Ready Or Not: Kentucky in the Global Economy

This paper examines the globalization of the Kentucky economy. A summary of the international nature of the Kentucky economy illustrates how well Kentuckians are meeting the opportunities offered by globalization and demonstrates how trade and investment liberalization are helping and/or hurting Kentucky residents. Trends in exports, imports and foreign direct investment are examined, as well as the potential effects of globalization on income distribution and employment.

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Over the course of the 1990s, the United States has moved in unprecedented ways toward full participation in the global economy. The growing importance of foreign trade and investment has been one of the most significant trends in recent U.S. economic history. The North American Free Trade Agreement (NAFTA) is just one of a number of pacts that has served to illustrate the unprecedented consensus about the appropriateness of free trade that now exists among most nations. Gone are the mercantilism and the arranged trade among political allies of the past. In the coming millennium, goods and services will sell freely throughout the world.

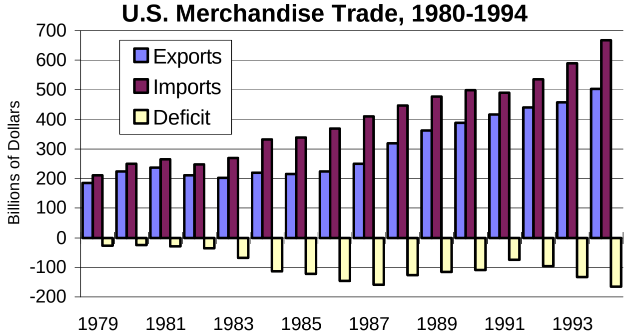
But policymakers, academics and citizens alike continue to debate the relative benefits associated with opening our economy further to world trade and investment. While many see unlimited opportunity and potential, others see the forces of economic ruin at work. Clearly, the dynamics of globalization are producing economic benefits for workers, communities and states such as Kentucky, even as they generate competition that some workers and firms cannot match. The challenge for states like our own is one of capturing a greater share of the benefits of globalization while minimizing the negative consequences. To do so, it will be necessary to better prepare workers and firms to compete in a global arena while mediating adverse consequences.

The Dynamics of Global Trade

While the United States has always been an advocate of liberalizing trade around the world, an increased emphasis has been evident over the past 15 years. In response, the volume of U.S. trade has risen dramatically. Imports increased 247 percent between 1980 and 1994 while exports increased 172 percent over the same time period. The United States has run a trade deficit over each of the years in this period, not as a result of the increased emphasis on globalization, but rather due to other macroeconomic phenomena. The real significance of these developments lies in the fact that an increased emphasis on free trade has been accompanied by rising volumes of imports and exports, which produce jobs and income around the globe.

Forces other than trade agreements are also giving rise to expanded global trade. Increased specialization of workers and gaps in productivity make some areas more conducive for the production of certain products and services. Fluctuations in exchange rates also make imports and exports more or less attractive to particular countries. As illustrated in Figure 20.1, year-to-year changes in merchandise trade demonstrate market responsiveness to varying currency exchange rates. Since 1985, changes in exports and imports has vacillated dramatically. As the strength of the dollar fell in the late 1980s, import growth slowed and eventually began to contract. While currency fluctuations should not affect magnitudes of trade over the long run, they help explain some of the recent trends in world trade, particularly the large U.S. trade deficit with Mexico. National trade deficits, however, are the result of macroeconomic choices, and only structural changes in U.S. economic policy (such as increased national savings or a lower federal budget deficit) could abolish a trade deficit.

