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Introduction to Global Business

Understanding the International Environment & Global Business Functions

3e

Gaspar • Arreola-Risa • Bierman
Smith • Kolari • Smith

Third Edition

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Julian E. Gaspar
Texas A&M University

Leonard Bierman
Texas A&M University

James W. Kolari
Texas A&M University

Antonio Arreola-Risa
Texas A&M University

Katherine T. Smith
Texas A&M University, Corpus Christi

L. Murphy Smith
Texas A&M University, Corpus Christi

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Introduction to Global Business: Understanding the International Environment & Global Business Functions, **Third Edition**
Julian E. Gaspar, Antonio Arreola-Risa, Leonard Bierman, Katherine T. Smith, James W. Kolari, and L. Murphy Smith

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Designer: Sara Greenwood

Cover Image Source: Toria/Shutterstock.com

Library of Congress Control Number: 2021951477

ISBN: 978-0-3577-1701-1

Loose-leaf Edition:
ISBN: 978-0-3577-1717-2

Cengage
200 Pier 4 Boulevard
Boston, MA 02210
USA

Printed in the United States of America
Print Number: 01 Print Year: 2022

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Preface

Business is global in nature! Understanding global business, however, involves many challenges for both instructors and students. The goal of *Introduction to Global Business* is to provide you with the keys to success that will lead to a rewarding educational experience and set the stage for pursuing a successful domestic or international business career. Any business, big or small, is fraught with risk, and unless students have a clear appreciation of the global business environment, they will be taking unnecessary risk, which could lead to failure. The global business environment is constantly changing. Studying the foundations of globalization—shift in geopolitical alliances, active role of global policy institutions, and advances in information technology—is also crucial to business success. Gaspar et al. *Introduction to Global Business*, 3e introduces comprehensively the international business environment and the associated functional tools needed to better prepare students for a career in international business affairs. The text flows smoothly and clearly from analyzing international economic and business concepts to its application, asking students to think critically before implementing their learning into real-world personal and professional applications. The purpose of this book is to introduce students to the fundamentals of globalization—and in a way that is interesting, relevant, and engaging, in the hope that they may develop the knowledge for a successful business career.

A Team of Experts Can Make a Difference

The introduction to global business course covers a lot of ground, starting with the foundations of global business, moving on to the global business environment, and ending with global business operations, strategy and management. We recognize that it is a challenge for students to understand how the complex issues of global business are interrelated, and it is a challenge for an instructor to cover all these areas with equal amounts of enthusiasm and expertise. Other introduction to global business texts are written by authors who have expertise in one, two, or three functional areas of business. One aspect that makes our book unique is our author team of six functional area experts. Our specialized author team (all with international business teaching/research experience) introduces globalization through unparalleled scholarship and world-view presentation of the fundamental pillars of the global business landscape—culture, economic development, ethics, finance, and information technology. For the past couple of years, we have met regularly on Zoom as a team to share ideas, revise and update the manuscript, examine market feedback, and make sure that we created a cohesive, comprehensive, authoritative presentation of global business that is unparalleled in the market. Helping us all the way in this process—making sure that the material is presented consistently and clearly—has been our lead author. He has taught thousands of introduction to global business students and understands the challenges and excitement they and you, the instructor, face.

Goals and Key Themes of the Book

Throughout the planning and writing of *Introduction to Global Business 3e*, we have sought and listened to the advice of instructors across the country and abroad that have taught this course and used our earlier editions for many years. We also sought student feedback to be sure that the content and assignments are appealing and relevant to them. As a result, the features of this book have been carefully designed to respond to contemporary student and instructor needs. Anyone who listens to the news and follows current business events knows that contemporary

business is global in nature, regardless where it is conducted, and is heavily influenced by changing external factors/events including supply chains, cultural diversity, economic development, enforcement of ethical standards, and advances in information technology.

Accessible, Relevant Text

Since this is an introductory business text, we have aimed to keep the narrative conversational and concise. Reviewers have commented positively about the readability of the text. We hope this text will continue to be "user-friendly" so that students will read the chapters and come to class prepared. Every aspect of *Introduction to Global Business* aims at getting the reader to think deeply and critically about the subject—the foundations and environment of global business as well as global business entry strategies and management. Our primary goal is to help the reader fully appreciate the fundamentals of global business and pursue a career—either as an entrepreneur or as an employee of international business or relations.

New to This Edition

The major differentiating factor and key features of *Introduction to Global Business*, 3rd Edition that sets it apart from others in the market are as follows:

1) We clearly identify the causes of the shift in global balance of power that is attributable to the rise of China as the next superpower and explore its global business implications.
2) We carefully analyze the domestic and global impact of the recent change in US trade policy from a global advocate of free trade to one focused on managed trade.
3) With the help of new and revised mini cases we explain how COVID-19 has impacted global business and supply chains.
4) To facilitate hybrid teaching, our end of chapter "portfolio projects" now include four questions each to enable students to work in teams of four either online or in person.
5) Our textbook chapters are relatively concise yet comprehensive and current so that all chapters can be covered within a semester.
6) Finally, the chapter content and end of chapter material are user-friendly with exciting new information that infuses diversity and inclusiveness which is fun for both the instructor and student.

Key Features of the Text

Chapter Openers

Each chapter begins with an *outline* and a list of *learning objectives* to help direct student reading. The learning objectives are repeated in each section of the chapters so that students can map their progress through the chapter. The chapter summary is also organized by the learning objectives to help students retain their focus on key concepts and issues.

Chapter Opening Vignettes

Each chapter opens with a short but interesting story—something that students can relate to easily—that corresponds to the chapter's topic. Within the chapter, reference is made to the chapter openers to connect the opening story to chapter content.

Theme Boxed Features

Each chapter also includes two boxes that deal with one of the four themes, *Culture, Economic Developments*, *Ethics,* and *Information Technology* that is relevant to that chapter. Every box concludes with questions that encourage students to think about what they have read and can lead to interesting in-class discussion.

Graphics, Color, and Real Examples

The layout of the book has been designed for clarity, with an uncluttered, sophisticated look. At the same time, this streamlined approach is enhanced with color and graphics meant to heighten interest in the topics and focus the reader's attention on the most important globalization concepts. Real-world examples are used throughout the text to show how the topic at hand has an impact on big and small businesses. The important role that culture, economics, ethics, and information technology play in the future of business should stand out because of these features.

Margin Notes

The introduction to global business course is packed with terms that may be new to students. To make this new vocabulary more accessible, all new terms appear in bold type in the chapters and are defined clearly in the text, margin notes, and the comprehensive glossary at the end of the text.

Reality Check

Each learning objective section ends with a Reality Check, questioning the impact that section's learning objective has had on the students. By bringing global business issues to a personal level, students are more likely to be engaged in the subject.

End-of-Chapter Pedagogy

The end-of-chapter pedagogy carefully reinforces the relevance of chapter content as well as the learning terminology, concepts, business environment, operations, and strategy. A menu of assignments allows instructors to choose which activities are most appropriate for their courses.

- **Chapter Summary** Each chapter summary is organized according to the learning objectives. By the time students finish going through the summary, they will have read the learning objectives at least three times and, hopefully, will know where to find the required information related to them.
- **Chapter Questions** At least one question per learning objective is assigned at the end of each chapter. The objective is to help students recall global business concepts, understand how these concepts are applied, and challenge students to use judgment when developing their answers.
- **Mini-cases** Brief case studies highlight specific companies to help bring the chapter concepts alive.
- **Point-Counterpoint** Honing in on the necessary critical thinking skills to make intelligent and ethical business decisions, the point-counterpoint provides insight into the varying perspectives of a controversial business issue and asks students to make choices and support their decisions.
- **Interpreting Global Business News** Based on typical and/or current global business news items that readers would generally find in periodicals such as *The Wall Street Journal, Financial Times, Bloomberg Businessweek, The Economist,* and so forth; students must interpret the meaning of the news items using their understanding of the material covered in that chapter.
- **Portfolio Projects** To help students build their own business portfolios, one or both of the Portfolio Projects may be assigned as individual or group activities that span the course. The objective of Exploring Your Own Case in Point is to encourage and enable each student to conduct a comprehensive analysis of a large multinational company (e.g., a Fortune 500 or Financial Times Global 500 company). Each student selects a company that is publicly traded and obtains information that is readily available on the

Web and from library sources. By answering chapter-specific questions in these sections, the student will have conducted a comprehensive analysis of the company by the end of the course. The questions in Starting Your Own Business are intended to provide each student with the opportunity to act as an entrepreneur and put together a comprehensive international business plan—the first steps in the start-up of a new enterprise. The objective here is to enable students to become successful global entrepreneurs by helping them to establish clear business goals, strategies, and methods of international operation.

Teaching and Learning Resources

MindTap: Empower Your Students

MindTap is a personalized teaching experience with relevant assignments that guide students to analyze, apply, and improve thinking, allowing you to measure skills and outcomes with ease.

- Intentional Teaching and Learning: The MindTap Learning Path is built intentionally to support student achievement of the defined learning outcomes for each chapter. Control what students see and when they see it. Use it as is or match it to your syllabus exactly—hide, rearrange, add, and create your own content.
- Guide Students: A unique Learning Path of relevant readings, multimedia, and activities that move students up Bloom's taxonomy from basic knowledge and comprehension to analysis and application.
- Promote Better Outcomes: Empowers instructors and motivates students with analytics and reports that provide a snapshot of class progress, time in course, engagement, and completion rates.

By combining readings, multimedia, activities, and assessments into a singular Learning Path, MindTap guides students through their course with ease and engagement. Instructors can personalize the Learning Path by customizing Cengage Learning resources and adding their own content via apps that integrate into the MindTap framework seamlessly with Learning Management Systems.

For Instructors

Instructor's Manual

The Instructor's Manual, available via download from the online Cengage Instructor Center, contains such elements as chapter and lecture outlines, discussion questions, activities and assignments, key terms and a listing of all the changes that are new to each chapter.

We would like to thank and acknowledge the expertise of Dr. Daria Panina, Texas A&M University, in her contribution of the text development and the authoring of this instructor's manual.

Cengage Learning Test Banks Powered by Cognero is a flexible, online system that allows you to:

- author, edit, and manage test bank content from multiple Cengage Learning solutions
- create multiple test versions in an instant
- deliver tests from your LMS, your classroom, or wherever you want

PowerPoint® presentation

The PowerPoint, available via download from the online Cengage Instructor Resource site, helps bring lectures to life with visual images, embedded activities and discussion questions and lecture points specific to each chapter.

Acknowledgments

This textbook owes a debt of gratitude to Texas A&M University's Center for International Business Education and Research (CIBER), which played an instrumental role in identifying a dedicated author team and motivating them to focus and integrate the role of four critical themes of our book in their respective chapters: cultural diversity, economic development, international business ethics, and information technology. We would also like to acknowledge support from Dean Eli Jones of Mays Business School and Executive Associate Dean Duane Ireland who provided the collegial and scholarly environment necessary to fulfill such an ambitious project.

In addition, many professors provided us with constructive criticism throughout the writing process. Also, numerous professors acted as reviewers and advisory board members, contributing ideas and comments that significantly improved the quality of our text:

David Blake
University of California-Irvine

Gary Carini
Baylor University

Kimra Coons
Webster University

Donna Davisson
Cleveland State University

Paul Dowling
University of Utah

Mark Fenton
University of Wisconsin-Stout

P. Roberto Garcia
Indiana University

Debora Gilliard
Metropolitan State College-Denver

Kurt Gleichauf
University of North Carolina-Charlotte

Robert Goldberg
Northeastern University

Andrew Gross
Cleveland State University

Yu-Feng Lee
New Mexico State University

Tomasz Lenartowicz
Florida Atlantic University

Sviatoslav Moskalev
Adelphi University

Daria Panina
Texas A&M University

Joseph Petrick
Wright State University

Christine Probett
San Diego State University

Charlie Shi
Diablo Valley College

Richard Sjolander
University of West Florida

Jon Steele
Mid-State Technical College

Miriam Thangaraj
University of Wisconsin-Madison

Sharon Toler
College of DuPage

Mindy West
Arizona State University

Finally, this book would not have been possible without the outstanding support of our team at Cengage who worked diligently to produce this quality textbook. Their attention to organization, content, graphics design, and mundane details is much appreciated by all of the authors. Specifically, we'd like to thank Michael Worls, Senior Product Manager; Courtney Wolstoncroft, Learning Designer, Meaghan Tomaso, Senior Content Developer, and Sangeetha Vijay, Production Project Manager. All helped to ensure smooth publishing process.

Introduction to Global Business
Gaspar/Arreola-Risa/Bierman/Smith/Kolari/Smith
November, 2021

About the Authors

Julian Gaspar

Dr. Julian Gaspar is Clinical Professor Emeritus of Finance with Texas A&M University's Mays Business School and an Adjunct Professor of International Business with the Catholic University of America in Washington, D.C. where he teaches International Business and International Financial Management. Prior to his recent move to Washington, D.C., Dr. Gaspar was the director of Texas A&M University's Center for International Business Education and Research (CIBER) for 30-years where he was responsible for internationalizing Mays Business School's academic programs, faculty research and outreach programs. As the director of one of America's 15 CIBER business schools, Dr. Gaspar's mission is to infuse and promote internationalization in business courses. He is the architect of institutionalizing globalization content in Mays business school curriculum through: international business course design; study abroad and exchange program implementation; and IB textbook authorship. Dr. Gaspar developed and lead study abroad programs for business students to China, Europe and India. Dr. Gaspar is an international economist by training, with three decades of expertise in country risk evaluation, project economic and financial analysis, and financial and industrial restructuring of emerging economies. His corporate experience stems from his years of work with Bank of America in Tokyo and San Francisco, where he conducted country risk assessment and researched and analyzed debt problems of developing countries. During his tenure as an international economist with the World Bank Group in Washington, DC, Dr. Gaspar analyzed investment projects in Asia and designing financial and industrial restructuring programs for Poland and Cyprus. Dr. Gaspar received his PhD in international and monetary economics from Georgetown University, an MBA from Indiana University, and a BS degree in Chemical Engineering from the University of Madras, India. Dr. Gaspar consults with the U.S. Department of State on business education reform in Central Asia and Russia as well as development projects in Africa. Dr. Gaspar is the lead author of two textbooks: Introduction to Business and Introduction to Global Business; and case studies on Russian business.

