see sidebar 2.1 in chapter 2). These data are ideal for tracking how globalization affects different parts of our American population.

As we will see, the underappreciated *overall* gains from global engagement may involve losses among Americans who do not engage and uneven benefits among others. However, person by person, and social unit by social unit, the new microdata show that global commitment pays off. And the sizable rewards for the globally committed persist in bad times as well as good. They accrue to small firms as well as large, to low-tech as well as high-tech activities, and to normally skilled as well as highly skilled workers. They flow to union members and to small towns. There is little or no evidence in this research that global engagement helps owners and managers more than workers, or that it favors only the superskilled and the hypercompetitive or elites over minorities. Global engagement seems to benefit those who persist at it. Losses seem to come from insularity and isolation.

The whole focus of the new research differs from that of older research. The new research zeroes in on the size, timing, and distribution of gains and losses from global commitment, and on exactly what causes what. Gone is the sterile bean-counting of jobs lost or gained through increased trade. Gone, too, are the fruitless discussions of whether exports are somehow "better" than imports or than sales abroad by American-owned foreign affiliates, and how "strategic" high-tech exports may be best of all.

The new research suggests that it is the choice of global commitment, of *any intensity at all,* that makes the biggest difference; although performance sometimes improves further as that intensity rises, these further gains are modest. The real payoff to a firm, worker, or community comes from the initial transition from a solely domestic focus to a global linkage of some kind.

The same research shows that global commitment is not just export success. It is much more diverse and multidimensional than that. Global commitment includes importing as well as exporting, and it includes cross-border investment and technology exchange (in either direction). Each type of global commitment generates rewards for the workers, firms, and communities that embrace it. Moreover, exports, imports, investment, outsourcing, and licensing of technology are an integrated family of activities. They hang together. Those who embrace one often embrace all.

The rewards from this diverse family of globally integrated activities seem to be much larger, and much more widely dispersed across American society, than is commonly appreciated. This report presents a pair of sketches that show how global engagement has brought rich rewards even in Appalachia, a region that for decades has been synonymous for many with backwardness, insularity, and economic stagnation. (See thumbnail sidebar.) We report how an apparel firm there that exports, imports, outsources, and invests abroad has remained a stable workplace—and has offered significant advancement opportunities—for multiple generations of workers, including many women, with neither an elite education nor foreign experience. We also relate how comparable rivals that eschewed global engagement, or did not get the mix of global activities right, have vanished, along with their jobs.

In sum, the good news from the new microdata research is that the globally committed members of our American economic family seem to enjoy special opportunities. Most important, these family members grow faster and fail less often than others, so that their importance in the family gradually rises, making the family as a whole better off, indeed rejuvenated.

Yet, obviously, the family's gains may not be very evenly spread among its members. The bad news is that the gains of some family members sometimes come at the expense of other, very similar siblings who are not globally committed. Real families in such circumstances try to redistribute their resources so as to empower their less fortunate members. That insight is the key to the policy implications with which the report concludes.

In other words, the rewards from global integration are real, but they are not real for *every*

Thumbnail sidebar: Pam's job

Pam manages global production for the Schwab Company located in the panhandle of Western Maryland . . . her current job did not exist when she started working at Schwab . . . and the job she had when she started does not exist today . . . Pam was moving off the sewing floor as Schwab was beginning to move some production offshore . . . new opportunities at Schwab connected to the global market allowed Pam to gains new skills that Schwab needed . . . and she says, laughingly, "the rest is history" . . . the interviewers ask Pam the question that global critics would ask: "She is the exception to the rule, right?" "No," is the emphatic answer . . .
(see sidebar 2.4 for complete story)

American—at least not yet. So even as we encourage further US global commitment to capture still more of these underappreciated gains, we may also want to pursue innovation in both the private and the public sectors, to ensure that as many American workers, firms, and communities as possible are ready for such engagement.

More research using the new microdata and methods is also needed. The research so far supports the growing consensus, but by no means on every issue. Nor does growing consensus imply definitiveness. Most important, the *reasons* for the intriguing patterns and correlations that this research has found are not yet fully established. At least two interpretations are possible. One is simply that those who are unusually gifted with special talent and luck are naturally able to succeed in global endeavors, and they are the ones we observe succeeding in the global economy. Those who are less talented or lucky, in this interpretation, cannot and will not succeed, and therefore should not be urged to "go global." But another interpretation is that global engagement energizes, informs, motivates, insures, and rejuvenates—and does so for all firms, workers, and communities that make a global effort of any kind. The two interpretations are not necessarily mutually inconsistent: the already-good may be more likely to seek out global engagement, but global engagement may make them even better.

Our main—and perhaps surprising—conclusion is that the United States has a larger stake in further global integration than most people realize, but for reasons and with costs that are not widely understood. The large rewards from further integration justify patient explanation, policy experimentation, and local innovation to place even more of our economy on a global footing and to disseminate the gains more widely to all Americans.

A second, closely related conclusion is that the rest of the world has a similarly large stake in more global integration and for similar reasons. In fact, microdata research abroad is just as rich as in the United States, and in some countries even richer.