FIGURE 20.1
U.S. Merchandise Trade, 1980-1994

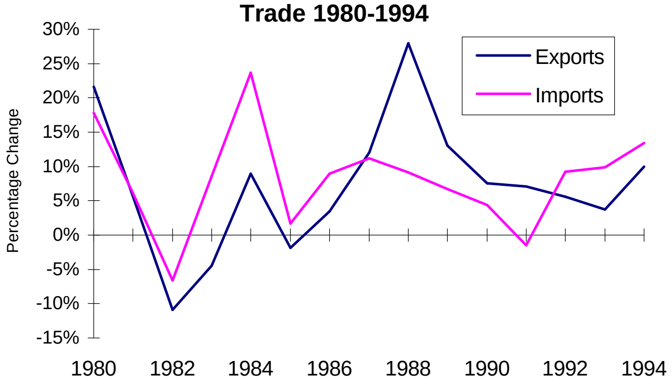


Source: Economic Report of the President, 1996

The prospect for export growth has increased significantly as a result of the North American Free Trade Agreement and the General Agreement on Tariffs and Trade. First signed in 1948, GATT became far more important with the enactment of the agreements reached during the Uruguay Round of talks. Taking effect in 1995, the new GATT[1] provisions are the most comprehensive rules on trade ever agreed upon.[2] Signed by 117 countries, GATT promises to have the most pronounced impact on U.S. and Kentucky trade. NAFTA, the well-known agreement to create a free-trade zone between Canada, Mexico and the United States is also providing many new opportunities for exports.

Many critics of free trade have been quick to point to the poor U.S. trade performance with Mexico since the enactment of NAFTA to support their claims about the dangers of free trade. The U.S. trade position with Mexico deteriorated from a surplus of $1.4 billion in the first 11 months of 1994 to a $14.4 billion deficit in the first 11 months of 1995.[3] This deterioration does make the optimistic forecasts for NAFTA seem misguided, but much of the decline in exports to Mexico can be explained by the country's currency instability. U.S. exports to Mexico fared better than those of other Mexican trading partners. Mexican officials slapped 15 percent higher tariffs on most incoming goods, but the provisions of NAFTA prevented this action against U.S. and Canadian goods. Overall, U.S. exports to Mexico remained higher during 1995 than they had been in 1993, prior to the enactment of NAFTA.[4]

FIGURE 20.2
Percentage Change in U.S. Merchandise Trade 1980-1994



Source: Economic Report of the President, 1996

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[1] As of January 1, 1995, the World Trade Organization replaced GATT.
[2] 1995, Baldwin, et al.
[3] Economic Report of the President. (1996).
[4] Economic Report of the President.

So while U.S. exports had difficulty selling to Mexicans suffering from a devalued *peso*, U.S. exports fared much better than they would have without NAFTA. The Council of Economic Advisors predicts that a return to stability of the Mexican currency should help to bolster future imports of U.S. goods.

Exports and Imports in Kentucky

At the fall 1995 meeting of the American Apparel Contractors Association, no one evaded judgments about the impact of trade liberalization. According to board chair Irwin Mistrock, business had fallen off 20 percent from the previous year, with over 40 percent of that business moving overseas. Mistrock said, “NAFTA and GATT (General Agreement on Tariffs and Trade) have really hurt us.”[5]

Losing industries are not the only story, however. Kentucky businesses and farmers have been exporting products for decades, and changes in trade laws have provided new opportunities, as well as new competitors. Companies like Maker’s Mark are finding new markets as a result of trade liberalization; its exports have grown between 20 percent and 30 percent every year of the 1990s. The company now exports 50,000 cases of bourbon a year, or one fifth of its total sales.[6] Last year alone, Toyota exported nearly 70,000 automobiles assembled at its Georgetown, Kentucky, plant. With the completion of a planned expansion at the plant, that number is likely to increase.[7]

TABLE 20.1
Kentucky Industries with Export Development Potential

Industry	No. of Firms in KY	Avg. 1990 Employment
Sawmills and Planing Mills, General	133	28
Prepared Feeds, NEC	83	12
Sausages and Other Prepared Meats	37	80
Meat Packing Plants	33	82
Plastic Materials and Resins	25	178
Surgical Appliances and Supplies	25	61
Electrical Industrial Apparatus, NEC	21	69
Electronic Components, NEC	20	216
Relays and Industrial Controls	18	134
Switchgear and Switchboard Apparatus	12	200
Tobacco Stemming and Redrying	11	130
Electrical Equipment and Supplies, NEC	11	160
Logging	8	26
Chewing and Smoking Tobacco	6	187
Communications Equipment, NEC	6	83
Synthetic Rubber	5	366
Semiconductors and Related Services	5	84
Paper Mills	4	271
Dental Equipment and Supplies	4	51
Surgical and Medical Instruments	4	19
Pulp Mills	2	496
Cigarettes	1	3356
Cigars	1	200
Musical Instruments	1	10