Antonio Arreola-Risa

Professor Arreola-Risa is a faculty member in the Information and Operations Management Department at Mays Business School, Texas A&M University. For several years, he was the director of the Texas A&M University's Supply Chain Consortium. He received MS and PhD degrees in Operations Management from Stanford University. Prior to joining Texas A& University, he was on the faculty at Monterrey Institute of Technology (ITESM) and the University of Washington. He started his professional career as a production and inventory control analyst at a manufacturing firm. His primary research, teaching, and consulting interests are in the following two fields: 1) production-distribution systems with emphasis on enterprise resource planning and supply chain management; 2) service operations with emphasis on health care systems management. He has taught undergraduate, masters, and doctoral courses. He has lectured in executive education programs and has consulted for companies in the U.S. and abroad including the Boeing Company, the Fred Hutchinson Cancer Research Center, Neiman Marcus, and Royal Dutch Shell. Dr. Arreola-Risa is on the CHI St. Joseph Health Board of Directors. His research can be found

in the academic journals Computers & Operations Research, Decision Sciences, European Journal of Operational Research, IIE Transactions, Management Science, Naval Research Logistics, and Production and Operations Management. He is the co-author of three other books: *Linear Programming: An Introduction to Quantitative Decision Making* (Thomson Learning Inc., 2003), *Introduction to Business* (Houghton Mifflin Company, 2006) and *Designing Supply Chains for New Product Development* (Business Expert Press, 2013).

Leonard Bierman

Leonard Bierman is a Professor of Management at Texas A&M University. He teaches classes on the political environment of business, labor relations, and negotiations, and also does research in these general areas. He is currently working on a research project with colleagues at the University of Missouri and Stanford University examining labor union organizing in the context of the COVID 19 pandemic and today's politically polarized American society. He has recently served as Speaker of the Texas A&M University Faculty Senate, and earlier in his career held various jobs in the federal government dealing with international business. More specifically, among other roles, he formerly held a top staff position at the U.S. International Trade Commission, and a sub-cabinet position during the Bush Administration dealing with international labor affairs at the U.S. Department of Labor. He also previously served as the U.S. academic representative on the NAFTA Labor Commission's Academic Advisory Board.

James W. Kolari

Professor Kolari has taught financial markets and institutions at Texas A&M University and been active in international education, consulting, and executive education. In 1994 he was awarded the JP Morgan Chase Professorship in Finance in the Mays Business School at Texas A&M University. In 1986 he was a Fulbright Scholar at the University of Helsinki and worked with the Bank of Finland and large banking organizations there. He has served as a Visiting Scholar at the Federal Reserve Bank of Chicago in 1982 and Faculty Fellow with the Mortgage Bankers Association of America, in addition to being a consultant to the U.S. Small Business Administration, American Bankers Association, Independent Bankers Association of America, U.S. Information Agency, and numerous banks and other organizations. In recent years he has worked as a Senior Research Fellow at the Swedish School of Business and Economics (Hanken), Vaasa, Finland. Previously, he served as an advisor on the North American Free Trade Agreement for the State of Texas, consultant for the Mexican government in financing technology, and member of the Academy of Sciences for Higher Education in Russia. With more than 100 articles published in refereed journals, numerous other papers and monographs, over 20 co-authored books, and more than 100 competitive papers presented at academic conferences, he ranks in the top 1-2 percent of finance scholars in the United States, according to recently published guides of research productivity among finance professors. His papers have appeared in such domestic and international journals as the Journal of Finance, Review of Financial Studies, Journal of Business, Review of Economics and Statistics, Journal of Money, Credit and Banking, Journal of Financial Research, Journal of Banking and Finance, Real Estate Economics, Journal of Economic Dynamics and Control, and the Scandinavian Journal of Economics. Papers in Russian, Finnish, Dutch, Italian, and Chinese have appeared outside of the United States. He is a co-author of leading college textbooks in commercial banking.

Katherine T. Smith

Dr. Katherine Taken Smith is an Associate Professor of Marketing at Texas A&M University-Corpus Christi. She teaches at the RELLIS campus. Her areas of interest include digital marketing and global marketing. Dr. Smith's academic record includes

numerous professional journal articles, books, conference presentations, and awards for teaching and research. Dr. Smith was named the Outstanding Author at Texas A&M University-Corpus Christi in 2018. She is on the editorial review board of five marketing journals. Her article, "Digital Marketing Strategies that Millennials Find Appealing, Motivating, or Just Annoying," is in the top ten for most read and most cited from the Journal of Strategic Marketing. She is in the top ten percent of authors on Research Gate and Social Science Research Network (SSRN) by downloaded articles. Her work is highly referenced, with over 3,000 citations per Google Scholar. She earned her DBA and MBA in Marketing from Louisiana Tech University and BBA in Marketing from the University of Louisiana at Monroe.

L. Murphy Smith

Dr. L. Murphy Smith, CPA, is a Professor of Accounting at Texas A&M University-Corpus Christi. He teaches ethics and international accounting on the RELLIS Campus. Dr. Smith's academic record includes numerous professional journal articles, research grants, books, and professional meeting presentations. His work is cited in various news media, including Fortune, USA Today, and The Wall Street Journal. He has received numerous awards for teaching and research, including the Outstanding Educator Award from the Texas Society of CPAs and the Distinguished Member Award from the Institute of Management Accountants. He is highly referenced with over 3,700 citations to his work per Google Scholar. In 2021, he was the most cited author specializing in accounting ethics and in the top ten most cited authors specializing in international accounting. He ranks in the top one percent of authors on Social Sciences Research Network (SSRN.com) by downloaded articles. During his career, he held a number of leadership positions in academic and professional organizations e.g. President of the American Accounting Association Gender Issues and Work-Life Balance Section. Dr. Smith serves on several journal editorial boards and his research has appeared in leading journals such as Accounting, Auditing & Accountability Journal, Accounting Horizons, Contemporary Accounting Research, Advances in Accounting, Issues in Accounting Education, and Research on Professional Responsibility and Ethics in Accounting.



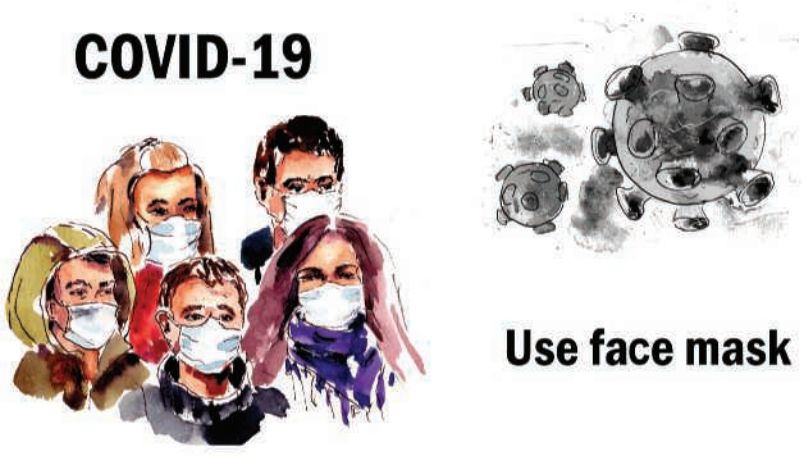
Part 1

Foundations of Global Business

1 The Rise of Globalization

After studying this chapter, you should be able to:

- **LO-1** Explain the characteristics of globalization and how it functions.
- **LO-2** Identify how major international institutions facilitate globalization.
- **LO-3** Evaluate the need for strong and transparent institutions that can adapt to global competition.
- **LO-4** Describe the key policy measures that make globalization sustainable.
- **LO-5** Describe the role of information technology in bridging the global digital divide.
- **LO-6** Describe the validity of the anti-globalization argument.
- **LO-7** Explain the case made to temporarily support those people negatively affected by globalization.



Cultural Perspective

COVID-19 Puts Globalization at Risk![1]

COVID-19 (coronavirus-2019) is a pandemic that originated from Wuhan (the capital of Hubei province), which is the most populous city in central People's Republic of China, in September 2019 and spread like wildfire across the world. It led to universal lockdown of economic and social activities that resulted in a global recession (economic slowdown leading to negative real economic growth rate) in 2020. Regardless of whether the epicenter or origin of the virus was the Wuhan Institute of Virology or the huge, busy wet market in Wuhan (the jury is out on this issue), COVID-19 spread rapidly across all continents. The virus was uniquely potent because it could be transmitted easily from human to human and could also be propelled by globalization—the process of closer cultural, economic, and social interaction and interdependence of nations in the world.

The COVID-19 disaster had a rippling global impact, with some countries relatively worse hit than others because of issues related to national governance and economic structure. Numerous countries, especially emerging economies, are still reeling from that shock in the form of partial business lockdown, triggering disruptions in world trade, capital, and labor flows and putting globalization in danger. In 1978, when China's leader Deng Xiaoping came to power, he initiated market-oriented economic reforms to propel China's growth. That resulted in China achieving an annual average real economic growth of around 10 percent for a 40-year period and moving some 400 million Chinese from poverty to the middle class—an achievement that no other country has been able to replicate. China's deregulation process made their economy more globally intertwined; their residents and corporations were able to borrow, invest, spend, and travel abroad more freely. When China's COVID-19 imploded in late 2019, international travel between China and the rest of the world continued with few restrictions because of the country's denial of the existence of the pandemic at that time. Unabated business and personal travel internationally resulted in rapid transmission of the pandemic worldwide. The World Health Organization (WHO) lost valuable time calling COVID-19 a pandemic (only in March 2020) because they were caught between trying to identify the causes of COVID-19 and analyzing its symptoms before a firm global statement of the pandemic could be made.

After rising steadily for over a decade since the global financial crisis of 2008, world trade fell drastically in 2020 as the global economy slowed down because of business lockdowns. Countries faced contracting export markets, falling commodity and export prices, vanishing trade finance, restrictions on international travel and migration flows, and a massive drop in workers' remittances. In terms of human misery and deaths, the global outcome was even direr, which largely reflected the availability and affordability of social support systems (including national health care) in countries and national/regional politics.

In 2020, COVID-19 provoked the deepest global recession since World War II, showing us how interdependent and integrated the global economy has become (see Exhibit 1.1). A close analysis of the pandemic shows how diverse countries in different regions of the world reacted and performed. The rich, developed economies of Europe,

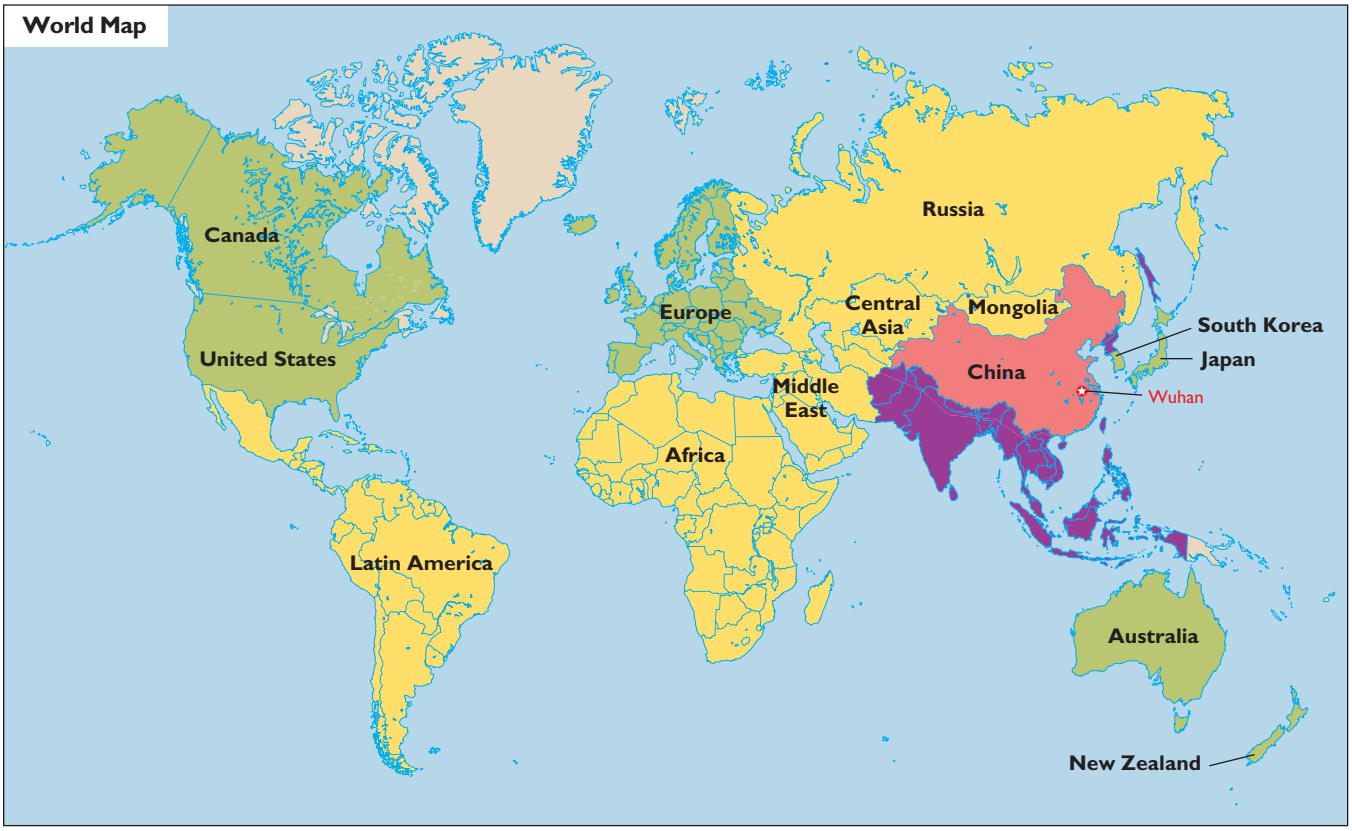
Japan, South Korea, and the United States, for example, reacted by implementing huge federal government spending programs like cash transfers to employees and employers alike (Paycheck Protection Program, increased unemployment benefits, housing rental support, etc.) and central bank expansionary monetary policies (maintaining interest rates at extremely low levels). The result was double-digit fiscal deficits, ballooning federal debt and incipient inflationary pressures on the one hand and a slow return to economic growth on the other. However, mixed signals from the rich world's politicians, policy makers, and bureaucrats on the efficacy and rollout of COVID-19 vaccines, coupled with a general lack of legal mandate to vaccinate all residents, led to partial lockdowns on and off in these countries, thereby moderating their economic growth prospects.

