

OVERCOMING THE BARRIERS TO GLOBAL ECONOMIC DEVELOPMENT AND THE INTERNATIONAL FLOW OF PEOPLE, PRODUCTS, AND RESOURCES: STRATEGIC RECOMMENDATIONS

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Abstract—Global economic development is directly a function of competitive flows of products, people, money, and information between national boundaries. Unfortunately, national sovereign interests restrict these flows based on a nation's trade, immigration, monetary and technology infrastructure policy. Furthermore, different agencies regulate different flows. For example, commerce regulates trade flow; immigration regulates people flow; central banks regulate money flow; and telecommunications regulate information flow. This article attempts to develop a framework that recommends inter-agency cooperation and coordination based on national or regional economic policy.

INTRODUCTION

The purpose of this article is to identify barriers to the integration of global flows of products, people, money, and information, and to recommend a set of strategies to overcome them. We will first discuss basic objectives of economic development (productivity and growth) and demonstrate how the importation and exportation of resources is key to achieving these objectives. Second, we will illustrate those economic processes which regulate the flows of people, money, products, and information across national boundaries. Third, we plan to demonstrate that these economic processes are often in conflict with the social, cultural, and sovereignty objectives of a nation, and therefore, result in a number of barriers to an optimum free flow of resources. Finally, we will provide specific strategic recommendations which are likely to overcome these barriers.

NATIONAL GOALS AND GLOBAL ECONOMICS

In our opinion, there are, or ought to be, really two fundamental national economic objectives: productivity and growth. Productivity ensures the efficient utilization of resources: people, money, technology, and natural resources. Growth ensures the effective direction or channeling of those resources.

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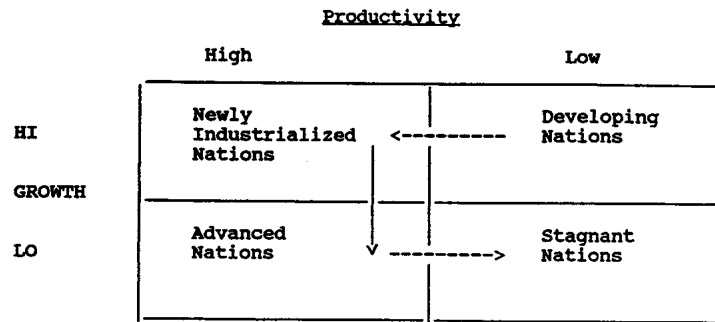


Figure 1. Growth and productivity.

A nation's economic policy is, fundamentally, directed toward balancing productivity and growth. In general, there is a life cycle of economic development: developing to newly industrialized, to advanced, to stagnant nations, as depicted in Figure 1. For example, a developing nation such as India or China, may be growing but it tends not to be productive. Newly industrialized nations, such as Korea and Taiwan, however, are both productive and growing. On the other hand, advanced nations, including U.S. and Japan may be productive but their economic problems stem from lack of growth. Finally, stagnant nations tend to be low both on growth and productivity.

If possible, a nation should be self-sufficient in resources to achieve the twin objectives of productivity and growth. Unfortunately, most nations tend not to be self-sufficient and must rely on other nations to assist them in achieving their productivity or growth objectives. This is virtually true of all Pacific Rim countries with limited physical or people resources. In general, a nation tends to import resources (technology, people, money, or information) to achieve efficiency and exports these resources to achieve growth. On the one hand, many developing nations need technology, capital, and information to leverage their domestic natural resources. This is especially true of many large countries such as India, China, Indonesia, Brazil, and Egypt. And we expect that this is likely to become prevalent for many East European nations as they begin to embrace economic development as a national objective. On the other hand, advanced countries including Japan, the United States, and Western European nations need to export resources to maintain the growth of their economy. This is especially true of those industrialized nations which have small domestic markets such as Denmark, Sweden, Korea, and Taiwan.

Balancing the import and export flows of money, people, technology, and products, information becomes critical to the nation's economic policy and procedures. However, it is highly contingent on whether the primary objective is one of productivity or one of growth (see Figure 2).