Source: KY World Trade Center

For Kentucky, the future of export markets looks particularly promising in several areas, as illustrated in Table 20.1. Strong growth is predicted for exports of agricultural products and hardwoods, both of which are produced in the Commonwealth. As documented by Michael Reed,[8] the combination of free trade agreements and rising standards of living around the world bode well for agricultural products. Residents of countries like Korea and China are beginning to consume meat products on a heretofore unseen level.[9] At the same time, draughts around the world have depleted food supplies and pushed prices to record highs for the decade. Moreover, these events are happening as new federal agricultural legislation

[5] United We Stand America. (1996, January). *NAFTA impact update.* [On-line]. Available www.uwsa.org/hey/nafta1.html.
[6] Chappell, L. (1996). The world buys American. *Kentucky Commerce.*
[7] Chappell, L. (1996). Like bourbon and bluegrass. *Kentucky Commerce.*
[8] See “ Agricultural exports: Opportunities for Kentucky’s farmers,” by Michael Reed in this volume.
[9] Global per capita consumption of beef, pork, and poultry has risen 11 percent over the past decade. Burns, G. (1996, May 20). The new economics of food. *Business Week.*

goes into effect and creates what many believe will be another boost for U.S. agricultural exports, although its specifics could help U.S. businesses more than family farmers.[10]

Overall, Kentucky's export market has fared better than the nation's. According to a 1995 report by the Kentucky World Trade Center, the state's rate of export growth has exceeded the U.S. export growth rate since 1989.[11] The authors of the report also note that Kentucky's exporting sector has become an increasingly important portion of the Commonwealth's economy. Using aggregate personal income as a measure of overall economic activity, the report finds export growth of 12.7 percent from 1989 to 1994, compared to overall economic growth of 6.1 percent.

But globalization will continue to demand more of all enterprises, as well as public infrastructure, in return for access to its enormous potential. While GATT and NAFTA have increased prospects for doing business abroad, they have also increased the number of competitors in each market. New industry standards, like those contained in the ISO 9000 accords, require exporting companies to be well versed in quality standards and to manufacture products accordingly. Small businesses, the businesses most prevalent in Kentucky, face particular difficulty meeting these demanding standards. A 1995 report by the Kentucky Long-Term Policy Research Center, *Factories, Farms and Free Trade*, found that many rural Kentucky firms are either inadequately prepared for or uninterested in the potential benefits of free trade.

One industry that faces the possibility of further decline as a result of GATT and NAFTA is the apparel industry. Some well-publicized plant closings in Kentucky in recent months and years have broadened awareness of this problem. Low-wage, low-skill industries, like apparel, are most susceptible to competition from the developing world where wages and working conditions are often substandard. As Schirmer and Taylor note, apparel's future in the Commonwealth is uncertain in the age of globalization. Nonetheless, certain strengths of Kentucky's apparel industry, namely its relative growth in the late 1980s and its larger than average plant size, offer hope for its future viability.

Overall, export prospects are brightened by trade liberalization. While a U.S. trade deficit may persist, Kentucky businesses still need to seize the opportunities made available by globalization. New markets offer chances to increase production, profits, and employment. We should be looking for opportunities to export, since jobs supported by goods exports pay 13 percent more than the national average.[12] But the aggressive pursuit of new sales should not be accompanied by a neglect of opportunities nearer to home. The greatest benefits of free trade will be realized when companies work to take fullest advantage of opportunities both here and abroad.