Commodity exporters (of food grains, minerals including oil and gas, etc.) in much of Africa, Latin America, and the Middle East saw export prices and volumes drop. Lockdown in various sectors of their economy continued, as many countries were unable or unwilling to provide direct cash transfers to their people and help break the link between job losses and consumer spending to keep their economies growing. Instead, government spending was belatedly focused on underfunded health care systems. Brazil did provide emergency support for the low income citizens initially that brought down poverty. But a second wave of the pandemic gripped the country because of the general lack of political seriousness toward handling the pandemic and insufficient supply of vaccines. Pandemic deaths are on the rise again in much of Latin America, especially because some 43 percent of total employment is in "contact-intensive" sectors such as restaurants, retailing, or public transportation.

Apart from being the world's largest and most diverse continent, Asia is the home of the world's three largest economies (excluding the United States), namely, China, India, and Japan. While China was the epicenter of COVID-19, the severe economic lockdown and stern implementation of social distancing, vaccination (Sinovac and Sinopharm), and related social protocols brought the country's pandemic effects under almost complete control. Their economy is poised to show the fastest growth in 2021 of any major economy, thereby providing a boost to global commodity prices. India initially reacted swiftly with stringent economic lockdown when the first wave of the pandemic hit the country. The economy slowed down, and when the pandemic was perceived to have been brought under control, complacency set in with residents showing little regard to social distancing and exhibiting lax attitude toward vaccines (the Serum Institute of India is the world's largest vaccine manufacturer!) and wearing face masks. Large, unprotected gatherings at religious and political events in India's democracy (the world's largest) compounded the problem and created the worst COVID-19 outbreak ever, with an uncertain economic outlook. Because of globalization, India's neighboring states in South and Southeast Asia are next in line to witness a new wave of COVID-19.

In the wake of COVID-19, there was great concern that government policy makers worldwide may resort to nationalist or protectionist actions to shelter domestic companies by curtailing world trade and investment and using pandemic-induced global supply chain disruptions as an excuse to bring the globalization process to a halt. However, as most of us know, economic resilience comes from openness, availability of diverse sources of supply, and constant private sector adaptation to external shocks. Given time, global firms will adjust to long-term threats, including the effects of climate change by altering how, when, and where to make new investments to maximize stakeholder wealth and propel economic growth. Globalization is the work of decades and is here to stay.

Exhibit 1.1 World Map



COVID-19 Puts Globalization at Risk

Source: "Post-Covid Economies: A Long Way Down," The Economist, May 15, 2021, pp. 27–28.

Introduction

The opening vignette illustrates clearly that we live in a highly integrated and interdependent world. The pandemic had universal impact not only on residents of the country of its origin—the People's Republic of China—but also on residents of the rest of the world, including the rich economies of Europe, Japan, South Korea, and the United States; commodity exporters of Africa, Central Asia, Latin America, Russia, and the Middle East; and the emerging economies of South and Southeast Asia. Business has become increasingly global in nature, so the success of businesses—big and small—depends not only on the domestic economic environment but also on developments abroad.

globalization
the socioeconomic reform process of eliminating trade, investment, information technology, and cultural and political barriers across countries, which in turn can lead to increased economic growth and geopolitical integration and interdependence among nations of the world

1-1 What Is Globalization?

LO-1
Explain the characteristics of globalization and how it operates.

Globalization encompasses the socioeconomic *reform process* of eliminating trade, investment, information technology, and cultural and political barriers across countries, which could lead to increased economic growth and geopolitical integration and interdependence among nations of the world. Details will be discussed in the remainder of this chapter.

Consider a real-world situation. Imagine sitting and relaxing on a leather couch in your house or apartment, sipping a cup of hot coffee or tea, and watching a television show on the Discovery Channel. Chances are high that the leather couch you are seated on was made

in Italy, the cup was made by Corning of the United States, the coffee came from Colombia but was processed by Nestlé of Switzerland, or the tea came from India and was processed by Lipton's of the United Kingdom, the Sony television was manufactured in Japan, and the Discovery Channel program was broadcast live from Masai Mara in Kenya. Perhaps the clothes that you may be wearing are from China.

This cultural lifestyle has been made possible by certain key aspects of globalization: the elimination of barriers to trade, investment, culture, and information technology that separate countries. It also reflects the growing integration and interdependence among people, communities, and economies around the world. Globalization has made it possible for goods, services, capital, technology, and cultures to cross national borders.

News media may give you the impression that globalization has only been a relatively recent phenomenon, but that is not the case. The fundamental basis of globalization represents freer international trade and investment or the free flow of goods and services (including cultural and belief systems) between countries. Thus, globalization and international trade and investment are interlinked. However, globalization reaches further. It includes a process of integrating the nations of the world so that they become more economically efficient, interdependent, and perhaps relatively more inclusive and homogeneous. That process has been based upon changes in national policies that aim to promote private enterprise and reduce or eliminate economic, cultural, and social barriers between countries. These policies could include moving toward strengthening the role of the private sector; supporting free-market pricing; eliminating international barriers to free movement of goods, services, capital, labor, and information technology; and promoting institutions that enforce transparency, disclosure, and the rule of law. Therefore, the actions taken by one country could affect others.

For example, the dawn of globalization can be traced back to the 15th century, when the Portuguese navigator and explorer Vasco da Gama made voyages to Kerala State, on India's west coast, in search of spices to satisfy European palates. At about the same time, Arab and Chinese traders were making similar voyages to trade in spices and silk. Goods, people, and ideas have been traveling around the globe ever since that time. More recently, however, globalization began to *accelerate* after World War II, beginning in 1944 with the creation and implementation of free-market and open trade policies advocated by such international institutions as the World Bank, the International Monetary Fund (IMF), and, a few years later, the General Agreement on Tariffs and Trade (GATT), now called the World Trade Organization (WTO). While most ascertain that globalization can be

International business team connecting online for networking utilizing global job outsourcing and telecommunications systems

good for society as a whole, much of its value depends upon how the "rules of the game" are implemented: fair trade, flexible exchange rates, open foreign investment policies, and harnessing the Internet (including social media outlets such as Facebook), for example, all can influence the results. These changes could bring about "openness, accessibility, accountability, connectivity, democracy, and decentralization"—all the "soft" qualities essential to globalization. Yet, globalization does create "winners" and "losers."

1-1a Emerging Economies

Emerging economies are countries that are implementing economic reform policies to propel growth through more open trade and free markets. Prior to 2000, globalization generally implied that business expanded from developed or industrialized countries to developing or emerging economies. When the global financial crisis took hold in 2009 (originated as the American Credit Crisis when the investment bank Lehman Brothers declared bankruptcy in September 2008), however, the flow of business had moved in both directions, and also increasingly from one developing country to another. For example, according to the World Bank,[2] the value of merchandise exports between South Asia and East Asia increased at an average annual rate of 8 percent between 2009 and 2019, because of lowering of tariff and nontariff barriers within the region, while exports to high-income importers like Japan, Europe, and the United States grew by 1.9 percent only over that same period. Also, China's exports to East Asia and South Asia grew by 12.4 and 9.6 percent, respectively, over the same period, whereas exports to high-income importers grew by only 4.6 percent. This increase led to much faster economic growth rates in Asia's emerging economies than in their Western counterparts, and this growth could continue for a good while. Nowadays, business centers around "competing with everyone from everywhere for everything," according to the Boston Consulting Group.

PricewaterhouseCoopers (PwC), one of the four largest global auditing firms (the others are Deloitte, Ernst & Young, and KPMG), provides an interesting and thought-provoking video titled "The World in 2050," which provides their image of the future by ranking what they believe will be the world's 10 largest economies (ranking by the size of nominal gross domestic product [GDP]) that will shape the future. PwC compares the current ranking of the top 10 economies to the anticipated top 10 of 2050 and identifies the key economic drivers of the transformation. Exhibit 1.2 provides a snapshot of PwC's "World in 2050." The key takeaway is the anticipated shift in the *global balance of power*, especially economic and business power, as it moves from the United States to China—something that we are already witnessing today.

The pre-pandemic decade has been to a large degree the success story of emerging economies. There has been a sharp increase in the number of emerging market companies acquiring established businesses and brands in Europe and the United States (e.g., Tata-Corus, Mittal-Arcelor, and Lenovo-IBM), clearly demonstrating that "globalization" will no longer simply be another word for "Westernization" or "Americanization."

The world's center of economic gravity is shifting toward emerging economies, especially China. Purchase a mobile phone or laptop computer, and you will find that it was most likely made in China. Call a customer service helpline for computer service, and personnel outside the United States may answer the call. Emerging economies are no longer sources of inexpensive labor; they are becoming hotbeds of innovation in diverse fields, such as telecommunications, automobile manufacturing, biotechnology, and health care. Increasingly, more research and development (R&D expenditure as a percentage of GDP) has recently been conducted in emerging economies than in the United States.

Companies in emerging economies are redesigning products without sacrificing quality to reduce costs—not by 10 to 20 percent but up to 90 percent, such as a no-frills car for $3,000 (the Tata "Nano") and $300 laptop computers from China's Lenovo. This comes as good news

emerging economies
countries that are implementing more open trade and free-market policies

Exhibit 1.2 Image of the Future: The World's 10-Largest Economies in 2050[1]

Ranking Based on Nominal GDP (U.S. dollars)
Reflecting a Shift in Global Balance of Power

Current (2021) Rank	2050 Rank	Country	National Currency	2050 Nominal GDP ($ trillions)	Key Economic Drivers
2	1	China	yuan	50.0	Population, natural resources, technology, state capitalism
1	2	United States	dollar	34.0	Natural resources, technology leader, high-income population
7	3	India	rupee	28.0	Young population, productivity growth, large domestic market
	4	Indonesia	rupiah	7.3	Natural resources, population, productivity
3	5	Japan	yen	6.8	High income but aging population, technology leader
9	6	Brazil	real	6.5	Sizable population, large stock of natural resources
4	7	Germany	euro	6.1	Strong industrial growth w/technology, export machine
	8	Mexico	peso	5.6	Close link to the United States, growing productivity and population
6	9	U.K.	pound	5.4	Strong ties to the United States, 1.2 yet 50% of trade is with the EU
	10	Russia	ruble	5.1	Huge landmass with valuable natural resources and technology
5		France	euro		
8		Italy	euro		
10		Canada	dollar		

[1] PricewaterhouseCoopers, "World in 2050," https://www.youtube.com/watch?v=DYu9ewnJcjg

Exhibit 1.3 Strategic Competitors 2030

World's 10 Largest Economies: PPP* Basis (US$2019)

	Country	PPP GNI (billions) 2019	Real GNI Growth 2019–2030 p.a. est.	PPP GNI (billions) 2030	Population (millions) 2019	Population Growth Rate 2019–2030	Population (million) 2030	PPP GNI per Capita ($) 2019	PPP GNI per Capita ($) 2030
1	China	23,468	6.00%	44,549	1,331	0.6%	1421.5	16,790	31,339
2	United States	21,690	2.20%	27,556	328	0.9%	362.0	66,080	76,128
3	India	9,456	7.00%	19,903	1,366	1.2%	1557.5	6,920	12,779
4	Japan	5,704	1.50%	6,719	126	−0.3%	121.9	45,180	55,117
5	Germany	4,913	2.00%	6,109	83	−0.3%	80.3	59,090	76,072
6	Russia	4,294	5.00%	7,344	144	−0.3%	139.3	28,270	52,715
7	France	3,491	2.00%	4,341	67	0.3%	69.2	52,050	62,685
8	U.K.	3,278	2.00%	4,076	67	0.5%	70.8	49,040	57,585
9	Indonesia	3,238	5.00%	5,538	271	1.2%	308.5	11,970	17,949
10	Brazil	3,143	5.00%	5,376	211	0.7%	227.8	14,890	23,595
	European Union (27)	21,418	2.00%	26,631	448	0.30%	462.7	47,840	57,555
	World TOTAL	136,001	2.70%	182,313	7,674	1.10%	8655.3	17,722	21,064

* Note: PPP conversion factor is the number of units of a country's currency that is required to buy the same amount of goods and services in the domestic market that a U.S. dollar would buy in the United States.

Source: The World Bank, *World Development Indicators*, www.wdi.worldbank.org/table; Table WV.1 Size of the Economy; Updated 02/17/2021.

for the billions of people who live in emerging economies. But cheaper goods and services will help industrialized countries' consumers as well, especially because these consumers are likely to face years of slow income growth, as shown in Exhibit 1.3. Innovation in emerging economies will enrich rather than hinder innovation in rich countries.

