

Perspectives on Globalization

Summary of presentation to be delivered by Diana Farrell, Director, McKinsey Global Institute, Copenhagen, Denmark—February 2, 2006

Globalization is widely discussed in the media and intensely debated in conference halls and on the streets. Inexorably, technological advances and liberalization are lowering the barriers to global economic integration as products, labor, and capital move freely across the globe, creating new opportunities for value creation. As a result, global industries are being restructured and value chains disaggregated – a process characterized by five increasingly sophisticated stages of restructuring.

The most recent – and perhaps most debated – example of this process is offshoring of services. This market is growing very rapidly in many locations around the world. Like other forms of global trade, offshoring creates significant potential for global value creation. This holds true in the case of Denmark. Yet Europe may not be fully benefiting from the opportunity – primarily because of inflexible labor markets that do not effectively re-deploy displaced workers.

Economic growth and the competitiveness of a nation are fundamentally driven by productivity. At the heart of productivity is innovation, its development, diffusion and scaling. This process of productivity advances is primarily fueled by competitive intensity. Not surprisingly, globally competitive export sectors have been the biggest contributors to growth in Denmark. For a relatively small economy like Denmark, closely integrating with global markets ensures the productivity benefits of competition and scale.

Europe's productivity performance is lagging, just at a time where global trends and demographic pressures suggest an even greater need for productivity improvements. Higher investment in research and development are not sufficient. Improving European performance will require removing the barriers to higher competitive intensity, and thus unleashing the process of innovation – its development, diffusion, and scaling. Such measures include continuing to liberalize the service sector, strengthening competition, ensuring even enforcement of regulations, encouraging economies of scale, increasing work incentives and labor market flexibility, and improving the productivity of the public sector.