Within a nation's domestic economy, the flow of resources can originate from one geographic area of the nation to another or from one sector to another. For example, in the United States, manufacturing in general has been shifting from the North to the South over several decades, and it has also been shifting from the manufacturing to the services sector. The flow of these resources, on the other hand, can be global from one economic region to another (the triad power of large markets, including the United States, Japan, and Western Europe) or from one sector to another (i.e., the relocation

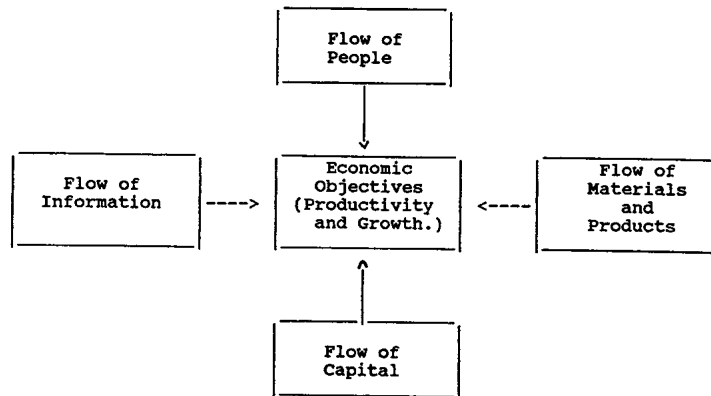


Figure 2. Economic development and flow of resources.

of manufacturing from Japan and the United States to Korea, Taiwan, and Malaysia).

It is no exaggeration to assert that today's macroeconomic issues of inflation, employment, taxes, and interest rates are truly global in scope. It is virtually impossible for a nation to develop its domestic economic policy or implement its domestic economic rules and regulations without calculating their global repercussions. Today, there is global economic interdependence among nations, no matter what their political ideology, geographic location, or domestic self-sufficiency.

Today, no nation is able to isolate itself from the globalization of its economic policy and programs for a variety of reasons. First, soon after World War II, nations began to liberalize bilateral and multilateral trade through General Agreement on Tariffs and Trade (GATT). This resulted in greater interdependence among domestic economies as the theory of comparative advantage encouraged certain nations to become dominant suppliers of goods and services to the rest of the world. In the process, mutual economic interdependence, which was at one time limited among the advanced countries, has been extended to all countries, both advanced and developing nations.

Second, in the early seventies, the United States decided to float the dollar and abandon the gold standard. The buying and selling of world currencies and their free movement among the advanced countries have resulted in synchronous global economic recessions and booms. Interest rates, capital markets, and investment climates have become more homogeneous with free market processes, resulting in greater interdependence among the monetary systems of the world. Furthermore, this has necessitated holding annual economic summits among the dominant world economies in the free world.

Third, Government is the biggest buyer in any nation. This is even more true in those countries where there is a preference for a large public sector such as India, France, and Italy. Recently, many governments of the world have announced programs to privatize, liberalize, or deregulate their public sectors. For example, the United Kingdom has privatized its airline and telecommunications industries as well as its airport and stock exchange. This is also true in Japan and in many developing and newly developed nations. Opening up the domestic government market to offshore

procurement and encouraging public enterprises to go offshore has further created greater economic interdependence among nations.

Finally, the twelve nations of the European Community, have agreed to more fully integrate their economies in hopes of becoming more efficient in global competitiveness and in restructuring their domestic industrial base. It is inevitable that EC '92, as the Single European ACT (SEA) is referred to, will create a domino effect among other economic regions and result in regional integrations in North America, Asia, and possibly in Latin America and Africa.

The flow of resources and economic policy

In order to ensure a balance between the import and the export of resources, all governments establish economic policies and processes. For example, global capital flow is determined by interest rates and investment policy. Interest rates ensure a nation's short-term economic objectives and investment policy ensures the long-term economic objectives of that nation. Japan, for example, is highly admired for its long-term investment policy which has ensured the targeting and channeling of resources for growth.