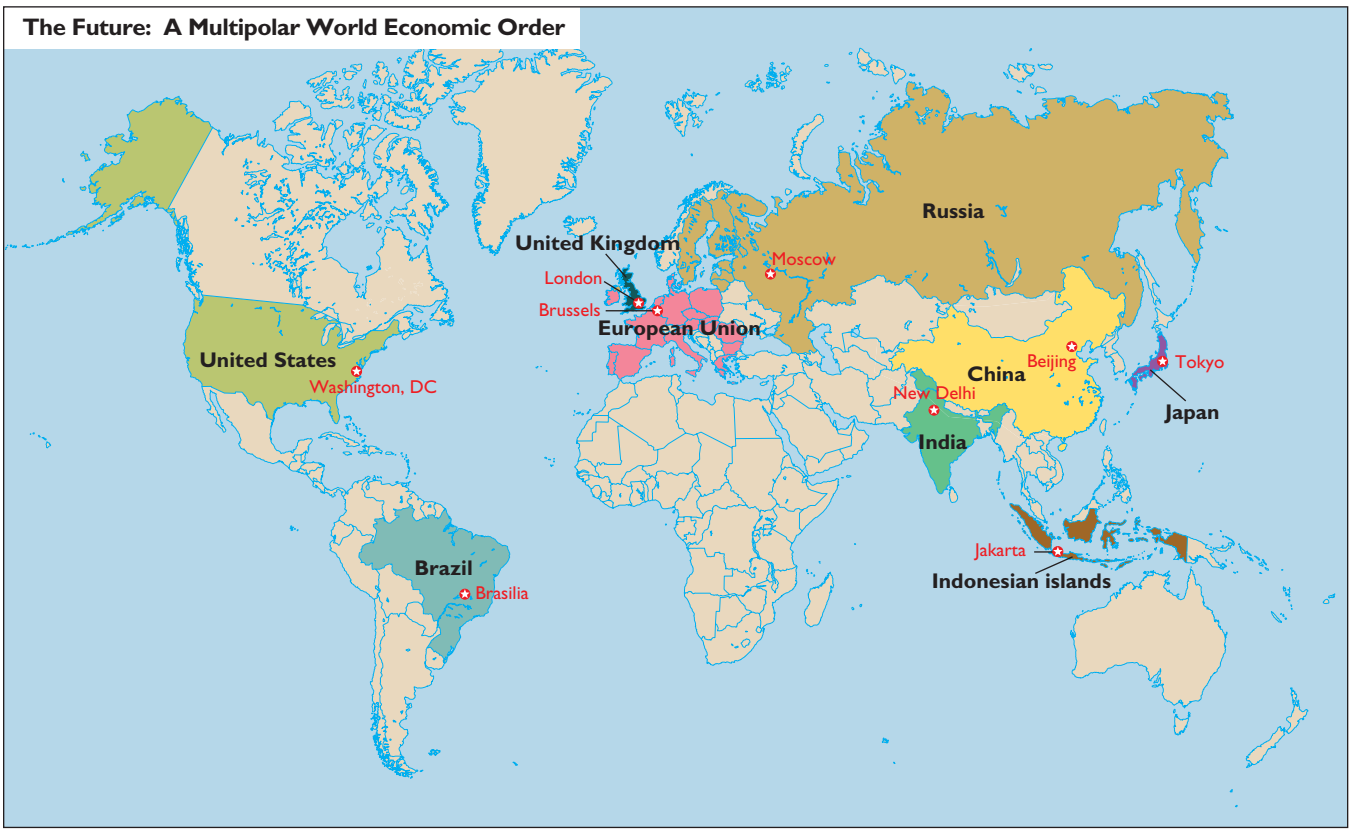
1-1b Decoupling and the Move to a Multipolar World Economic Order[3]

In the past, the developing world has generally been perceived as a drag on global economic growth. However, recent evidence shows that the developing world, especially the emerging economies of Asia, could instigate worldwide growth in the future as all countries try to recover from the global COVID-19 pandemic. While many Western populations are becoming increasingly wary of globalization, evidence of this in Asia has not been noted. Indeed, most Asian countries welcome globalization as a means to enhance their business and economic growth. Despite fears that they could be among the leading victims of the global pandemic, emerging economies like Brazil, China, India, and Indonesia are likely to overcome this transitory tragedy and grow strongly by an average of more than 5 percent a year during the rest of this decade, while advanced countries of Europe, the United States, and Japan are anticipated to grow by an average of 2 percent.

PwC believes that while the U.S. economy has solid fundamentals and has generally powered strong rebounds from global downturns, the future could be significantly different. Economic data for robust emerging economies, such as Brazil, China, India, and Indonesia, stand in sharp contrast to the outlook for Europe, Japan, and the United States, suggesting that the once-popular, then much-derided theory of "decoupling" between emerging economies and the developed world may be valid.

decoupling
a fundamental global shift in which industrialized country-dependent developing economies begin to grow based on their own underlying economic strengths rather than the ups and downs of the world's richest countries

Exhibit 1.4 A Multipolar World Economic Order



Economic Perspectives

Asia: Enhancing Regional Trade Dependency and Domestic Consumption

The rapid economic advances witnessed by East and South Asian economies after the global financial crisis of 2008 were fueled largely by those countries' emphasis on liberalized regional trade and domestic consumption. To a great extent, the recent high-level growth of BRIIC countries can also be attributed especially to merchandise exports from China, services exports from India, and raw material (minerals and crude oil) exports from Brazil, Indonesia, and Russia. Yet, these countries have also been reforming their large domestic economies by making them relatively more open and market oriented. The 2008 global financial crisis showed that countries that pursued a pure "export-led" growth policy could find difficulty sustaining economic expansion during periods of external shock.

A few lessons, especially for developing countries, are becoming clear. First, with the ongoing decoupling of the global economy, it seems imperative that export-oriented nations diversify their markets to include major emerging economies like BRIICs. Second, countries emphasizing exports should base their strategy on their true competitive advantages and not subsidize the export sector directly or indirectly (such as keeping their currency weak). Governments that maintain a weak currency policy not only unfairly subsidize exports but also implicitly tax imports, thereby contributing to domestic inflation and worsening consumer welfare nationally. Third, for countries with large populations, the size of the domestic market (especially the size and per capita income growth of that country's middle class) remains most important. Large domestic populations with rising incomes act as a built-in stabilizer during periods of external downturns. For example, the economies of China, India, and Indonesia performed well despite the global financial crisis. Fourth, overindulgence (living on credit) can lead to disaster. Consumers need to live within their means, corporations should not overleverage themselves, and governments must keep their budget deficits under control. Finally, countries' financial sectors—banking and capital markets that are the heart of an economy—need to be adequately regulated and supervised to prevent the excessive risk taking that can lead to economic crisis.

Globalization has its merits, but it also requires participants to play by the rules of the game and avoid excessive risk taking, as it could send the global economy into a tailspin.[4]

True/False Questions:

1) Because of East Asian economies' excessive dependence on export-led economic growth, the aftereffects of the global financial crisis was a rapid decline in East Asian exports and economic growth slowed down. True or False? *Answer: False*

2) China and India have a large growing middle-income class with strong appetites for the consumption of domestic goods and services as well as of imports. True or False? *Answer: True*

3) The 2008 financial crisis had a negative impact on China, India, and Indonesia because those countries had diversified their trading partners and had large domestic markets. True or False? *Answer: False*

4) Countries that try to keep their currencies weak may increase exports in the short run but at the expense of high import costs that could lead to rising inflation. True or False? *Answer: True*

Questions:

1) What will countries need to do if they want to achieve sustainable growth if they are currently following a purely "export-led" growth strategy?

2) What are some of the major lessons learned by countries to better prepare themselves for the next global economic crisis?

Decoupling refers to a fundamental global shift in which developing economies that were once dependent upon industrialized countries for economic advancement begin to solidly grow based on their own underlying economic strengths and consumption rather than the ups and downs of the world's 37 richest countries that make up the OECD (Paris-based Organization for Economic Cooperation and Development that accounts for roughly 60 percent of the world economic output in nominal terms).

To see how decoupling works, remember that the middle class in any country is the crucial economic segment of that nation, because it provides the major consumption of goods and services, savings (hence investment), and government tax revenues. The current fundamental shift in BRIIC (the emerging economies of Brazil, Russia, India, Indonesia, and China) economies has been the growing size and income levels of the middle class. For example, the size of the middle class in China and India has been estimated at nearly China's to 600 million and India's to 500 million, respectively, and continues to grow. Furthermore, China and India each have a sizable world-class technical labor force and high savings and/or investment rates that help contribute to their rising productivity and relatively rapid economic growth. These countries provide high potential for decoupling, which could lead to more stable global economic growth with less correlated business cyclicality.

A sustainable decoupling process would eventually lead to a **multipolar world**—a world economy in which the engines of growth (as predicted by PwC) could comprise the United States, the European Union, Japan, and the emerging economies of China, India, Indonesia, Brazil, Mexico, and Russia rather than the United States alone! In the medium term, the move is toward a bipolar world with China and the United States leading the global economy with very distinct economic and geopolitical ideologies: one world with two systems. Exhibit 1.2 and Exhibit 1.3 illustrate what the multipolar world may look like based on PwC and the author's estimates. The final outcome could be a more stable global economic order.

Reality Check LO-1

How have job opportunities for business majors from your school been affected by globalization? Identify specific trends or challenges.

1-2 Key International Institutions That Facilitate Globalization

LO-2
Identify how major international institutions facilitate globalization.

Globalization is not a new phenomenon. Yet, it also has broader cultural, political, and environmental dimensions. Globalization has progressed throughout the course of recorded history although not in a sustained fashion as it has since the late 1940s. Although globalization is here to stay, at what pace will it continue?

Here we will discuss three important institutions that will continue to guide the future direction of globalization. But the crucial role of another important entity—sovereign governments—should not be overlooked. Governments still have the power to erect significant obstacles to globalization, ranging from protectionist policies to ignoring environmental standards to immigration restrictions to military hostilities. Nearly a century ago, the global economy operated in a relatively open environment, with goods, services, and people able to move across borders with comparatively little difficulty. That openness began to wither away with the onset of World War I in 1914, followed by the Great Depression in the late 1920s through the 1930s, and World War II that ended in 1945. The interwar period was chaotic as countries did not follow open trade rules. A recovery of globalization that was lost during that time still affects society today. Since World War II, governments in the free world have recognized the importance of international cooperation and coordination that has led to the emergence of three major international organizations and financial institutions, namely, the IMF, the World Bank, and the present WTO, which play a critical role in the globalization process. We will now discuss the origins of these institutions, their functions, and their role in globalization.

multipolar world
a world economy in which the engines of growth could comprise several major industrialized and emerging economies, such as the United States, the European Union, China, India, Brazil, Russia, and South Africa rather than the United States alone

1-2a The International Monetary Fund

During the Great Depression of the 1930s, countries attempted to boost their failing economies by implementing nationalist or protectionist trade policies: sharply raising trade barriers, weakening their currencies to compete against one another for export markets, and curtailing their citizens' freedom to hold foreign currencies. These attempts proved to be self-defeating. World trade declined sharply, and employment and living standards fell in many countries. This breakdown in international cooperation led the IMF founders to plan an institution charged with overseeing the **international monetary system**—the global system of exchange rates and international payments that enables countries and their citizens to buy goods and services from one another. The new institution's mission was to ensure stable national currencies and encourage its members to eliminate foreign exchange restrictions that hinder trade.

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A typical IMF Board Meeting includes discussing the right economic policy reforms for countries.

The IMF was conceived in July 1944, shortly after the surrender of the Axis powers in World War II, when representatives of 44 countries met in Bretton Woods, New Hampshire in the United States, and agreed upon a framework for international economic cooperation. They believed that a framework was necessary to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression. The IMF came into formal existence in December 1945, when the first 29 member countries signed its Articles of Agreement. It began operations on March 1, 1947, in Washington, DC. IMF membership began to expand in the late 1950s and the 1960s as many African nations, formerly European colonies, became independent and applied for membership.

1-2a-(i) The IMF and Globalization As of October 21, 2020, 190 countries were members of the IMF, a part of the United Nations family of 193, which is the world's largest intergovernmental organization. This near-global membership means that the IMF has been uniquely placed to help its member governments take advantage of the opportunities—and manage the challenges—posed by globalization. The IMF tracks global economic trends and performance, alerts its member countries when it sees problems on the horizon, provides a forum for economic policy dialog, and disseminates information to governments on how to implement **economic reforms** to meet global challenges. Marked by massive movements of global capital and abrupt shifts in countries' comparative advantage, globalization affects countries' choices in many areas, including labor, trade, environment, and tax policies. Helping countries enjoy globalization's benefits while minimizing its downsides has been an important task for the IMF.[5] In many ways the IMF's main purpose—to provide global financial stability—has remained the same today as it was when the organization was first established. More specifically, the IMF continues to:

- Provide a forum for cooperation on international monetary problems;
- Facilitate the sustainable growth of international trade, thus promoting job creation, economic growth, and poverty reduction;

international monetary system
the system of exchange rates and international payments that enables countries and their citizens to purchase goods and services from one another

economic reforms
economic policy changes that promote private sector development, competitive markets, market pricing, freer trade, and deregulation

- Promote exchange rate stability and an open system of international payments; and
- Lend countries foreign exchange when needed, on a temporary basis and under adequate safeguards, to help address balance of payment problems (discussed in greater detail in Chapter 4).

The IMF recognizes the fact that the benefits of globalization are not without risks—such as those arising from the 2008 global credit crisis. The IMF works with countries to help them manage or reduce these risks through economic analysis and policy advice and through technical assistance in areas such as macroeconomic policy reforms, financial sector sustainability, and exchange rate management.

