



THOUGHT LEADERSHIP

Globalization - Technology as a Key Driver

01.01.06

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January always brings a flurry of economic commentary from the financial community, and this year many analysts and economists are mentioning globalization and its effects. Globalization as a concept began to attract attention in the late 1990s and can be defined as the integration of economic, financial and technological systems across national boundaries, with integrative cultural, social and political effects as well. From our viewpoint, the critical new dimension in globalization is not only that trade and capital movements are more integrated worldwide, which they certainly are, but that skills and information exchange have become seamlessly transferable on a global scale at very low cost through the rapidly increasing sophistication of technology. In fact, technology has become one of the most potent drivers of globalization, and it is through technology that globalization can lead to continued world economic growth and integration.

The benefits of this technology-driven globalization are enormous and will only continue to grow. Markets are no longer local or regional, nor are suppliers for either products or services. Global markets permit businesses, and even countries, to focus on their unique competitive advantages. Global markets allow access to capital, technology, cheaper imports and service providers and larger export markets. Production is more efficient and costs decline when businesses can access labor, knowledge and skills at the lowest rates. There are other important factors required as well: a level of social and political stability, transparent legal and governmental structures and a solid educational system need to be in place if a region is to participate in this new global economy. But technology is the impetus and the examples of success are growing. While there are uncertainties and dislocations that will occur as the world becomes even more integrated and interdependent, we believe the benefits will far outweigh the transitional costs.

As investors, we recognized the tremendous opportunities in this trend toward globalization since the late 1980s when we first invested in non U.S. based companies. Initially, we were driven by the needs of our portfolio companies to expand their markets and their global reach. Since then, we have been able to assist our companies to access these global markets, with the vast majority of our companies operating globally (e.g. SSA Global, Lenovo, Computershare, etc.), but also to leverage technology, knowledge and skills from non-domestic providers (e.g. iSOFT, Eclipsys, and Xchanging). Our belief in the benefits of globalization led us to be early investors in business process outsourcing backing such market leaders as Hewitt (formerly Exult) and Xchanging and in non-U.S. firms providing high quality business services such as Genpact, Patni and Jubilant.

Virtually all of our portfolio companies participate in the global economy. From GA's point of view, every senior management team and board of directors should be considering and reconsidering how their company can add value through greater participation in globalization. Those businesses that can improve corporate efficiency through global operations will find that they also positively impact local economies, as does Genpact with operations in India, China, Hungary and Mexico. Similarly, NET1 contributes by using technology to improve systems and infrastructure in developing economies in offering financial services to "unbanked" rural communities. Others such as Arca/NYSE are leading the drive toward more integrated, open and accessible global capital markets, again through the strategic use of technology. Globalization will continue to help our portfolio companies experience and capitalize on growth and opportunities, provide their products/services broadly and make a positive impact on local economies.

As globalization has progressed, most advanced countries, and others with a strong commitment to international trade and participation in the global supply chain and service economy, have seen improvements in per capita income and other broad indicators of overall well-being. Economic growth, employment and living conditions are all improved in a global economy versus a closed economy. It is through trade, improved capital flows, technology, direct investment, and targeted economic assistance that these benefits can be more broadly dispersed. Education, training, technology transfer, and research and development are critical in helping the

developing world and the developed world as they undergo transitions in light of dynamically changing economies.

The current acceleration of globalization, driven by technology, is virtually unprecedented and in our opinion will not abate. The benefits and opportunities from globalization are evident and will continue to impact developed and developing economies. We see tremendous potential for innovation and growth as key economic/business sectors are transformed through technology. We are confident that 2006 and future years will present excellent investment prospects in our sectors and regions of focus. One thing seems certain - when we think about fiscal responsibility, economic health and business opportunity, it is no longer one nation or region that demands our attention, but the world as a whole.

To discuss the thoughts in this CEO Topic or to further explore how GA can assist with global opportunities, please contact your GA team.