The global flow of people is determined by immigration laws and a nation's employment policies. Immigration and emigration laws ensure the achievement of a nation's short term economic objectives pertaining to labor shortages and surplus, while a national employment policy ensures long-term growth objectives. For example, both Singapore and Taiwan have decided that in the long run, their limited "people resources" must be channeled toward value-added high technology sectors as a way of ensuring full employment and high per capita income.

The global flow of products, materials, and technology is determined by international trade rules and regulations, and by the technology policy of that nation. International trade is often used by governments for short-term adjustments and for ensuring a comfortable balance of payments position. For example, recently, the United States demanded that many Asian nations, including Japan, Korea, and Taiwan, open up their borders to American products, materials, and technology to offset the bilateral trade deficits it is experiencing with these nations. On the other hand, the technology policies of a nation, including the establishment of technical standards, is considered to be a long term process to ensuring future growth of that nation. Both Japan and EC'92 have decided that information technology (computing and communications) policy is key to their future growth and have aggressively sought to establish technological standards in this area.

Finally, the global flow of information is shaped by multilateral agreements as well as the infrastructure policy of nations. This is especially critical in such information industries as publishing, broadcast, and telecommunications. For example, many developing nations, including India and China, are heavily investing in these information industries as an economic infrastructure for the flow of information (see Figure. 3).

BALANCING ECONOMIC VS. NONECONOMIC NATIONAL OBJECTIVES

Although both the domestic and global macroeconomic aspects of a nation's economic growth are, or ought to be, predominantly determined by the twin economic objectives of productivity and growth, it is obvious that each nation tries to balance its economic

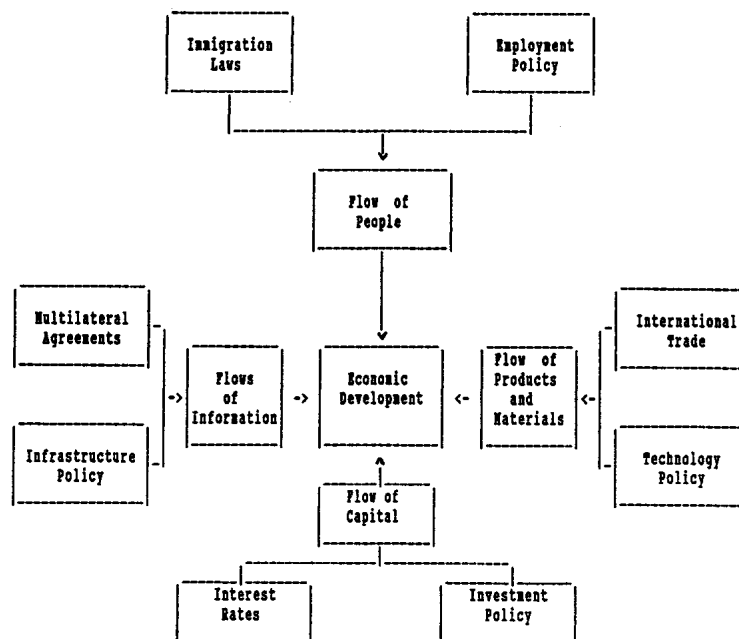


Figure 3. Processes that regulate flow of resources.

objectives with three other objectives: its social, cultural, and national sovereignty objectives.

Most developing nations tend to have a strong national social agenda focusing on areas such as literacy, population control, and wealth redistribution. They try to balance social objectives with economic objectives and often believe that there are inherent trade-offs among basic objectives.

Similarly, countries rich in history, culture, and traditions and the countries with diverse cultures worry about cultural homogenization due to economic development and prosperity. This has recently been a major issue in many newly industrialized nations such as Korea, Taiwan, and Singapore as well as more advanced countries such as Japan and Western Europe.

Finally, national sovereignty and consequent military and political sovereignty have also become counterbalancing forces to macroeconomic policy. For example, Western Europe and Japan have consistently struggled with this issue since World War II. Similarly, developing countries such as China, India, Yugoslavia, and Brazil have shaped their economic policy in light of military and political sovereignty considerations.