State and local policymakers should assist businesses interested in exporting by developing and expanding the state's supportive infrastructure. Businesses, small businesses in particular, with the potential to develop export sales often do not have the resources needed to pursue these opportunities. The state could provide technical assistance to businesses looking to expand their sales beyond U.S. shores. Often, these businesses need guidance about the standards for export (such as the aforementioned ISO 9000), procedures, and institutions governing trade. Offices in foreign countries, such as the state's presence in Japan and Mexico, also offer Kentucky businesses a valuable aid in moving into these markets. Expansion of these efforts should be considered. Exporting businesses also need access to quality systems of transportation and affordable energy resources. State and local governments, if they

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[10] In "FAIR is foul for farmers and consumers," Larry Swartz and Katherine Ozer depict the Farm Bill of 1996 as a boon to corporate agricultural interests at the expense of the family farmer. Texas A&M economist Ronald Knutson predicts that up to half of medium-size operators could go out of business if commodity prices plunge or crop disasters occur (1996, Farm Aid).

[11] Baldwin, W.T, Erfani, G.R., Haywood, C.F. (1995, June 9). *The impact of global trade on the Kentucky economy*. Lexington, KY: Kentucky World Trade Center.

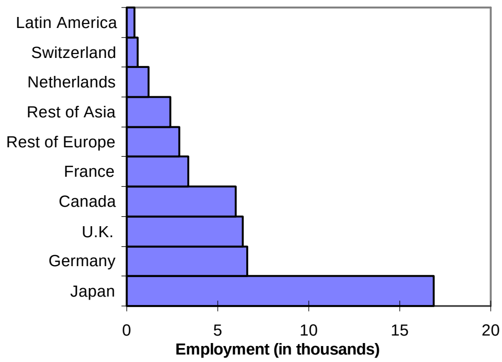
[12] Economic Report of the President, 1996

wish to increase the business community's foreign trade, must not lose focus of the importance of needs in this area.

There is no reason to believe that the current trend of export growth will not persist. The emergence of economic affluence in certain developing nations will create millions of new consumers for U.S. products. The strengthening economies of Europe and Japan also should continue to demand U.S. goods. According to President Clinton's "National Export Strategy," GATT and NAFTA should help increase U.S. exports from $660 billion in 1993 to over $1 trillion by the year 2000, supporting over six million new jobs.[13] Kentucky businesses can capture some of these increases if they are willing to search for opportunities and if they are assisted by thoughtful government policies and programs.

Foreign Direct Investment in Kentucky

FIGURE 20.3
Manufacturing Employment of Affiliates in Kentucky, By Country of UBO*

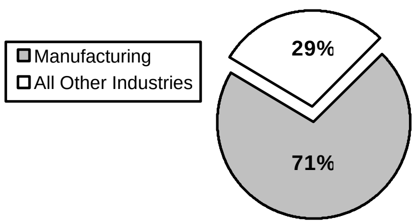


** UBO is Ultimate Beneficial Owner.*
Source: US Department of Commerce, 1995.

One of the most noticeable changes in the Kentucky economy as a result of globalization is the increased presence of foreign firms and factories. Encouraged by relatively low-wage rates and a weak dollar, foreign firms have found it advantageous to move operations to the United States. Kentucky has been the beneficiary of a number of these decisions. While the Toyota plant and its suppliers attract the most attention, firms in a range of industries from diverse countries have chosen to open operations in Kentucky. In 1992, the U.S. Department of Commerce reported that foreign firms employed more than 70,000 Kentuckians.[14]

Obviously, investments like the Toyota plant represent the most visible manifestation of foreign direct investment (FDI): a foreign firm builds a facility and begins to produce in the United States. Another obvious impact is the jobs that investments like the Toyota factory create for Kentucky workers. But this type of investment represents only a portion of the total FDI[15] picture.

FIGURE 20.4
Property, Plant & Equipment of Affiliates in Kentucky



Source: U.S. Dept. of Commerce

Where are foreign investors putting their dollars in Kentucky? Considering that manufacturing accounts for over a quarter of Kentucky's gross state product, by far the largest of any sector, it is not surprising that it accounts for a large portion of

[13] Baldwin, et al. National export strategy.

