

Krzysztof Rybiński: How to use globalization to improve Poles' living standards?

Address by Mr Krzysztof Rybiński, Deputy President of the National Bank of Poland, at the panel session: Globalization and Poland's development, 4th Congress of the Polish Lisbon Strategy Forum, Warsaw, 13 October 2006.

* * *

Ladies and Gentlemen,

In my today's speech, I should like to achieve two goals:

- First of all, I would like to outline major economic changes effected by globalization.¹
- Second, I would like to point out to such areas in Poland's economic strategy that call for profound changes necessary if we want to reap the benefits of globalization while avoiding its pitfalls.

At the same time, I would like to emphasize, as I usually do, that the opinions presented in this speech reflect my personal views and by no means are an official stance taken by any institution I used to be or I am presently professionally involved with.

* * *

(1) What major changes in the global economy and in national economies have been induced by globalization?

Globalization may be defined in various ways, and I believe that its essence is best captured when we define it as *free movement of goods, services, labour, capital and knowledge between countries*. Before I proceed with the presentation of the most important effects of globalization, it is well worth recalling the demographic trends that are going to strongly influence the global economy. According to UN estimates², by 2050 Europe's population will have shrunk by more than 70 million, that is by around 10%. In the same period, Asia's and Africa's population will have grown by 1,300 million and more than one billion respectively. This means that we should expect a gradual shift in the centre of gravity of the economic activity from the US and Europe to Asia and Africa. As a matter of fact, numerous estimates have shown that in 2050 the Chinese economy will be 40% larger than that of the US, while India's economy will be similar to the US in terms of GDP measured at purchasing power parity³. These trends are also reflected in studies assessing what companies in developing markets will challenge the current global giants based mainly in the US, Europe and Japan. According to Boston Consulting Group, the 100 'global challengers' include 44 Chinese, 21 Indian and 12 Brazilian companies. There are no Polish companies on this list, even though it includes a few companies from Egypt and Turkey⁴, among other countries.

In the future, demographic trends will be of greater significance than they used to be in the past, for several reasons. First of all, the population is aging faster in the developed world, yet China will also be affected by this problem due to its one-child policy. Second, the past 20 years have seen the global labour market emerge as a result of dramatic progress in information and communication technologies, lower transportation costs and reforms launched in many countries. For instance, Richard Freeman from Harvard University estimates that with the integration of the former Soviet Bloc

¹ This part of the speech is based upon a draft book on globalization written by K Rybiński and entitled *Globalizacja w trzech odstępach*, published at www.rybinski.eu.

² Estimates available at <http://esa.un.org/unpp/>.

³ See e.g. J Hawksworth *The World in 2050*, PricewaterhouseCoopers, March 2006.

⁴ M Aguiar et al., *The New Global Challengers. How 100 Top Companies from Rapidly Developing Economies Are Changing the World*, Boston Consulting Group, May 2006.

economies, China and India into the global labour market, the number of workers available globally jumped from 1.46 billion to 2.93 billion people, which Freeman calls “the great doubling”⁵.

The first major change caused by globalization is therefore **the emergence of the global labour market in the 21st century**. This has already brought about changes both in businesses' operating strategies and employees' behaviour. The global labour market shifts jobs to places with the highest effectiveness and lowest cost of manufacturing. For Poland, this means a large inflow of foreign direct investment despite a halt in privatization. In the global labour market, employees move to places where they are better paid for their skills. According to various estimates, about 5% people at working age have already left Poland. For Estonia, this figure stands at as much as 10%.

In the global economy of the 21st century, technological progress and lower transportation costs have allowed for the business processes or their parts to be easily moved between countries (a phenomenon frequently described as business process offshoring). The relative role of crucial factors behind long-term development prospects is thus changing. **In the 21st century, the key factor conducive to economic growth will be knowledge – broadly understood as a country's intellectual capital – and this country's ability to drive innovation.** If businesses in a given country fail to change their product and service profiles to achieve greater value added, they will find themselves pushed out of the market by companies from countries with low manufacturing costs. This applies to a number of markets, products and services only recently considered as subject to the international competition, one glaring example being the off-shoring of services offered by radiologists from the US to India⁶. China has already become the world's leading exporter of computers and their components or telecommunications equipment⁷. I believe that it is just a matter of less than twenty years for China to achieve a similar position in the automotive industry, mainly because Chinese companies have mastered network-based cooperation.

Hence, if a given European country fails to reach an adequate ability to drive innovation despite having sound public finances, liberal labour market and low taxes, it cannot stand the competition on the part of countries with low manufacturing costs. This may lead to lost markets, falling output and growing unemployment, and in consequence public finance deterioration.