1-2b The World Bank

Like its sister institution, the IMF, the World Bank was conceived at the Bretton Woods Conference in 1944. The World Bank's initial primary role was to aid the reconstruction of Europe after World War II; its first loan of $250 million was to France in 1947 for postwar reconstruction. Today, reconstructing and restructuring economies to make them efficient remain a major role of the Bank, along with poverty reduction. Also headquartered in Washington, DC, the Bank has become a bigger, broader, and far more complex organization than it was at its inception with the same membership countries as the IMF. Now called the World Bank Group, it encompasses five closely associated developmental institutions, presented in Table 1.1 by function.

1-2b-(i) The World Bank and Globalization The World Bank sees globalization as an opportunity to reach global solutions to national challenges.[6] Concern for the natural environment coupled with the need for sustainable economic growth and development in developing countries has been embedded in the Bank's work. As part of the Bank's Strategic Framework, there are five focus areas that accommodate and facilitate the globalization process.

First, trade expansion has been a leading factor in global integration, especially since the early 1970s. Several developing countries have participated in trade liberalization, but the gains from trade have been uneven, with Asian economies moving fast, while Africa in general has been less able to capitalize on world trade growth.

Second, the Bank's analytical and advisory role has been essential; supporting national policies to strengthen free-market institutions and infrastructure has provided the potential for creating large gains from trade.

Table 1.1 The World Bank Group's Developmental Institutions

International Bank for Reconstruction and Development (IBRD)	Supports reconstruction and restructuring of member countries using funds raised in international capital markets
International Development Association (IDA)	Provides long-term low-interest social sector and infrastructure loans to the poorest members using foreign aid funds provided by the rich nation members
International Finance Corporation (IFC)	Provides loans and takes equity position in private companies of developing countries and works toward developing **capital markets** in those economies
Multilateral Investment Guarantee Agency (MIGA)	Provides political risk coverage for private investments made in developing countries
International Center for the Settlement of Investment Disputes (ICSID)	Works on issues related to foreign investment disputes

capital markets
a stock exchange where long-term financial instruments such as stocks and bonds can be issued, bought and sold

Third, the financial crises of 1997–1998 and 2008–2009 instigated broad agreements in the Bank that support international standards, especially in financial systems that are a necessary foundation in a global economy. The Bank participates in various forums with the IMF and other financial institutions to strengthen financial sectors (banking and capital markets) of member countries.

Fourth, the Bank considers its role as a knowledge and information technology transfer agent to developing countries as the engine for sustainable development. The Bank's work in bridging the digital divide has been aimed at speeding the globalization process.

Finally, the Bank focuses on eradicating communicable diseases without neglecting the importance of cultural heritage in a shrinking, globalized world. As noted in the opening vignette, COVID-19 pandemic has taken a drastic human toll, with the economic and social impacts reverberating globally. Through a combination of new projects, restructuring emergency components of existing projects, and deployment of disaster finance instruments, the World Bank Group targeted its response in four key areas: (1) saving lives threatened by the pandemic, (2) protecting the poor and vulnerable, (3) helping save jobs and businesses, and (4) working to build a more resilient recovery. These priorities are outlined in their operational approach to the COVID-19 crisis, entitled *Saving Lives, Scaling-up Impact and Getting Back on Track*.[7]

1-2c The World Trade Organization

The WTO commenced operation on January 1, 1995, but its trading system (which sets world trade rules) began in 1948 under the GATT. Whereas GATT primarily focused on merchandise trade liberalization, the WTO and its agreements now cover trade in agriculture, services, inventions, and intellectual property. GATT's **liberalization of the trading system** (lowering and/or removing trade barriers such as tariffs, quotas, and subsidies) was developed through a series of trade negotiations, or "rounds." The first of eight GATT rounds primarily dealt with tariff reductions, but later negotiations included other areas, such as anti-dumping and nontariff measures.

Lowering trade barriers has been one of the simplest ways to encourage trade and globalization. The barriers concerned include custom duties (or tariffs) and measures, such as import bans or quotas, that selectively restrict quantities. From time to time, other issues, such as deregulation and exchange rate policies, have also been discussed. Because of trade liberalization, there has been an exceptional increase in world trade, and merchandise exports have grown by an average of 6 percent annually since 1950. The eighth and last GATT round—the 1986–1994 Uruguay Round—led to the creation of WTO.

The WTO, based in Geneva, Switzerland, has no branch offices anywhere else in the world. Its 164 member nations (as of July 29, 2016) account for more than 97 percent of world trade in goods and services. Another 25 countries are in the process of negotiating membership to join the organization. Simply put, the WTO addresses the rules of trade between nations at a near-global membership level. But more than that, the WTO has been an organization for liberalizing trade, a forum for governments to negotiate trade agreements, and a place for member governments to settle trade disputes. It operates a global system of trade rules.

1-2c-(i) The WTO and Globalization The WTO's overriding objective helps global trade to flow smoothly, freely, fairly, and predictably. It does this by:

liberalization of the trading system
lowering and/or removing trade barriers such as tariffs, quotas, and subsidies

- Administering trade agreements
- Acting as a forum for trade negotiations
- Settling trade disputes
- Reviewing national trade policies

- Assisting developing countries with trade policy issues, through technical assistance and training programs
- Cooperating with other international organizations like the IMF and World Bank[8]

At the heart of the system—known as the multilateral trading system—are the WTO's agreements, negotiated and signed by a large majority of the world's trading nations and ratified in their parliaments. These agreements lay the legal ground rules for international commerce. Essentially, they are contracts that guarantee member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to every member's benefit. WTO agreements are lengthy, complex legal texts covering a wide range of activities including agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more.

A number of simple, fundamental principles run throughout all these documents; the following five principles are the foundation of the multilateral trading system.

- Trade without discrimination: Member countries should not discriminate between their trading partners (giving them equally "most favored nation" or MFN status); member countries should not discriminate between their foreign products and services.
- Freer trade: Gradually removing trade barriers through negotiations.
- Predictability: Foreign companies, investors, and governments should be confident that trade barriers (including tariff and nontariff barriers) will not be raised arbitrarily; tariff rates and market-opening commitments are "bound" in the WTO.
- Promoting fair competition: Discouraging "unfair" practices, such as export subsidies and dumping products in the export market below cost.
- Encouraging economic reforms in developing countries: Giving emerging economies more time to adjust to a free-trade environment, greater flexibility, and special privileges to meet WTO requirements.[9]

In 2000, new trade reform talks started on agriculture and services. However, progress has been slow. Emerging economies, especially Brazil, China, and India, have made it clear that further liberalization in the industrial sector will not proceed unless the European Union, Japan, and the United States drastically cut their huge agricultural subsidies. The concept of curtailing agricultural subsidies in developed economies was incorporated into the ninth (most recent) round to trade negotiations called the "Doha Round" or Doha Development Agenda (DDA), which was launched in Qatar in November 2001.

Reality Check LO-2

What is the status of the Doha Round of trade negotiations? Identify the key stumbling block of this trade negotiation, and describe its impact on globalization.

1-3 Institutional Structure and Its Impact on Globalization[10]

LO-3

Evaluate the need for strong and transparent national institutions that can adapt to global competition.

As discussed earlier, most countries cooperate multilaterally on important global economic issues through membership in the IMF, the World Bank, and the WTO. These three organizations address a very wide range of international economic concerns, but they were not designed to be all-encompassing.[11] There are several key challenges that require national attention.

These include building institutions that support (1) a democratic system of government, (2) free markets, (3) an independent judiciary, and (4) a free press. As an institution, an independent judiciary is paramount for interpreting the rule of law, with courts enforcing the laws, and a free press that can be important for promoting transparency of business practices. The need for such national institutions must be addressed for globalization to be sustainable.

1-3a What Is Institutional Structure?

In business, when we speak of **institutions**, we mean the rules, enforcement mechanisms, and organizations that support market transactions. Institutions help transmit information, enforce contracts and property rights, and promote market competition across extremely diverse developed and developing countries. Building effective institutions takes time and results from a cumulative process.[12] Within each country, institution building may stall or reverse over time because of political conflicts or economic, social, and cultural conditions. Merely establishing institutions will not be enough: they must be effective, and officials as well as people must want to use them ethically. Successful institutions play three important roles: they channel information about market conditions, goods, services, and participants; they define property rights and contracts, determining who gets what and when; and they promote competition and innovation in markets.

1-3b Transparency of Political Institutions

Many people believe that globalization only addresses economics, information technology, and business culture. But, before markets, modems, and manufacturers can work, appropriate political systems must also be in place. The foundations of the globalized business world are political—and so are the biggest threats to the system.[13] Technocrats, especially in the Americas, Asia, and Europe, are struggling to convince their citizens that globalization does not just benefit the rich. If these technocrats are unable to successfully convey the nationwide benefits of globalization in any of the 10 major world economies listed in Exhibit 1.3, then globalization could unravel.

institutions
the rules, enforcement mechanisms, and organizations that support market transactions

The political change that accelerated the globalization process in the recent past took place during a relatively short period (1978–1991). It started in 1978 with China moving away from Maoism to market reforms, followed by Thatcherism in 1979 in the United Kingdom, Reaganomics in 1980, the creation of the European Union in the mid-1980s, and the 1989 collapse of the Berlin wall and the Soviet Union. Finally in 1991, when India faced a balance of payments crisis, through IMF support, it was forced to dismantle bureaucratic regulation and protectionism that had hobbled its economy for decades. Thus, in a span of less than 13 years, the political elites in the world's major power centers came to similar conclusions. They embraced globalization and a move toward free-market economics.

The WTO is responsible for interpreting trade laws and resolving dispute by member countries.

Yet, in all these countries, it appears that the poor have suffered as a result of globalization due to increased global competition and decreased subsidies for basic items, such as cooking fuels and food. The World Bank encourages political institutions and leaders to be transparent and convince their constituents that while globalization does create "winners" and "losers," appropriate policies will be in place to retrain and

uplift the downtrodden. Otherwise, the Bank believes that social unrest will rise, leading to political instability and ineffective and inconsistent economic policies. This, in turn, will wreak havoc on markets, and the benefits of globalization will be stalled. Political stability has been greatest among long-standing democracies.

1-3c Adaptive Institutions to Strengthen Public Participation

Adaptive institutions are government organizations that create strong incentives for private investment and operate under a system of checks and balances that function best in a democratic system of government. Here, **accountability** and **transparency** emerge as key factors for institutional reform that promotes political stability, sustainable economic growth, and globalization. The potential for social unrest, such as insurgency and violent strikes, recedes in these societies because civil liberties, political and human rights, and opportunities for citizens to select and influence a government's policies exist. Democracies strive to nurture such institutions by instilling transparency with the help of various communication channels. Historically, newspapers or print media have been the dominant route for conveying in-depth investigation, analysis, and thoughts. That was followed by the advent of television, which is the most dominant form of instantaneously conveying current developments and information, today. The Internet, with the help of laptop computers and notebooks, has made visual and readable information even more readily available. The most recent device that enables the greatest ease in portability and accessibility of information are smartphones that use wireless connections and social media that even espouse a strong tradition of individual rights and a free press. Such countries tend to have a vibrant free enterprise system, a competitive market structure, and companies that actively seek to be engaged in globalization. A word of caution: social media can be effectively abused and factual misinformation can be spread widely to the detriment of cultural diversity, inclusiveness, and globalization.

adaptive institutions
government organizations that create strong incentives for private investment and operate under a system of checks and balances

accountability
a system of responsibility in which an authority, such as the government, is answerable for its actions

transparency
a system of full disclosure and openness that aims to avoid any semblance of corruption and cronyism

1-3d Independent Judiciary and Free Press

Investors have greater confidence when conducting business in countries with low crime, effective courts, dependable contract enforcement, and free press. In this regard, the judicial system in a country remains an extremely important institution that has a primary responsibility of interpreting the laws and resolving disputes. Countries seeking to become established as good places to do business will maintain fair, transparent, and functioning legal systems along with a free press that could expose and investigate misdeeds by public officials and corporate leaders.

For example, countries like Somalia, Afghanistan, and Sudan that rank at the bottom of Transparency International's[14] (a Berlin-based, anticorruption nongovernmental organization) list of most corrupt countries

Tom Stoddart/Premium Archive/Getty Images

The collapse of the Berlin Wall was just one political event that helped accelerate globalization.

in the world to conduct business have dysfunctional legal systems (i.e., legal systems that exist only in name but not in practice). Even emerging economies like the BRIIC nations struggle to deliver adequate legal protection. Respect for the rule of law enhances the predictability that businesses require to make decisions based upon the sanctity of contracts.

Reality Check LO-3

Identify an adaptive institution in your city or state that promotes globalization. What are some of the measures advocated by that institution?

LO-4
Describe the key policy measures that make globalization sustainable.

1-4 Effective Policy Measures That Promote Globalization

Countries cannot thrive on high-quality institutions alone; they also need effective policies as complements to globalization. Countries with sound economic policies will be more successful in the global economy, encouraging further opening and cross-border integration. To attract foreign and domestic private investments, which are the crucial engines of sustainable economic growth and globalization, governments need to put in place good governance, competitive markets and property rights and assist in the fight against corruption. Taken together, these provide a baseline measurement for gauging the relative quality of a country's economic policies and performance. These policies will now be discussed in greater detail.

1-4a Good Governance

Countries that have successfully adapted to globalization realize that they cannot succeed without high-quality government management at home. Singapore, a country in which government actions are fully disclosed and discussed before they are implemented, posits an appropriate example. This type of policy transparency makes it very attractive for domestic

Ethical Perspectives

Canadian *Terroir*?

Canadians love wine. Unfortunately, because of its frigid weather conditions, most of Canada is unsuitable for the development of vineyards. The two notable regional exceptions include British Columbia's Okanagan Valley, which is blessed with a Mediterranean climate, and southern Ontario, which rests at the same latitude as France's Languedoc wine region. Wines from these Canadian regions have been awarded international honors and have been able to export some of their output. Yet, without Canadian government subsidies, those wineries may not be globally competitive.