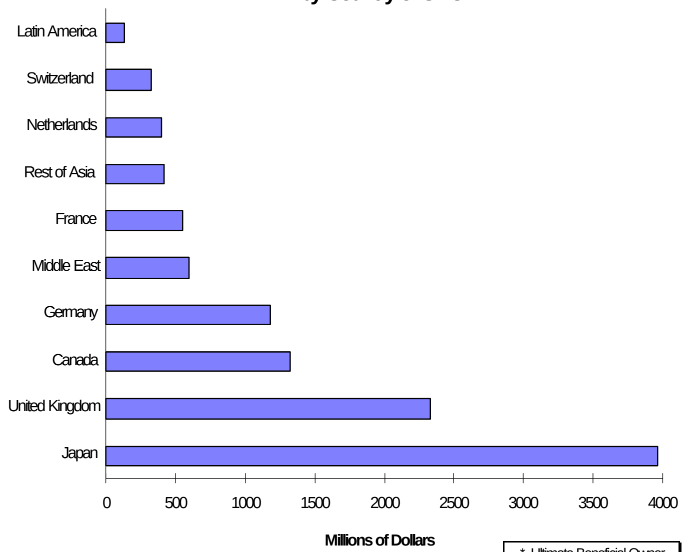
[14] The Department of Commerce describes a U.S. affiliate as foreign when over 10 percent of the company is controlled by a company outside the United States.

[15] Foreign direct investment (FDI) describes the earnings retained by U.S. established subsidiaries or branches of foreign companies as well as the transfer of funds from the parent firms to their subsidiaries. It does not include portfolio investment by foreigners, when they chose to buy stocks, bonds, or other private and government-held securities. Furthermore, it does not account for funds borrowed within the United States by foreigners to invest in their U.S. subsidiaries or branches. It does include the purchase of existing companies and real estate. (Ondrich and Wasylenko, 1990). So calling FDI investment is somewhat misleading. By including real estate and existing company transfers, it terms a great deal of what are in reality asset transfers as investments. In reality, FDI measures the flow of financial assets.

FDI in Kentucky. The Bureau of Economic Analysis reports that 71 percent of the gross property, plant and equipment of foreign affiliates in Kentucky are the investments of companies classified as manufacturing entities.

Which countries are investing in Kentucky? Unlike in most states, the Japanese are by far the greatest foreign investors in the Kentucky economy. Overall, the British invest the most into the U.S. economy. Perhaps Japanese strength in manufacturing attracts them to the Commonwealth. As Figure 20.5 shows, a wide array of investors from many countries have holdings in Kentucky.

FIGURE 20.5
Gross Plant and Equipment of Kentucky Affiliates by Country of UBO*



Source: US Department of Commerce, 1995

* Ultimate Beneficial Owner

Why are the investors choosing Kentucky? Location and low wage rates play a central part in some decisions to locate new facilities. Certainly, incentive programs offered by state and local governments are a factor, but no clear consensus exists on the role of tax inducements and other factors. According to Ondrich and Wasylenko, “Higher taxation in general, right-to-work laws, and unionization of the workforce . . . are generally not found to have a statistically significant effect on FDI in states.”[16] Because an amalgamation of factors usually leads to the decision to invest in a particular area, it is difficult to isolate factors that account for the extent of FDI in Kentucky.

FDI: A Part of Kentucky’s future? Many experts anticipate a new wave of FDI on the horizon. But Kentuckians cannot wait for FDI to come to us. If we wish to reap its benefits, we must work to make Kentucky an attractive place for investment in new and expanding enterprises. Howard Gray, whose Lexington construction company has built more than 140 Japanese factories in the United States, told an Owensboro audience interested in attracting Japanese investment to Daviess County: “It must be an all-out effort. You must invest time and money in learning their culture . . . You can’t wait for the customer to come to you.”[17]

Gradually, Kentucky is becoming a player in the global economy, as foreign trade and investment comprise more and more of the state economy. Most economists agree that the resultant development is an efficient outcome, one that can be expected to maximize social welfare.