It was as early as in late 1980s that a well-known economist, Paul Romer⁸, wrote that a country's success would be determined by knowledge and ability to drive innovation. When set against labour and capital, knowledge and innovation are infinite, with a number of people able to simultaneously use the same knowledge or innovation. Labour and capital are in turn ascribed to a specific place. By saying that I do not only mean such great innovations as the light bulb, mobile phone or Wal Mart's business model, which have improved the living standard of millions or billions of people. What I have in mind are also thousands or even millions of small innovations, for instance those aimed to improve the efficiency of a given business process. Today, we can add yet another factor to Romer's model, namely the relationship capital. Now, it is common knowledge that innovation is fostered by cooperation between experts in various countries, cooperation between manufacturers and customers, local market expertise, cooperation between higher education establishments and businesses. In the long term, successful countries and businesses will be those that knowingly invest in the relationship capital. Here, China's informed policy of supporting poor Asian and African countries is definitely worth mentioning.

Perhaps some of you think that China and India are far countries, and for that reason pose no challenge for us. This is far from being true, as technological progress and lower transportation costs have in many instances rendered distance immaterial, with many economists speaking of 'the death of

⁵ R Freeman, *The Great Doubling: labor in the new global economy*, Georgia State University, Usery lecture in labor policy, 2005.

⁶ Examples can be found in a book written by T Friedman and entitled *The World is Flat. A Brief History of the Twenty-First Century*, Farrar, Straus and Giroux, Nowy Jork, 2005. The analysis of services that may be subjected to the global competition can be found *inter alia* in a paper by B Jensen, L Kletzer *Tradable Services: Understanding the Scope and Impact of Services Offshoring*, Institute for International Economics working paper 05-9, September 2005.

⁷ See the European Commission's paper *Globalisation: Trends, Issues and Macro Implications for the EU*, EUROPEAN COMMISSION, DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS ECONOMIC PAPERS, No 254, July 2006.

⁸ P Romer, *Increasing Returns and Long-Run Growth*, Journal of Political Economy, October 1986; P Romer, *Endogenous Technological Change*, Journal of Political Economy, October 1990.

distance'. This can be exemplified by the United States, where one-third of the import measured by value takes place by air, as is the case with 25% of export value of Africa⁹.

(2) What areas of Poland's economic strategy call for changes in order that globalization can lead to a visible improvement in Poles' living standard?

Globalization is not a zero-sum game where some people gain, however at other people's expense. Globalization has already enabled billions of consumers across the globe to enjoy enhanced living standard, as can be exemplified by lower prices, enhanced quality and increasingly diversified product and service offerings. Millions of Polish consumers also experience these benefits. Simultaneously, more than one million of Poles, the so-called euro 300-gross-pay generation, have obtained better paid jobs in other EU countries, following Poland's accession to the EU. New jobs are created in Poland thanks to foreign direct investment and investment projects implemented by Polish companies that increase export production. Consumer optimism continues to grow, whereas fears related to the labour market subside. Poles enjoy an enhanced living standard and voice fewer concerns about their future. Undoubtedly, after our accession to the EU, Poland has achieved great success in the global economy. Does this mean that we can rest on our laurels and there is no need for rapid and far-reaching changes? It is not quite right, however, as there are a number of areas where Poland ranks the very last. Failure to make progress in these areas may sizably reduce the economic growth in the years to come.

These areas include, but are by no means limited to road infrastructure, volume and quality of spending on research and development or business environment in Poland, as can be exemplified by an average of three years that it takes to claim one's rights before courts in disputes between business entities. These weaknesses of the Polish economy are well known and it is also common knowledge what should be done to eliminate them. It is however not the weaknesses that I intend to discuss today, as I believe that there are other and much more serious areas of concern that significantly reduce Poland's economic potential. Lack of reform in these areas may deprive Poland of the benefits brought by globalization. Today, I would like to outline two such problems:

- First, for many years there **has been no common vision of Poland and no leadership** that could inspire Poles to pursue this vision.
- Second, we may boast our world's best IT specialists, but **we are still well backward in terms of e-government** – according to the Capgemini survey from June 2006 Poland ranks third from the bottom in the European Union¹⁰.