The small wineries of British Columbia and southern Ontario produce Canadian *terroir* that is relatively more expensive and of better quality than the wines produced by Canada's two biggest wine companies, Vincor Canada and Andrew Peller. *Terroir* (derived from "terre," the French word for "land") is defined as vineyards or vines from the same region, belonging to a specific appellation and sharing the same type of soil, weather conditions, grapes, and wine-making, which contribute to a specific personality of the wine.

The small wineries of British Columbia and southern Ontario believe that the image of Canadian *terroir* is being tarnished by Ontario government's Liquor Control Board, which has approved labeling wine with up to 70 percent imported content (i.e., only 30 percent Canadian content) to be sold as Canadian wine. The "big two" wine companies that primarily sell these blended wines argue that because Canada is incapable of being self-sufficient in wine production, there is no choice but to blend the limited amount of Canadian wine with cheaper imports from Australia and Chile to effectively compete in the Canadian market. However, the fine

(continued)

print on the bottle labels indicates that the imported wines were "cellared in Canada."

In the interest of transparency in government policy, the small Canadian wineries want the labeling to be changed. Wineries would like the Liquor Control Board to "call a spade a spade" and indicate on the bottle labels that the blended wine is "bottled" in Canada but not "cellared" in Canada.

For that matter, why blend the wines? Why not sell the pure Canadian wines as Canadian and the imports as Australian and Chilean wines bottled in Canada, as it is done in the United States?

True/False Questions:

1) Canada's domestic vineyards are located in the Mediterranean climatic region of British Columbia and southern Ontario in Western Canada. True or False? *Answer: False*

2) Because Canada has a small population, domestic wine supplies are almost enough to meet local demand and very little imported wine is needed. True or False? *Answer: False*

3) Canadians consume a lot of blended wines that are labeled as cellared in Canada. True or False? *Answer: True*

4) The small wineries of Canada believe that the image of Canadian wines is enhanced because of blending with Australian and Chilean *terroir*. True or False? *Answer: False*

Questions:

1) In the interest of globalization, do you believe that Ontario's Liquor Control Board is ethical in its wine labeling process? Explain your position.

2) With the ongoing globalization process, do you think that as an institution, Ontario's Liquor Control Board is practicing good governance?

Source: "Outsourcing *Terroir*," *The Economist*, September 12, 2009, p. 44.

and foreign investors to funnel resources into the country to generate profits, fuel economic growth, and quickly adapt to globalization. On the other hand, most government policies and transactions in Central Asia and parts of Africa are conducted in secrecy; therefore, economic progress and global integration have been slow in these regions.

The quality of administration is also important; fine policies alone do not inspire respect and confidence without competent administrators and consistency over time. The quality of government services, the capabilities of civil servants, the political independence of public agencies, and the credibility of the government's commitment to good policies can measure effective governance.

1-4b Competitive Markets

Successfully globalized economies strive to attain competitive market structures at home. To achieve this objective, countries must enforce regulations that promote free markets such as **antitrust laws**. Although some might argue that antitrust laws interfere with the natural growth of successful businesses, they are meant to encourage competition and prevent problems like the "too big to fail" phenomenon that occurred in the 2008 American credit crisis.

In market economies, governments try to minimize the role of state-owned enterprises. In the European Union, Executive Vice President Margrethe Vestager, Competition Commission in Brussels, Belgium, has had a primary role as watchdog to enforce competition rules (i.e., to make sure that companies—domestic or foreign—that operate in the European Union do not monopolize any business sector) to ensure that the region's market structure for goods and services remains competitive. The planned merger of GE and Honeywell announced in 2000 was blocked by the European Union's Competition Commission on the grounds that the merger would have led to an uncompetitive market for GE–Honeywell products and services in the European Union, thereby impeding globalization.

antitrust laws
national laws aimed at maintaining competition in all sectors of the economy and preventing monopolistic behavior of firms

1-4c Property Rights

The protection of property rights has always been fundamental to market economies, as this protection enables buyers and sellers to conduct transactions with a high degree of trust. Studies by the World Bank have shown that countries that have successfully adapted to globalization guarantee property rights, whereas the least globalized countries offer less protection. If government actions call into question the ownership and transfer and/or sale of property, conducting business could become risky and economic activity could stall.

In communist and state-controlled economies, like those in Central Asia and parts of Africa and the Middle East, property rights either do not exist or are not well defined. This discourages domestic and foreign investors from making long-term commitments in these countries despite any competitive advantage in terms of labor productivity or raw materials those countries may have. As a result, these countries will most likely fall behind and will not be able to take advantage of globalization.

1-4d Anticorruption Policies

Illicit dealings undermine economic performance by raising costs, creating uncertainty, thwarting competition and transparency, and rewarding the rich at the expense of the poor. Globalized economies (e.g., New Zealand, the Nordic countries, and Singapore) are less likely to tolerate corruption; they rank at the top in an index for absence of corruption by Transparency International (the global civil society organization leading the fight against corruption). Some countries of the former Soviet Union and countries facing civil war, in contrast, rank near the bottom of the index.

Reality Check LO-4

Search Transparency International's website, and identify the ranking of the United States and the top 10 countries with least corruption. Were you surprised with the ranking? Why?

LO-5

Describe the role of information technology in bridging the global digital divide.

1-5 Impact of Information Technology on Globalization

Innovations in information technology (computers, software, wireless telecommunications, the cell phone, and the Internet) are radically changing the way people all over the world live, communicate, and work.[15] Take a few moments to think about what life was like 10—or even 5—years ago. Information technology (IT) has fundamentally changed everything people do in daily life, at home, at school, at play, and at work. We are in a period of profound transformation—adjusting lifestyles to make the Internet and wireless technologies a part of everyday life—called the **digital era**. The economic, social, and political benefits of new information technologies, of which the Internet and wireless telecommunications are by far the most publicly visible forms, are changing the relative competitiveness of nations as access to those technologies spreads rapidly around the globe. The pandemic has, for example, enabled a vast majority of employees (business executives, professors/teachers, students, attorneys, etc.) in all parts of the world to work from home because of access to the Internet and 5G telecommunication network. Except for employees in the manufacturing floor and close-contact services (health care, retailing, dining, etc.), most workers adapted to the new way of life. Yet, those without access to broadband and the computer needed government cash transfers to get through the pandemic ordeal.

digital era
the period of transformation that adjusts lifestyles to make the Internet and wireless technologies a part of everyday life

Even before the pandemic when life was relatively normal, farmers in Kenya, for example, could directly make payments for their inputs and have deposits made to their accounts for crop sales by using cell phones and not spending hours or days working on their banking transactions. Similarly, fishermen off India's coastal regions are now able to obtain the best price possible for their catch by negotiating and finalizing the sale while at sea! On the political front, faltering democracy movements in the Middle East and Hong Kong were largely fueled by social networking using the cell phone. As **bandwidth** expands and communication costs continue to fall, more people will be linked together via computers and smartphones. The economic efficiency of online communication will increase exponentially with the number of these kinds of connections. Increasingly, as communication networks become more established, they will—as the pandemic has shown—reshape the way people all over the world live, entertain, communicate, and work. The same technological changes that are transforming the business world now will also revolutionize the nature of social networks and the way that governments operate in the future.

1-5a The Digital Generation

Imagine life without high-speed Internet, cloud storage, computers, and cell (mobile) phones. Although these technologies are relatively new, already a world without **the web** and a wireless network has become as unthinkable for many of us as a world without land-line telephones.[16] But what about the future? Can the benefits of this extraordinary technology be multiplied and globalized? The network's infrastructure has also been fundamentally transformed in the past decade; dial-up Internet access has given way to an "always-on" broadband technology. Furthermore, users are accessing the Internet via many types of wireless devices, from laptops to cell phones (smartphones, tablets, etc.) to have mobile access to email and other business, education, and research applications. Communication has become the fastest-growing part of household expenditures since 1993 in many countries. Billions of people all over the world now use the Internet/smartphones for everything, including online banking, investments, research, publishing, Skype, Zoom for teaching, doing homework and conferencing, buying books, playing or downloading books, data, games, music, movies, and recipes. The levels of user participation and publication on the Internet have also surged, from blogs, podcasts, and interactive wikis that anyone can modify to services for sharing photos and video clips, such as YouTube and Vimeo. Social networking sites, such as Facebook, LinkedIn, and Instagram, and instant broadcasting sites, like Twitter, represent additional rapidly developing global frontiers of communication.

1-5b Expanding the Global Use of Information Technology

It may be less apparent that Internet-based applications like artificial intelligence (AI) and algorithms underlie major advances in science, business organization, environment monitoring, transport management, education, and e-government. Without the Internet, planes and spaceships would not fly, financial markets would not operate, supermarkets would not restock, taxes would not get paid, power grids would not balance the supply and demand for electricity, and oil and gas pipelines would not be able to operate. This reflects our increasing global reliance on the Internet and cyberspace for business and social activity, including health and education. In addition, seeking information on health has become one of the most frequent uses of the Internet.

Because broadband prices have been falling, governments in emerging economies, such as Brazil, China, India, Indonesia, Nigeria, and South Africa, are facilitating the spread of

bandwidth
the amount of data and other information that can be transferred in a second via the Internet

the web
the world wide web, abbreviated "www" and commonly known as the web; a system of interlinked documents contained and accessed via the Internet

An farmer receiving training in the use of wireless laptop technology to enhance agricultural productivity in a rural India.

broadband to rural towns and villages to provide instant access to market information and government programs to remote villagers. This will enable policy makers to maximize the economic potential of remote communities and make globalization sustainable.

Unlike changes instigated by technological revolutions, such as electricity and the railroad, which took decades to spread around the globe, the IT revolution has been relatively instantaneous. This reinforces the fact that IT and globalization are closely related. By reducing communication costs, IT has helped to globalize the production of goods and services and has encouraged a freer flow of these items, including capital, across national boundaries. In fact, IT acts as a catalyst in the globalization process by lowering operating costs.

Internet-related technologies help reduce corporate and societal hierarchies because of greater access to information for everyone concerned. Therefore, Internet and wireless technologies could make many authoritarian governments uneasy, thereby restricting public access to social media. This appears especially true in relatively closed societies where political freedom, especially of speech, press, or other forms of expression are severely curtailed—as in China and several countries in Central Asia and the Middle East. Political authorities in these societies, particularly nondemocratic governments, such as China, North Korea, and Myanmar, have expressed their belief that uncensored information from countries abroad will corrupt and destabilize local cultures. As political events in Egypt, Tunisia, Libya, Syria (the so-called 2011 Arab Spring), and others like Hong Kong and Myanmar have shown, there are fears that Internet-related technologies could bring about rapid social and political change, and access to communications technology could shift the balance of power between ordinary people and their governments, making dissent visible globally. Therefore, it is unlikely that Internet and related technologies will remain, or completely thrive, free of government interference.

1-5c The Digital Divide Myth

Digital divide describes the *perceived economic gap* between countries or people with easy access to digital and information technology (and its benefits) and those with very limited or no access. However, as described in this section, the rapid and progressive fall in prices of digital IT equipment and services has increased cyberspace access and accelerated globalization, thereby narrowing the digital gap. The question remains: Will globalization make digital divide a myth?

digital divide
the perceived economic gap between countries or people with easy access to digital and information technology (and its benefits) and those with very limited access, or none at all

Most people like what modern technology has to offer, and developing countries are no different and are now making the same transition that the United States, Europe, and Japan made earlier—only more rapidly and in a less expensive way. In the transition period, this could cause political strain, especially in nondemocratic societies. Failure to adapt will likely negatively impact some countries more than others. As information technologies become even cheaper, they will spread faster the world over. While some governments may hold their countries back, the vast majority will move forward.

The number of mobile phones that can access the Internet has been growing at a phenomenal rate, especially in the developing world. In 2008, China surpassed the United

States as the country with the largest number of Internet users. In 2020, China ranked first with more than 989 million Internet users (69 percent of the population) followed by India with 756 million users (55 percent of the population) and 312 million users (96 percent of the population) in the United States. China has 851 million smartphone subscribers (60 percent of the population), more than any other country, followed by India with 346 million subscribers (25 percent of the population) and the United States with 260 million subscribers (79 percent of the population). The potential for mobile Internet service remains enormous. Mobile web-browsing has been growing the fastest in developing countries, including others like Nigeria and South Africa.

Behind these statistics lies a more profound social change, such as web banking and e-commerce, which enhances worker productivity and economic efficiency in these countries. A decade ago, a favorite example of cell phones' impact on the developing world was that of an Indian fisherman calling different ports from his boat to get a better price for his catch. However, cell phones are now increasingly being used to access more elaborate data services that allow subscribers to deposit and withdraw money by text message.

1-5d How Countries "Leapfrog" into the Internet and Cell-Phone Era

In 2019, about 54 percent of the world's population of 7.75 billion had access to the Internet. These 4.2 billion people have been empowered by the opportunities that the Internet presents for business, social interaction, and civic engagement. The question now is: What will be the characteristics of the next several billion Internet users?[17]

Analysts believe that the next billions of Internet users will be vastly different from the first billions. Because of market saturation in developed economies (87 percent in 2019), the majority of users will be from developing countries (47 percent in 2019), and they will connect to the Internet principally via wireless networks. In many developing countries, the number of cell-phone subscribers now outnumbers those for fixed-line networks by more than 20:1. For example, the number of new mobile subscribers added each month in India exceeds Sweden's entire population! As cheaper "Internet-capable" mobile phones become the norm and competition and economies of scale lowers access prices, the same can be expected for Internet services. As communication access spreads in developing countries, businesses rather than governments will lead the way by offering lower prices and more choices for services and devices, with economic liberalization as an enabling factor.