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[16] Ondrich, J., Wasylenko, M. (1993).*Foreign direct investment in the United States: issues, magnitudes, and location choice of new manufacturing plants*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.
[17] Owensboro not giving up on luring Japanese. (1996, July 11)*The Courier-Journal,* p. B4.

The Effects of Globalization

Income Distribution. Many critics of free trade have bemoaned its potentially deleterious effects on worker's wages. The proverbial "giant sucking sound" symbolizes the migration of low-skill jobs across borders and the resulting drop in U.S. employment. In turn, it is argued, incomes are become increasingly stratified, creating inequities and, over the long term, the potential for social upheaval. Without doubt, income stratification has worsened in the United States, particularly since the early 1980s.[18] This trend, however, is probably not the result of any single factor but more likely a combination of several circumstances. Whether greater openness to trade is a cause any of income stratification is more difficult to determine.

Harvard economist Robert Lawrence concludes that trade has played only a small role in the stagnation of industry wages.[19] Instead, Lawrence's analysis places the blame for poor wage growth on the accompanying slow growth in productivity. Lawrence believes that the effects of trade are most likely to be seen on relative industry wages. The Brookings Institution's Gary Burtless agrees that many factors are at work. While Burtless observes that liberal trade most definitely is part of picture of worsening job prospects for America's unskilled workers, he concludes that international trade "has not been the decisive factor in the trend toward greater earnings inequality."[20]

On the other hand, Lester Thurow argues that trade has and will continue to bring down real wages in the United States.[21] Believing the Federal Reserve too eager to curb inflation, Thurow argues that trade can only lower wages when coinciding with an overabundance of labor. According to Thurow, if the forces of factor price equalization resulting from globalization continue to operate in a world of slack labor markets in the United States, the rate of decline in real wages will only accelerate.

Economist Thomas Palley also points to globalization as one of the factors suppressing wages in the United States. While acknowledging the benefits of free trade between similar partners, Palley decries open trade based solely on wage differentials. This type of trade, which Palley categorizes as typical between the United States and the developing world, promotes a "race to the bottom" that "lowers wages, job security, and social-welfare standards."[22]

While the extent to which globalization has affected U.S. wages remains uncertain, it does appear plausible that free trade agreements have exerted downward pressure on compensation. Workers in low-skill, low-wage jobs are particularly vulnerable. Kentucky's manufacturing base, particularly in its rural areas, contains many jobs in this category. These workers, who face stagnating wages or potential unemployment, could ultimately be the big losers as globalization and the effects of free trade expand.

Employment. What do the employees at the Toyota plant in Georgetown have in common with the workers of the OshKosh B'Gosh plant in Marrowbone? Very little. The former group can claim that their high-skill, high-wage jobs are the result of globalization. The latter group can claim that their former jobs moved off shore because of that same trade and investment liberalization.[23] As is typical of a free marketplace, the competition that globalization generates produces winners and losers, but high skills are clearly an edge for firms and workers.

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[18] See A. Chandra's chapter on income inequality in Kentucky in this volume.

[19] Lawrence, R.Z. (1995, January). U.S. wage trends in the 1980s: The role of international factors. *FRBNY Economic Policy Review.*

[20] Burtless, G. (1996, Spring). Worsening American income inequality: Is world trade to blame? *The Brookings Review.*

[21] Thurow, L. (1996, March-April). The crusade that's killing prosperity. *The American Prospect.*

[22] Palley, T.I. (1996, July). Recipe for a depression: The forces making for an economic collapse. *Atlantic Monthly.*

[23] OshKosh B'Gosh to close Marrowbone plant. (1995, August 3). *Clinton County News*, p. A5.