Why do I believe the lack of vision, lack of leadership and Poland's backwardness in e-government to be major weaknesses that diminish Poland's possibility to capture the opportunities offered by the global economy? Just imagine a company that has no long-term strategy and experiences management reshuffles every few years, including board members, department directors and often unit heads. Every department within this company has its own budget, sets its own priorities and pursues its own often obscure goals (so as to maximize the available budget), which are frequently inconsistent with the overall purpose of the company. Can such a company compete in the global economy against companies with clear and consistent vision and strategy, companies where all departments' activities are subject to this vision? This is a rhetorical question, as after using up all simple reserves of growth, such company would be doomed to bankruptcy unless it changed. The same applies to entire countries. While others continue to paint and fulfil daring visions, for example iN2015¹¹ (Intelligent Nation 2015) in Singapore, we are still unable to join our efforts and are stuck in a business model where each department silos keeps pursuing its own goals.

The ability to capitalize on knowledge will be crucial to Poland's success in the 21st century. **The country's economic strength will be built with the power of mind, not muscle or machinery.** For the time being, we have lost a million of minds that have increased the growth potential of other

⁹ A Venables, *Shifts in economic geography and their causes*, paper presented at an annual symposium of Federal Reserve Bank of Kansas City in Jackson Hole on 25 August 2006.

¹⁰ Capgemini Survey entitled *Online Availability of Public Services: How Is Europe Progressing? Web Based Survey on Electronic Public Services. Report of the 6th Measurement*, June 2006.

¹¹ www.iN2015.sg

countries. Many people who left Poland will achieve success, and set up prosperous companies. Some of these companies may become global challengers. Simultaneously, Poland has gained a million ambassadors abroad. For the time being, we are only lamenting. Have we yet done anything to use this huge Polish intellectual potential located in other countries in order to pursue joint efforts aimed at improving the standard of living for Poles, both at home and abroad. Have we got a vision that would for example indicate mechanisms for creating a diaspora with millions of Poles in the EU or across the globe, a diaspora that could effectively care for Poles' and Poland's interest? Actual examples of these include the Chinese and Mexican diaspora in the US, the Jewish diaspora across countries, the Portuguese diaspora in France or Global Scott Network, and many other.

In the global economy, greater progress is made thanks to increasing use of information and communication technologies (ICT), also in public services. Firstly, it allows to leave unilateral communication channels for interactive two-way communication, which in turn enables citizens and entrepreneurs to be more active, and allows to offer public services better tailored to the needs of individuals and businesses. Secondly, ICT development leads to innovation growth in public services worldwide, which means that changes in public administration's activities increasingly rarer show features of reproduction, and the public administration becomes ever more often a leader in the field of innovative services. In consequence, methods of a country's actions and fulfilment of its functions are irrevocably directed at using such technologies, and adopt the form of e-strategy, e-policy, e-regulations and e-services.

With just a few exceptions, public administration in Poland has not contributed to increasing innovativeness and effectiveness of the private sector, but has been rather ball and chain. Communication between citizens, entrepreneurs and an authority takes place mainly on paper, and it is necessary to come in person, bring a form, sign a document, while in other countries, e-government bodies are available via a mobile phone. For example, would it not be easier and more cost-efficient for an entrepreneur, if such sufficed, to participate in a tender by submitting only a factual offer, and other documents would be automatically collected through communication between various public and private registers (such as the National Court Register, Social Insurance Institution, Central Statistical Office, the revenue or credit database etc.). There are countless examples where public administration's activities might sizably increase the economy's efficiency.

In many countries, including some European and in particular Asian states, we can observe an effective pursuit of a vision leading to success in the global economy and determination of the public administration to develop a country's ability to drive innovation, that is to develop a factor determining the country's success in the global economy of the 21st century. Examples may be found in a recent edition of *The Economist*, where the article entitled *The Search for Talent* names a number of activities pursued by public administration in many countries in order to attract well-educated foreigners.

Ladies and Gentlemen, the 21st century has witnessed not only 'the death of distance' but also 'the death of time'. Innovation is driven, efficiency is improving and value is created by companies for clients and by public administration for citizens at a significantly faster pace. In order to win in an increasingly competitive economy, it is not only necessary to move ahead, but to move ahead increasingly faster. And in the two areas I discussed, that is lack of vision and leadership and backwardness in e-government, we have to run, as the race has already begun, and we are still pondering whether we should start moving the left or right leg first.

Poles are hardworking, talented and have entrepreneurial spirit. We are sufficiently predisposed to achieve success in the global economy. As citizens, we have every right to demand that decision-makers, regardless how they differ in their assessment of the past, create and support a common vision of strong and competitive Poland in the global economy of the 21st century as fast as possible.

Thank you very much for your kind attention.