M-Pesa (M for mobile, and pesa is Swahili for money), for example, is a mobile phone–based money transfer, deposit, withdrawal, payments, and micro-financing service. Launched in 2007 by the United Kingdom's Vodafone Group PLC and Safaricom, the largest mobile network operator in Kenya, it expanded service to Tanzania, Mozambique, Democratic Republic of the Congo, Lesotho, Ghana, Egypt, Afghanistan, and South Africa. M-Pesa is now Africa's most successful mobile money service and the region's largest fintech platform. M-Pesa is the preferred way to make payments across the continent both for the banked and the unbanked services. Similar services have proved popular in the Philippines and even the Maldives islands in the Indian Ocean. It has become apparent that developing countries are skipping the use of land-line technology and moving directly to wireless systems, thereby leapfrogging an entire generation of technology and catching up faster with the developed world.

Nonprofit organizations in developing countries believe that text messaging will likely predominate emerging economies' mobile phone usage for three reasons: (1) all cell phones, however inexpensive, can send text messages; (2) users know what it costs to send a text message; and (3) cell-web access requires more sophisticated handsets and may not always be supported by cell-phone companies. However, as countries continue

to develop, more consumers will have full access to smartphone capabilities.[18] National regulators are also likely to help by fostering cheap cell access. The developing world missed out on much of the excitement of the initial web revolution, largely because of their lack of an Internet infrastructure and the initial high cost of new technologies. Now that access costs have been decreasing and infrastructure has been expanding, developing countries may be poised to leapfrog the industrialized world in the era of smartphone technology.

Reality Check LO-5

Research and determine whether the typical middle-class citizen in Mexico is already in the smartphone era.

LO-6
Describe the validity of the anti-globalization argument.

1-6 The Globalization Controversy[19]

To its fiercest critics,[20] globalization—the impact of an increasingly free flow of ideas, people, goods, services, and capital that leads to closer integration and interdependence of economies and societies—can be a force for exploitation and injustice. Some progressives believe that capitalism exploits humans in the economic sense just as communism exploits humans in the political sense. Anti-globalists have drawn support from a broad range of public opinion, and, as a result, they are likely to remain politically influential. Arguments against globalization highlight problems such as the costs of disruptive economic change including job losses and stagnant wages, the loss of local control over economic policies and developments, the disappearance of old industries, and the related erosion of communities. This section examines several arguments against globalization and their counterarguments. To address this issue objectively, one must also understand the benefits of globalization; for example, why closer economic integration is a force for good and how globalization reduces poverty.

1-6a Job Losses and Income Stagnation

In developed economies, support for further trade liberalization that could lead to acceleration of globalization is uncertain. Some European countries, as well as events leading to the 2020 presidential election in the United States, have shown that many voters in developed countries are hostile to it, which is part of the reason why the Doha Round of trade liberalization has stalled. Critics argue that globalization harms the relatively poor through loss of jobs and stagnant, if not falling, real wages. Critics also argue that open trade and foreign direct investment (FDI) may take jobs from workers in advanced industrial economies (blue-collar and, increasingly, white-collar workers) and transfer the jobs to less expensive workers in developing countries. This leaves the workers in the richer countries jobless, increases local labor supply, and drives down wages or causes wage stagnation. Meanwhile, the workers in developing countries are drawn into jobs that may exploit them. Those workers often get paid much less than their counterparts in richer countries, and they are often required to work longer hours in substandard environments.

As the world enters an era of "knowledge-based" global economy, workers in high-income countries will need to use technology-intensive techniques to increase their productivity to maintain or enhance their wage rates (based on Heckscher–Ohlin theory and the factor price equalization trade theory discussed in Chapter 2). The only way workers in industrialized countries can compete with their counterparts in the developing world will be through increased productivity and not economic protection.

Ron Yue/Alamy Stock Photo

Globalization creates "winners" and "losers." Japanese farmers protesting WTO call for cutting rice subsidy.

What about the workers in the richer countries who are not displaced (laid off) but whose wages may stagnate because of foreign competition? The answer to this question is hard to conclude, because it will depend on the particular industry, the work skills needed, and specific market or economic conditions. However, all domestic workers would benefit from lower-priced imports brought about by globalization. Researchers at the University of Chicago's Graduate School of Business have shown that inexpensive imports from China have disproportionately *benefited* the American poor.[21] Meanwhile, in developing countries, globalization will lead to increased demand for labor and will raise wages even for workers who are not directly employed in the new trade-related jobs; for example, domestic engineers will generally witness an increase in wages when the demand for IT and software engineers increases because of outsourcing.

1-6b Sustainable Development and Environmental Degradation

What does **sustainable development** mean? The term was first used around 1983 by the Brundtland Commission,[22] which was set up by the United Nations to address growing concerns "about the accelerating deterioration of the human environment and natural resources." The Brundtland Commission defined sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs,"[23] whether environmentally, socially, or economically (including natural resource conservation). While the concept of sustainable development has been discussed since 1987, it only recently gained popularity as a powerful force as awareness about climate change, the production of greenhouse gases, and rapid and uncontrolled deforestation of the world's tropical rain forests has grown. Sustainable development has also become a source of increasing tension between the developing world and developed nations, especially between China, the United States, and the European Union. Globalization, and Asia's role in it, has become particularly contentious.[24] For example, China's unprecedented economic growth since 1978 has left a legacy of environmental degradation and made it the world's largest emitter of greenhouse gases (followed by the United States and India). Pollution has made cancer China's leading cause of death. Likewise, the

sustainable development economic development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs, whether environmentally, socially, or economically

debate over deforestation, which focuses on countries ranging from Brazil to Indonesia and Malaysia, does not have simple solutions. In order to produce biofuels, some forests have suffered, but the drive in Europe and the United States to find alternatives to fossil fuels has spurred the growth of biofuels. Brazil is under pressure not to cut down their rain forest by rich countries. In turn, Brazil has sought compensation for the opportunity cost of not harvesting their natural resources for economic growth and development! Clearly these are complex globalization issues involving trade-offs and difficult challenges for governments, their citizens, the private sector, and nongovernmental organizations. Finding solutions depends upon a shared, single vision—meeting the needs of the present without compromising the future—and working toward that vision together.

Some businesses have adopted sustainable development policies. In 2008, for example, British retailer Marks & Spencer introduced the slogan "Plan A. Because there is no Plan B." A five-year, 100-point, ecological plan to tackle some of the biggest challenges facing its business (and the larger market in which it operates) includes working with customers and suppliers to combat climate change, reduce waste, safeguard natural resources, and trade ethically.

A survey by the World Bank indicates that corporate social responsibility (CSR) practices are now a significant factor in determining where multinational corporations (MNCs) conduct business.[25] Of the companies surveyed, 90 percent have board-approved policies on environmental management. Other issues featured in CSR practices include labor rights, corruption, human rights, community health, and land rights. The World Bank survey also found that 48.5 percent of multinationals will make their decisions based on CSR issues with FDI—corporate investment abroad to build new manufacturing or service facilities or to purchase existing companies abroad. Furthermore, CSR factors, such as the unwillingness of some corporations to pay bribes, had caused 36.4 percent of respondents to withdraw from a country. The World Bank study also indicates that rather than FDI sparking a "race to the bottom" (i.e., companies rushing to invest abroad to take advantage of poor environmental and labor standards), these companies are largely being prudent and looking for long-term commitment to countries. CSR issues consistently implemented for the long term, as in the case of PepsiCo, lead to sustainable business and development. Under these circumstances, FDI does improve labor and environmental conditions, particularly in the developing world.

Reality Check LO-6

Determine whether there have been any industrial job losses in your region of the country because of globalization, and ask those workers who have lost their jobs about their experiences.

LO-7
Explain the case made to temporarily support those negatively affected by globalization.

1-7 Making Globalization Work for All

Progressive policy makers in many countries have come to the conclusion that the globalization debate should center on how to best manage the globalization process—at both national and international levels—so that the benefits are universally shared and costs are kept to a minimum. Most economists would agree that greater integration of the world economy and more openness to efficiency and modernization offer all citizens of the global village a more rewarding and hopeful future. Historically, the world has experienced successive waves of what is now described as "globalization." These periods share certain characteristics with our own: the expansion of trade, the diffusion of technology, extensive migration, and cross-fertilization of diverse cultural values. For China, globalization has, since 1978, brought about more trade, financial flows, and faster economic growth than any

corresponding period in history, leading to much higher living standards, bigger declines in poverty, and larger increases in life expectancy.

Globalization has the *potential* to increase the quality of life for people; however, there cannot be a guarantee that the quality of life for all people will increase or that all changes caused by globalization will be positive. Globalization does create winners and losers. For example, in the search for profits to maximize shareholder wealth, some MNCs may try to pay substandard wages and benefits to the workers they employ in developing countries. To prevent this from happening, developing countries could enforce regulations that would require MNCs to pay living wages that are fair by local standards. As an additional enforcement, export penalties could be imposed by the WTO on countries that do not comply with certain minimum global standards of regulations.

1-7a Globalization's Winners and Losers

According to the World Bank, more than 600 million Chinese citizens have climbed out of poverty since the implementation of economic reforms that started in 1978 in their country. Since India's initiation of economic reforms in 1991, that country has become a fast-growing economy, with the middle class exceeding 500 million out of a total population of some 1.37 billion. Brazil and Indonesia have been flourishing as well, and recent economic growth successes in South Africa, Tanzania, and Nigeria show that Africa, too, may be poised for brighter economic prospects. A number of positive factors have affected economic growth and income, but they likely could not have occurred without globalization. In addition, closer interaction with institutions such as the IMF, the World Bank, and the WTO has promoted civil liberties by proliferating information and increasing consumer choices. Rapid growth in emerging economies could lead to higher global commodity prices in the short run. Those price increases are a reflection of the fact that economic growth is accelerating at a faster rate than the supply of resources, such as crude oil, minerals, and food. Supply will eventually catch up to demand and commodity prices will stabilize, perhaps at a higher level, thereby increasing the income levels of commodity exporters.

iStock.com/Lisafx

Globalization's losers need support. A laid-off auto assembly worker being retrained for jobs in the promising solar energy sector.

1-7b Globalization's Losers Need Support

Countries that suffer most from the effects of globalization are those that have not been able to seize the opportunities to participate in this process. Nations that fall under this category of "real" losers include those that do not provide economic, social, and political freedoms to their citizens. Most of these countries are governed by authoritarian regimes with arbitrary rule of law and insignificant disclosure and transparency. They include Central America, much of Africa, Central and West Asia, and countries such as Myanmar and North Korea.

Because globalization does create winners and losers even within relatively open economies like the European Union and the United States, economists have argued that national policies ought to be implemented to help retrain and re-educate displaced workers to meet the needs of their more knowledge and technology-intensive economies. This will enable displaced workers to become more productive and earn a higher income. In the United States, however, globalization is not the only source of the problem for American workers. Something more structural has to be resolved: High school education needs reform especially with greater focus in math and the sciences, universal access to basic health care must be addressed to compete in a global economy where counterparts have universal access to national health care, worker retraining programs like those in Germany and Japan must be emulated by corporate America, and the demand for more diverse and inclusive corporate managers needs to be filled. Structural reforms in those areas, together with more effective help (lengthening the unemployment benefit period and de-linking health care benefits from employment) for people forced to change jobs because of globalization, would address the challenge directly and enhance society's resources and competitiveness while at the same time would reduce income inequality. Efforts to hold back globalization or technological progress are bound to fail.

Reality Check LO-7

Would you consider yourself a "winner" or "loser" of globalization? Explain.

Summary

Globalization has become a new word to describe an old process that began in the 15th century. Globalization encompasses the *reform process*, that is, economic and social policy changes that most countries participate in by eliminating barriers to trade, investment, culture, information, and political divisions that separate countries. This has led to closer integration and interdependence of nations of the world and has resulted in faster economic growth, rising incomes, and better living standards in those countries.

At the end of World War II, foundations were laid for the establishment of three crucial international economic policy organizations: the IMF, the World Bank, and the WTO. The primary role of these institutions was to rebuild the broken world financial and trade systems that could help lead to global peace and prosperity.

While multilateral institutions could establish the rules of international monetary and trade systems, they were not designed to be all-encompassing. Therefore, progressive countries developed key national institutions that set domestic rules, enforcement mechanisms, and organizations that supported transparency of political systems, a functioning judiciary, and adaptive market mechanisms. To make globalization sustainable, these institutions must have effective policies in place that promote good governance, competitive markets, property rights, and ethical decision making.

Information technology has played an important role in globalization by enhancing economic growth and narrowing the income gap between developed and developing countries. The Internet and wireless technologies, such as smartphones with numerous "apps," are enabling developing countries to leapfrog older information technologies like land lines, thereby making it possible to bridge the digital divide more quickly.

While globalization does create "winners" and "losers," funding well-designed retraining and educational programs for the adversely affected will lead to better-paying jobs and increased productivity of displaced workers.

Environmental degradation caused by globalization can be overcome as well if sustainable business and development policies are implemented. This will call for cooperation between governments and private sectors through the implementation of sustainable business models, that is, long-term CSR practices and greater focus on stakeholder wealth maximization. Countries negatively affected by globalization are those that have not been able to seize the opportunities to participate in this progressive process.

Key Terms

globalization, p. 5
emerging economies, p. 7
decoupling, p. 9
multipolar world, p. 11
international monetary system, p. 12
economic reforms, p. 12
capital markets, p. 13
liberalization of the trading system, p. 14
institutions, p. 16
adaptive institutions, p. 17
accountability, p. 17
transparency, p. 17
antitrust laws, p. 19
digital era, p. 20
bandwidth, p. 21
the web, p. 21
digital divide, p. 22
sustainable development, p. 25

Chapter Questions

1. What are some underlying factors that are causing decoupling to happen as societies move from a unipolar to a multipolar world? In your opinion, in which direction is the balance of global economic power shifting?
2. What are some of the major economic reform themes that are common to the three international organizations promoting globalization?
3. Globalization can be facilitated only if national governments are willing to participate in that process. What roles can the three major international institutions play to be a part of this facilitation process?
4. While domestic institutions play an important role in the globalization process, what are some of the fundamental policy measures that those countries need to promote to benefit from globalization? How might these policies be implemented and promoted?
5. Do you believe that there is a "digital divide" in the global economy? Is globalization narrowing that gap? If so, how?
6. Is sustainable business and economic development the answer to the globalization controversy? If so, how?
7. Globalization does create "winners" and "losers." What structural reform programs would you suggest that affected countries take to help those who are not benefiting from globalization? How might these reforms be implemented, and what can private companies do to facilitate the globalization process?