After growing for all but one of the past 12 years, employment in Kentucky's apparel factories dropped in 1994. Whether this is an aberration or a new trend is unclear. Manufacturing employment did grow overall between 1993 and 1994 by nearly 10,000 jobs, but workers in industries like apparel were not fortunate enough to be part of the growth.[24] It is also unclear whether certain areas were affected by the changing employment conditions more than others.

At this stage in the process, it is impossible to account for the employment effects of globalization with any certainty. Some new employment opportunities will arise as other jobs are transferred to other regions or countries. Generally, globalization should provide jobs in areas of relative strength in skill and productivity while eliminating jobs where no competitive advantage exists. The growth of employment in relatively high-skill jobs suggests that we redouble our efforts to train workers, particularly those low-skill workers who are most vulnerable to the possibility of job losses.

What does FDI mean for Kentucky's residents? Mirroring the debate over the positives and negatives of free trade, the debate over the value of FDI has been heated and divisive. Proponents argue that FDI increases productivity, supplements employment, and offers better prices to consumers. Critics believe that FDI only provides lower paying jobs and reduces the home country's international investment position. Both arguments have some validity.

FDI does appear to increase productivity. Carnegie-Mellon Professor Richard Florida concludes that FDI is key to improving U.S. productivity. He argues that FDI, much more than trade, has led to productivity growth by moving technology from more advanced countries to other countries that have not been as organizationally or technologically innovative.[25] This, in turn, places pressure on domestic producers, who must improve their productivity to compete with the transplants. Florida observes that the migration of management practices often coincides with FDI. For example, he cites Toyota's "just-in-time" inventory and parts procurement systems. By keeping inventories small and maintaining the flexibility to purchase parts as needed, the factory minimizes complicated inventory management and storage while maximizing its capacity to react to changing needs in production. Florida also notes the ways in which Toyota's suppliers have adapted to these demands, increasing productivity and spreading the knowledge to yet another sphere of supplier facilities.

If FDI increases productivity, how does it affect wages? Economic theory posits that wages are a function of worker productivity. Wages should, therefore, be expected to rise as productivity rises. It does appear that workers in foreign affiliates in the United States are paid more than their counterparts who perform similar duties for U.S.-owned firms in this country. Research by Ned Howenstine and Dale Shannon shows that affiliates whose ultimate owner beneficiaries live in one of the six countries that invest the most in the United States pay their workers more for similar tasks than U.S.-owned companies.[26]

Critics of FDI argue that foreign firms only use relatively unskilled labor in their U.S. operations, choosing to keep the more lucrative, skill-based positions at home. This is particularly believed to be the case in research and development positions. Edward Graham and Paul Krugman analyze compensation and value added per employee for U.S. affiliates of foreign firms as well as for U.S. firms, however, and they note that no systematic differences exist between foreign and domestic firms in compensation or value added, particularly in manufacturing. They conclude, the "data . . . do not provide any support for the view that

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[24] Schirmer, P., Taylor, M. (1995). *Farms, factories and free trade.* Frankfort, KY: Kentucky Long-Term Policy Research Center.

[25] Florida, R. (1995). Conditioning investment is a losing strategy. In C. A. Beltz (Ed.) *Foreign investment debate: Opening markets abroad or closing markets at home?* Washington, DC: AEI Press.

[26] Howenstine, N.G., Shannon, D.P. (1996, March). Differences in foreign-owned U.S. manufacturing establishments by country of owner. *Survey of Current Business.* Washington, DC.

foreign firms typically keep the good jobs or the high-value-added activities at home."[27] Graham and Krugman argue that no evidence can support the claim that U.S. affiliates of foreign companies offer worse jobs than their U.S. counterparts.