Therefore, a nation's public policy infrastructure and decision-making processes related to the flow of people, products, materials, money, and information are determined by three other objectives, which often come into conflict with national economic objectives: cultural, social, and sovereignty (see Figure. 4).

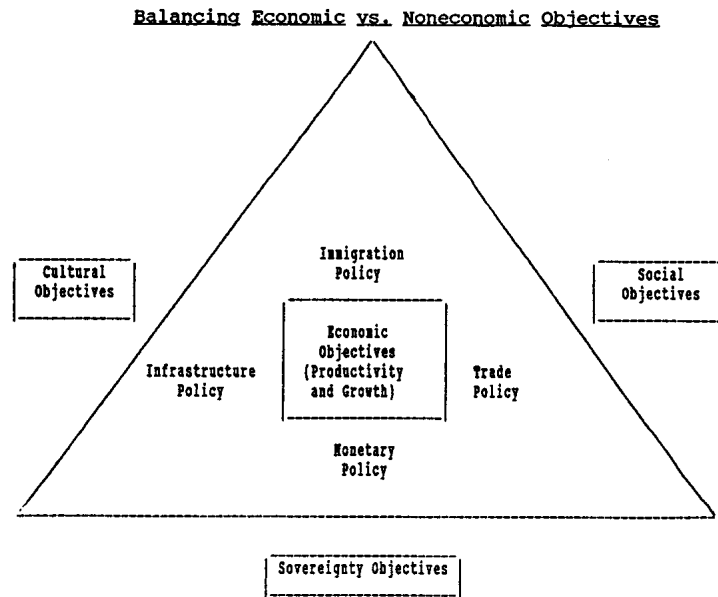


Figure 4. Balancing economic vs. noneconomic objectives.

BARRIERS TO INTEGRATED FLOW OF RESOURCES

It is, therefore, not surprising to find that the flow of resources (people, money, materials, and information) often remains suboptimal for a nation as different and competing national objectives assert themselves on the public policy process. Furthermore, it appears that each public policy is often driven by only one national objective. We have, therefore, identified a number of barriers which tend to prevent a natural synergy among the resources.

Separate and autonomous regulatory agencies

The first major problem is the lack of communication and coordination among different regulatory agencies in charge of each public policy. For example, "people flow" is regulated by the immigration authorities, "product flow" by the customs authorities, "money flow" by the central bank, and "information flow" by the telecommunications and broadcast authorities. Each agency operates autonomously and does not communicate or coordinate with one another despite the fact that these four resources flow in and out of the country in an interdependent and complementary manner. Good evidence of this lack of coordination is illustrated by the experiences of tourists in most foreign countries. The tourism industry may spend millions of dollars on advertising and promotion to attract tourism to a country only to see their investment negated by visa restrictions, cumbersome customs declarations, unwieldy immigration lines on arrival, and currency or telephone access problems.

Conflicting objectives

A second major barrier relates to different and often conflicting objectives of each policy. For example, immigration policy is primarily influenced by national sovereignty issues and secondarily by cultural and social issues. On the other hand, trade policy is predominantly influenced by economic objectives and only secondarily by sovereignty and cultural objectives. Similarly, infrastructure policy is predominantly influenced by economic objectives and secondarily by sovereignty issues.

Given the fact that each policy is driven by a different set of objectives, it is not surprising that they are often in conflict.

Substitute versus synergistic effects

Finally, we have no theory that directly addresses the substitute or synergistic effects among the resources. For example, what is the impact of people flow on a nation's product, money, and information flows? Do the immigrants to a nation, such as the United States become a burden to the society or do they contribute to it by also bringing their culture, money, and products?

Similarly, what is the impact of foreign capital investment on a nation? Must a nation worry that massive capital investment will follow the importation of people, information, products, or materials to support that investment?

Unfortunately, neither the economists nor the sociologists have a comprehensive theory regarding the substitute or complimentary effects of resource flows in and out of a country. The best conceptual framework is contained in comparative advantage theory but it is limited to market processes that lack significant sovereignty, social and cultural constraints.