Mini Case: Biofuels: A Case for Sustainable Development and Energy Security

Concern over politically controlled supply (OPEC) and finite availability of nonrenewable energy resources, such as crude oil and natural gas, has prompted large crude-oil-consuming nations to seek alternate renewable energy sources. Furthermore, environmental concerns associated with carbon dioxide and other greenhouse gas emissions have prompted countries with large agricultural tracts of land to seek and develop clean, renewable biofuels that are not only environmentally friendly but also contribute to sustainable economic growth and energy security. Developing biofuels does not need to be a panacea; however, real challenges must be overcome to prevent economic costs from exceeding social benefits. For example, countries should take extreme care in implementing national biofuel policies because in the rush to energy independence, more pollution may be created and resources misallocated.

Biofuels can be described as one of two major types. Bioethanol has an estimated global production of some 140 billion liters in 2022 and can be blended with gasoline (as is done in China, Europe, and the United States) or can be used as a substitute for gasoline (as is done in Brazil). Note that industrial ethanol is a distillate or by-product of crude oil and not a nonrenewable energy source, and bioethanol is purely from plants (sugarcane, corn, etc.) that can be grown every year and is a renewable energy resource. Sugarcane provides the raw material for nearly half of the global bioethanol production, with Brazil being the dominant producer, followed far behind by the Philippines. The other raw materials used for extracting bioethanol are corn (maize) and wheat. U.S. bioethanol production is corn-based, and Europe's bioethanol is wheat-based. Bioethanol derived from sugarcane is more cost and pollution efficient because its single-cycle processing remains relatively inexpensive, and it consumes less energy than what is produced by burning the resulting bioethanol. In contrast, bioethanol from corn and wheat undergo more expensive double-stage processing. Moreover, critics of corn-based bioethanol argue that the energy used in its production and the corresponding pollution it creates may exceed the energy content of corn-based bioethanol!

The second type of biofuel is biodiesel. Some 41 billion liters of biodiesel was produced globally in 2020 and has often been used as a substitute for diesel. It has mainly been produced in Indonesia, India, Malaysia, Thailand, the United States, and some European countries. The major raw materials used for biodiesel production include soybeans, rapeseed, sunflower seed, and palm oil; more recently, biodiesel producers in India have also begun using plants, such as jatropha and pongamia, which are weeds that grow wild along highways and on arid land.

Variations in climatic and soil conditions in Asia explain the wide range of crops (including coconut in the Philippines) used in biodiesel production in the region. Their national goals also differ. Palm oil has been the most energy-efficient crop for biodiesel production to date with Indonesia being the largest producer, and Malaysia exports 90 percent of its output to earn foreign exchange. For India, where imports cover 73 percent of its petroleum needs, developing domestic biodiesel can help to achieve energy diversity and security. India's government believes that some 70 million hectares of wasteland could be targeted to grow biodiesel crops. Cultivating these low-maintenance arid land crops could also become a source of employment and income for the rural poor without displacing prime agricultural land. Biodiesel's benefits are many and significant: easing poverty through increased employment, reducing air pollution, mitigating global warming and climate change, and rehabilitating degraded wasteland. There is concern in Indonesia because forests and swamps have been stripped to make way for palm plantations, enabling the country to become the largest producer of palm oil in the world.

As the demand for biofuels (bioethanol and biodiesel) increases, sugar, corn, and palm oil prices will increase in the medium term, which in turn will help exporters at the expense of higher sugar, corn, and cooking oil prices to global consumers. Much of East Asia's push to biofuels is based upon the promise of huge shipments to Europe.

True/False Questions:

1) Biofuels come in two major forms, (a) bioethanol and (b) biodiesel, that, when commercially produced, could become environment friendly and at the same time lead to energy security in countries dependent on imported crude oil. True or False? *Answer:* True
2) Bioethanol costs less to produce from sugarcane than from corn; hence, Brazil is a more efficient (low-cost) producer of bioethanol and the United States. True or False? *Answer:* True
3) India, Indonesia, and Malaysia should be advised to focus their efforts in producing bioethanol. True or False? *Answer:* False
4) Globally, if countries decide to consume more "environment friendly" biofuels, one should expect to see higher prices for sugar, corn, wheat, beets, palm

oil, and so forth, which in turn should raise farm income. True or False? *Answer:* True

Questions:

1) What are the advantages and disadvantages of biofuels in terms of addressing the challenge of sustainable development? Explain fully.
2) Should bioethanol production from corn be encouraged, given that corn is used as a basic cereal (and in other food products) in many societies? Should bioethanol production be subsidized in the United States and also be protected against competition from Brazilian sugarcane-based bioethanol?

Greenfield Projects: Buying Farmland Abroad

POINT **COUNTERPOINT**

In recent years, countries that do not have much agrarian land and cannot grow enough to feed their own populations have been acquiring vast tracts of land in nations with sizable quantities of underutilized fertile agricultural land. Questions have been raised to determine whether this is beneficial FDI or a form of neocolonialism. For example, through the King Abdullah Initiative for Saudi Agricultural Investment Abroad, the government announced an aid package worth $800 million in 2009 for companies that invested in agriculture outside Saudi Arabia, pledging further support for the purchase of tractors and chemicals, the establishment of irrigation systems, and more in these countries. A group of Saudi companies invested $100 million to grow wheat, barley, and rice on land leased from the government of Sudan. The investors were income-tax exempt for the first few years and were given the option to export the entire crop back home. The Saudi program exemplifies a powerful trend sweeping the developing world. Capital-rich, food-deficit countries have been investing in countries that badly need capital, technology, and jobs and have good agricultural land to spare. Instead of purchasing food commodities in world markets, governments and politically connected companies lease farmland abroad, grow crops, and ship them back to their home countries. Similar deals have been successfully concluded in target countries, such as Cambodia, Malawi, Mozambique, and Turkey, by investors from China, Kuwait, the United States, India, the United Kingdom, Egypt, Qatar, and Bahrain. So, what's all the fuss about?

POINT Supporters of free trade and investment believe that such investments reflect efficient allocation of resources and bring along with them jobs, new seeds, agricultural technology, and cash to countries that have suffered from underinvestment for decades. Investment in foreign farmland has occurred for a long time. The phrase "banana republic" originally referred to the friendly dictators of the West who ran countries (e.g., in Central America) dominated by foreign-owned fruit plantations (e.g., the notorious but now defunct United Fruit Company, and others such as Dole, Chiquita, and Del Monte). After the collapse of the Soviet Union, foreign investors snapped up some state-owned collective farms. One could argue that by purchasing farmland abroad, food-deficit countries will be putting land resources to efficient use to meet growing global food demands.

COUNTERPOINT Opponents argue that investment in farmland elicits nothing but "land grab" on a global scale that takes advantage of politically vulnerable, capital-deficit countries. They further argue that because of political connections, foreign investors may be able to circumvent the law of the land and push out native subsistence farmers from the land they have farmed for generations. Opponents also argue that these large, controversial projects may not actually result in technology transfer but may instead lead to environmental degradation and dependency on expensive imported seeds and agro-chemicals.

What Do You Think?

Use the Internet or other sources to research this issue. Which argument would you support? Provide your own reasoning.

Interpreting Global Business News

Business newspapers and magazines, such as the *Financial Times*, *The Wall Street Journal*, *Bloomberg Businessweek*, and *The Economist*, include various statements made by economic analysts and business gurus. At the end of each chapter, you will be given the opportunity to explain a global news item as it relates to that chapter. How can the following examples of financial news related to the concepts in this chapter be interpreted?

1. Economists have argued that globalization is here to stay and that society needs to adapt to this process or it will be left behind. Historically, four groups of people have done the most to bring about globalization: traders, preachers, adventurers, and warriors. Although the motives for these groups—to profit, convert, learn, or conquer—have usually been selfish, the overall impact of their actions has been to bring about greater integration and interdependence of nations of the world. Put this view of history into the context of today's globalization, and explain why you agree or disagree.
2. The Doha Round of trade negotiations that began in 2001 had stalled in 2007 when the G-4 nations—Brazil, India, the United States, and the European Union—could not agree on further trade and investment liberalization. The breakdown had less to do with India and Brazil's protectionism than with the United States' and European Union's political inability to respond to long-standing worldwide demands for the reduction of their agricultural subsidies. The United States and the European Union must reduce agricultural subsidies before they can expect the rest of the world to liberalize trade in goods and services further. What is the reasoning for this? Make your case.
3. Persistent poverty and increasing environmental degradation in developing countries, changing climate patterns around the globe, and the use of food crops to produce biofuels all pose new and unprecedented risks and opportunities for global agribusiness in the future. Explain what this means.
4. Mexican billionaire Carlos Slim made huge profits over the years and became the world's richest man in 2010 but not by playing nice with rivals. Competitors in Mexico's telecommunications industry accuse him of being a monopolist who has kept phone and Internet charges high by erecting barriers to entry. Investigate the current situation, and determine the effectiveness of Mexico's antitrust institution.

Portfolio Projects

Throughout the 15 chapters of this text, you will be exposed to many examples of real-world companies to help illustrate how the concepts that you are learning in each chapter can be applied to real business situations. The Portfolio Projects at the end of every chapter consist of (1) ***Explore Your Own Case in Point:*** enhancing your understanding of your company of choice, and (2) ***Develop an International Business Strategy for Your Own Small Business***.

Gather your data from sources such as company annual reports and agencies like Standard & Poor's, Moody's, and Value Line. The following additional websites may also contain helpful data to inform your case.

www.eiu.com and www.wdi.worldbank.org/table

www.state.gov/r/pa/ei/bgn/

https://www.cia.gov/the-world-factbook

www.globaledge.msu.edu/resourceDesk/

Explore Your Own Case in Point: Understanding the Global Environment of Your Company

The objective of this portfolio project is to enable you to conduct an independent analysis of a large company (e.g., a Fortune 500 or Financial Times 100 company). Select a company that you admire, a company that intrigues you, a company that you would like to work for after graduation, or a company that you've always wanted to know more about that is listed in a major stock exchange like London, New York, Tokyo, Shanghai, Hong Kong, Singapore, Bombay, Frankfurt, or Paris so that various types of information (financial or otherwise) are readily available. Each chapter focuses on a specific topic, and the *Explore Your Own Case in Point* questions will enable you to analyze how that particular topic relates to your chosen company. By the time you have completed Chapter 15, you will have learned a great deal about your favorite company.

After reading this chapter, you should be prepared to answer some basic questions about your favorite company.

1. Identify three major countries (by sales revenue) with which your chosen company operates. Hopefully, these three countries are in different continents.
2. Identify if all three countries are members of the IMF, the World Bank, and WTO. Do you believe that these three countries actively follow the economic policy guidelines of these three major international institutions?
3. Compare the domestic institutional structure of these three target countries to determine if they promote globalization, that is, (a) are their political institutions transparent? and (b) do they have a functioning and effective judicial system?
4. Do you believe that the three target countries under consideration practice policies that promote globalization? For example, what are those countries' attitude toward (a) governance, (b) competitive markets, (c) property rights, and (d) corruption?

Develop an International Strategy for Your Own Small Business: Your Target Country's Institutions and Policies

In this portfolio project, you will have the opportunity to apply key concepts that you learn in each chapter of the course to a small business of your own, which may be hypothetical or, if you actually manage a small business, real. Most MNCs started as small firms that initially focused on exporting a single product or service to another country. For your project, your "home base" is your country of citizenship (or residence) and the "target" country is the foreign country with which you plan to start business. During the semester of this course, you should focus your effort on developing a business plan for working with the target country that you identified; you will deal with the target country's business practices, culture, currency, and so forth. Issues addressed in various chapters of this course will allow you to systematically develop a sound international business strategy with a global

perspective. Take a closer look, and analyze your target country's institutions, policies, and IT environment. Use the Internet, and research sources identified at the end of the exercise as well as other resources for your activity. The following questions will help deepen your understanding of your target country:

1) Is your target country in the process of implementing any economic reforms recommended by the IMF, the World Bank, or the WTO? What reforms and why?

2) Since you plan to conduct business with the target country, you should be concerned about the freedom of press and transparency of political institutions and judiciary. How good is your target country in enforcing the rule of law of the country? How is your target country ranked by Transparency International? Are you satisfied with what you find out?

3) For business to be successful anywhere, we need to have a clear idea of the information technology environment in the target country. How prevalent is Internet and wireless communications technology in your target country? Is there a digital divide within the target country that could hinder your business performance?

4) Is globalization a controversial issue in your target country? What is the general attitude of the country's residents toward globalization, and why? If globalization is controversial, what are government policy makers doing to address that issue and how are they performing? Are there any performance metrics that policy makers are using to identify their progress? Do you feel welcome to conduct business with the target country? What is your motivation to do business in that country?

Data Sources:

The International Monetary Fund: www.imf.org

The World Bank: www.worldbank.org and www.wdi.worldbank.org/table

World Trade Organization: www.wto.org

Transparency International: www.transparency.org

United States Department of State: www.state.gov/r/pa/ei/bgn/

United States Central Intelligence Agency: https://www.cia.gov/library/publications/the-world-factbook/

Global Edge: www.globaledge.msu.edu/resourceDesk/

Chapter Notes

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