Almost everyone seems to agree that FDI increases employment, although the relationship is not as obvious as it would appear. A more thorough examination shows that FDI probably does not influence the aggregate amount of employment in the United States as much as it helps determine the physical allocation of jobs among regions or states. Graham and Krugman report that FDI has probably had very little effect on levels of employment in the United States. They argue that since levels of employment are determined by supply and not demand, FDI could have noticeable effects on employment only over the very short run. In fact, they observe, "The net impact of FDI on U.S. employment is approximately zero."[28] While their observations are probably correct, FDI can cause jobs to migrate from one region or state to another, from high-wage areas to relatively low-wage Kentucky, for example. Julius concludes that plant locations resulting from FDI can boost employment, particularly in high-unemployment areas. Echoing the sentiments of Graham and Krugman, Julius argues that many of the employment gains touted by proponents of FDI are jobs created at the cost of other jobs. Workers move from plant to plant, but unless there is rampant regional unemployment, total employment cannot be noticeably increased by FDI.

Relatively little research has addressed the effects of FDI on the distribution of income. An econometric study by Frank and Freeman[29] looked at the distributional effects of FDI and found that capital inflows clearly benefit U.S. workers while lowering the income of U.S. owners of capital. FDI appears to benefit workers at the expense of existing domestic companies who face intensified competition. The employees of the domestic firms, however, could lose if fresh competition from U.S. affiliates of foreign companies causes domestic firms to downsize or close. Workers employable in an industry likely to be the beneficiary of investment from foreign sources are better off with large amounts of FDI in these industries.

Broadly, FDI has produced positive outcomes for Kentucky. Foreign firms provide coveted high-wage jobs that are preferable to many of the jobs lost as a result of FDI. Moreover, workers are being trained by these foreign affiliates and developing skill levels that are likely to be more transferable. FDI also positively influences worker and firm productivity in Kentucky, both by training workers in high-skilled tasks and work systems and by offering Kentucky businesses innovative examples of management techniques. Thus, the positives of FDI appear to outweigh the negatives. We should do our best to attract more FDI to the Commonwealth.

Externalities: What are the more subtle effects of globalization? While most of the effects of globalization are fairly obvious, some of the effects are more subtle and less direct in nature. For example, Kentucky affiliates of foreign companies spend resources to train their workers. The presence of these companies, while providing the obvious benefit of employment, also adds to our human capital, endowing workers with more refined skills that are in demand in the marketplace. Just as some workers are disheartened by the failure of their companies to compete successfully, others are becoming valuable members of internationally competitive enterprises. These externalities are small relative to the more obvious and direct effects, but they help develop the capacity of our labor force and the enterprises in our economy.

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[27] Graham, E.M., Krugman, P.R. (1990). *Foreign direct investment in the United States*. Washington, DC: Institute for International Economics.

[28] Graham, E.M., Krugman, P.R. (1990). *Foreign direct investment in the United States*. Washington, DC: Institute for International Economics.

[29] Frank, R.H. and Freeman, R. (1978). *Distributional consequences of direct foreign investment*. New York: Academic Press.

Conclusion

Kentucky is already a strong participant in the global economy. International investors have recognized the value that Kentucky offers as a base for manufacturing. And we are beginning to trade more of our products in global markets. While globalization hurts some of our residents and helps others, we are no longer in a position to debate its propriety. National trade policy dictates to us that we will compete in a global economy. To fail to take up this challenge will only ensure that relative poverty will continue to define us. Thus, we should take steps at the state level to help those most hurt by globalization. Most importantly, we should continue to focus on worker education and training that will permit low-skill, low-wage workers to compete in high-skill, high-wage industries. At the same time, we need to carefully monitor the conditions of our family farms in an effort to prevent the purported benefits of free trade from eroding the viability of a valued and traditional way of living. Free trade can benefit small farmers, only if they are given the same opportunities as those open to large, corporate farmers. Globalization grants us new opportunities and challenges. People around the nation and around the world are prepared to meet those same challenges and to take advantage of our opportunities if we are not ready to do so ourselves. Like it or not, we must prepare or be left behind.

Resources

Julius, D. (1990). *Global companies and public policy: the growing challenge of foreign direct investment*. New York: Council of Foreign Relations Press.

Kane, M.J. (1990). *An assessment of the export potential of Kentucky industries: a manufacturing profile*. Lexington, KY: Kentucky World Trade Center.

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