STRATEGIES FOR OPTIMIZING THE FLOW OF RESOURCES

Since the nations must cooperate with one another in a global village, it is important to integrate the flows of people, products, money, and information across national boundaries. Therefore, we must minimize, if not eliminate, barriers to an optimum flow of resources. We recommend the following strategies.

1. Establish empirical research to measure the synergistic and/or substitute effects of each resource flow on the other resources. Empirically, this will require developing a simultaneous equation model and testing it with either cross sectional or time series data. The following model needs to be tested.

$$\begin{aligned}R_1 &= b_1R_2 + b_2R_3 + b_3R_4 \\R_2 &= b_4R_3 + b_5R_4 + b_6R_1 \\R_3 &= b_7R_4 + b_8R_2 + b_9R_1 \\R_4 &= b_{10}R_3 + b_{11}R_2 + b_{12}R_1.\end{aligned}$$

It would be interesting to see if elasticities and cross-elasticities among the four resource flows are symmetrical or asymmetrical.

2. Establish a supraagency to coordinate, integrate, and streamline different regulatory agencies and national objectives. In some countries, this is done by the national planning boards, and in other countries such as Japan, it is defacto

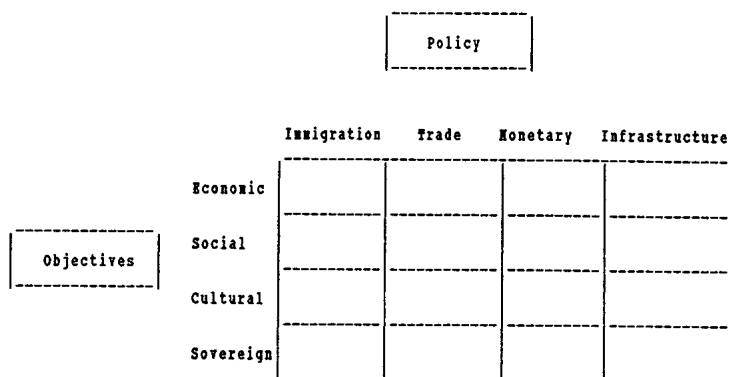


Figure 5. Matrix approach.

delegated to one agency such as Ministry of International Trade and Industry (MITI). No matter what the formal structure, the matrix approach, shown in Figure 5, is required.

3. Establish an interagency training and education program to build trust, mutual respect, and awareness of one another's activities. This is similar to cross-functional training and education activity subscribed to by private enterprises.
4. Develop a computer simulation model comparable in scope to the Club of Rome Project. The objective of this effort will be to bring together the world's best minds to create a set of heuristics related to the flows of people, products, money, and information as they pertain to the twin economic objectives of productivity and growth. A number of scenarios can be developed, based on expert judgment, regarding the potential impact of changing social, political, and cultural objectives. For example, one could test the scenario of socialistic countries privatizing their economies and encouraging market processes. Alternatively, we can test another scenario which poses a nation interested in protecting its cultural identity and measure the impact of such a cultural objective on its immigration, trade, monetary, and information policy.

CONCLUSION

In this article, we have endeavored to develop a model of economic development based on the twin objectives of productivity and growth. We have suggested that all nations need to import and export resources such as people, money, products, materials, and information to achieve these twin objectives. Unfortunately, a nation's trade, monetary, infrastructure, and immigration policies, regulating the flows of these four resource categories are also influenced by national sovereignty, cultural identity, and social justice objectives which are distinctly noneconomic in nature. In the process, and over time, many barriers develop which tend to delimit the true synergistic effects of one resource on the other. These barriers of integration among resource flows relate to the autonomy of regulated agencies, conflicting goals, and lack of a conceptual framework.

We, therefore, recommend four strategic options for an optimum integration of resource flows. First, conduct empirical research which measures the synergistic and substitute effects of resources upon one another. Second, establish a supraagency which will coordinate communication and functions across autonomous regulatory agencies, such as immigration, central banks, trade, and infrastructure agencies. Third, establish an interagency training and education program to build mutual trust, respect and understanding across agencies. Finally, develop a computer simulation model comparable in scope to the Club of Rome Project by inviting the best thinkers in the world to propose and test the impact of policy on resource flows.

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