

US WEEKLY ECONOMIC UPDATE



December 17, 2004

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US Economic and Investment Perspectives

Extending Globalization Is Key to Further Growth

Globalization has made economies and businesses more connected and interdependent. Technological advances in communication, design and production have no doubt sped this process in recent years and allowed it to take root in many regions which had previously been disconnected.

To promote its expansion to outlying regions, it's important to understand what triggered globalization. In his book "The Pentagon's New Map," Thomas P.M. Barnett argues that globalization is a direct by-product of the ending of the Cold War.

During the Cold War, the global economy split into capitalist and socialist camps, keeping many parts of the globe disconnected. Since then, economies have slowly opened and, instead of competing militarily, now compete economically. This more integral connection is reflected in greater trade and capital flows, bilateral and multilateral trade agreements, and new corporate alliances.

According to Mr. Barnett, the four pillars of globalization are the export of security, the flow of energy from oil producers to developed and newly developed economies, the flow of people (actual and virtual) from the newly connected economies to more advanced ones, and the flow of capital (i.e., foreign direct investment) in the opposite direction.

The security pillar is the key initial step in connecting countries because regions must be stable to prosper. Stability can best be secured not by the traditional means of transferring military hardware, but by cultivating less-violent relations among countries and regions, notably through economic and military pacts.

Barnett notes that most of the major conflicts of the 1990s occurred in countries with annual per-capita gross domestic product (GDP) of less than \$3,000. When it rises above that in a given country, mass violence and terrorism ebbs and the country starts to connect to the world. Investment dollars, then, typically begin to flow and companies begin to take advantage of the low-cost labor force, developing

the local economy. This process has been under way for many years in China, Russia, India and other, smaller countries.

To advance globalization, these four key pillars must be promoted as widely as possible. Disputes, such as the Iraq war or the conflict between the Israelis and Palestinians, and threats such as potential nuclear proliferation in Iran and North Korea can create splits between countries. Other threats to globalization include a return to economic nationalism—what is currently threatening to happen in Russia, for instance. These various trouble-spots have not yet reached a critical point. But it is nonetheless important for these issues to be defused quickly so trust does not break down across the globe, prompting countries to look inward once again.

Countries that tackle security in a meaningful way open themselves to the benefits enjoyed by more developed countries. Greater global economic connectivity has allowed goods and capital to flow freely to the United States and other stable nations. While this has no doubt caused industry and labor-market dislocations at home, in the aggregate the US has clearly come out ahead.

Extending the benefits of military stability and economic prosperity to other regions—the next phase of globalization—could prove critical to US trade. The US tends to import more goods the faster it grows, as evidenced by the mounting trade imbalance. By contrast, other countries tend to import more services as growth accelerates. Because it runs a huge surplus in service trade, the US enjoys a comparative advantage. As newly developed economies advance, their demand for services will accelerate, benefiting a number of American industries.

To realize the full promise of greater globalization, it will, however, be necessary to ease geopolitical risks. We are hopeful the world's "hot spots" will cool at least somewhat in 2005.

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Display 1: Trade Agreements Have Strengthened the Connectivity Between Economies

US Trade Agreements Since 1984

Regional Trade Agreements

Latin America	Free Trade Area of the Americas
North America	North American Free Trade Agreement
Middle East	Middle East Free Trade Area Initiative
ASEAN* Countries	Enterprise for ASEAN Initiative
Asia-Pacific	Asia-Pacific Economic Cooperation

Bilateral Trade Agreements

Afghanistan	Trade and Investment Framework Agreement	Kyrgyzstan	Agreement on Bilateral Trade Relations
Albania	Agreement on Bilateral Trade Relations	Laos	Free Trade Agreement
	Bilateral Investment Treaty		
Argentina	Bilateral Investment Treaty	Latvia	Bilateral Investment Treaty
Andean	Free Trade Agreement	Lithuania	Bilateral Investment Treaty
	Agreement on Bilateral Trade Relations		
	Bilateral Investment Treaty		
Armenia	Agreement on Bilateral Trade Relations	Malaysia	Trade and Investment Framework Agreement
	Bilateral Investment Treaty		
Australia	Free Trade Agreement	Moldova	Agreement on Bilateral Trade Relations
			Bilateral Investment Treaty
Azerbaijan	Agreement on Bilateral Trade Relations	Mongolia	Agreement on Bilateral Trade Relations
	Bilateral Investment Treaty		Bilateral Investment Treaty
Bahrain	Free Trade Agreement	Morocco	Free Trade Agreement
	Bilateral Investment Treaty		Bilateral Investment Treaty
Bangladesh	Bilateral Investment Treaty	Pakistan	Trade and Investment Framework Agreement
Belarus	Agreement on Bilateral Trade Relations	Panama	Free Trade Agreement
			Bilateral Investment Treaty
Bolivia	Bilateral Investment Treaty	Poland	Business and Economic Treaty
			Bilateral Investment Treaty
Bulgaria	Agreement on Trade Relations	Qatar	Trade and Investment Framework Agreement
	Bilateral Investment Treaty		
Cambodia	Agreement Between the US and the Kingdom of Cambodia on Trade Relations and Intellectual Property Rights	Romania	Agreement on Bilateral Trade Relations
			Bilateral Investment Treaty
Cameroon	Bilateral Investment Treaty	Russia	Trade Agreement Concerning Most Favored Nation and Nondiscriminatory Treatment
Chile	Free Trade Agreement	Senegal	Bilateral Investment Treaty
China	Agreement on Trade Relations Between the US and the People's Republic of China	Singapore	Free Trade Agreement
Congo, Democratic Republic of the	Bilateral Investment Treaty	Slovakia	Agreement on Bilateral Trade Relations
			Bilateral Investment Treaty
Congo, Republic of the	Bilateral Investment Treaty	South Africa	Free Trade Agreement
Croatia	Bilateral Investment Treaty	Sri Lanka	Bilateral Investment Treaty
			Trade and Investment Framework Agreement
Czech Republic	Agreement on Bilateral Trade Relations	Suriname	Agreement on Bilateral Trade Relations
	Bilateral Investment Treaty		
Ecuador	Bilateral Investment Treaty	Tajikistan	Agreement on Bilateral Trade Relations
Egypt	Bilateral Investment Treaty	Trinidad and Tobago	Bilateral Investment Treaty
Estonia	Bilateral Investment Treaty	Tunisia	Bilateral Investment Treaty
Georgia	Agreement on Bilateral Trade Relations	Turkey	Bilateral Investment Treaty
	Bilateral Investment Treaty		
Grenada	Bilateral Investment Treaty	Turkmenistan	Agreement on Bilateral Trade Relations
Honduras	Bilateral Investment Treaty	Ukraine	Agreement on Bilateral Trade Relations
Hungary	Agreement on Trade Relations	United Arab Emirates	Trade and Investment Framework Agreement
Israel	US-Israel Free Trade Agreement	Uruguay	Bilateral Investment Treaty
Jamaica	Bilateral Investment Treaty	Uzbekistan	Agreement on Bilateral Trade Relations
Jordan	Free Trade Agreement	Vietnam	Agreement Between the US and Vietnam on Trade Relations
			Free Trade Agreement
Kazakhstan	Agreement on Bilateral Trade Relations		
	Bilateral Investment Treaty		

*ASEAN countries include Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Source: US Trade Representative Office, December 17, 2004