

# ADM1301E – BUSINESS IN SOCIETY

WEEK 9, LECTURE 1  
GLOBALIZATION – PART 1

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# Agenda



- From the last lecture
- What would you do if ...?
- Globalization – Part 1
- For the next lecture

# From the last lecture



- See directions in e-mail / Course Outline for directions for any remarks
  - ▣ Those whose exams were ready last Wednesday have until end of class Monday (even if you don't pick it up until today)
  - ▣ Those whose exams were ready today have until end of class next Wednesday
- **No office hours today after class (remarking)**

# Overall Distribution

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## DISTRIBUTION

	Quiz 1	Mid-term	Overall
High	95	87	89%
Low	0	6	19%
Average	68	57	61%
Median	69	57.25	62%
Mode	68	69	70%
	10%	25%	35%

**65% of your marks are still remaining!**

# What would you do if?

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- How can Ivanhoe deal with the government?
- How should Ivanhoe respond to the NGOs?
- How does Ivanhoe deal with corruption?
- Points to keep in mind:
  - ▣ The country is poor.
  - ▣ It lacks experience with democracy and capitalism.
  - ▣ It lacks experience in managing its natural resources.
  - ▣ It wants the best deal possible but has to strike a balance between excessive demands that will discourage foreign investments and reasonable demands that are acceptable to foreign investors.



# Globalization – Part 1

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# Globalization

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- Not a new phenomenon: goods have been traded between regions since ancient times
- Corporations now seen as more efficient than governments in distributing goods and services needed by citizens
- Today, new view toward trade and market systems is referred to as globalization

# Spectrum of development

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- Considers GDP, Level of industrialization, standard of living
  - ▣ **Developed** country (First World)
    - Post-industrial economies (service sector provides more wealth than industrial sector)
  - ▣ **Developing** country (Third World)
    - **Newly-industrialized** country
    - **Advanced Emerging Market**
    - **Less Economically-Developed** country)
  - ▣ **Non-development-oriented** country



# Defining Globalization

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- *Globalization*: a process of decreasing constraints on the interactions among the nations and peoples of the world.
  - ▣ *Economic globalization*: the integration of fragmented markets into a global economy.
  - ▣ *Political globalization*: the process by which world power relationships change, and there is a loss of sovereignty by the states.
  - ▣ *Social or cultural globalization*: the emergence of a worldwide cultural system.

# Globalization – definition 2

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- The growing interdependence of people around the world with regard to societal influence, economies, and cultural exchanges
- Refers to the increasing economic integration and interdependence of countries
- A global movement to increase the flow of goods, services, people, real capital, and money across national borders in order to create a more integrated and interdependent world economy

# Drivers for Globalization

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- Market
  - New markets
  - Strategic alliances
  - Demand for products
- Cost
  - Source of inexpensive labour
  - Cheaper raw materials
  - New sources of capital
- Competition
  - Competition is producing similar goods of equal or better quality at lower cost
  - Competition can come from anywhere
- Government
  - Trade liberalization policies
  - Industry deregulation
  - Privatization
  - Participation in globalization institutions
- Technology
  - Advances in information and communication technologies facilitate:
    - Coordination of business activities from anywhere
    - Cross-border banking
  - Homogenization of many enabling technologies

# Globalization and the Implications for Business

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- ❑ Damage to environment
- ❑ Support for oppressive regimes
- ❑ Criticism of marketing practices (e.g., tobacco, pharmaceutical, baby formula, etc.)
- ❑ Arms trade
- ❑ Complexity
- ❑ Competition
- ❑ Treatment of employees (e.g., sweatshops)
- ❑ Treatment of indigenous peoples
- ❑ Genetic modification of plants and animals
- ❑ Laws and culture
- ❑ Corruption and bribery

# The Debate Over Globalization: Supporters

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1. Increases economic growth rate, prosperity and opportunity for all participants
2. Private corporations and open markets provide better goods and services to society
3. Increases civil liberties and reduces inequalities
4. Leads to lower prices, higher employment in developing countries and better standards of living
5. Facilitates the transfer of technology, capital, intellectual property and skilled labour
6. A cleaner world environment
7. Rising standard of living in developing countries
8. Limits on international behaviour

# The Debate Over Globalization: Opponents

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1. Increases the wealth of giant corporations and leaves developing countries poorer
2. Harms the environment
3. Neuters government's ability to govern and results in conspiracies between corporations and governments
4. Increases unemployment in developed countries
5. Reduces standards (manufacturing, health, quality, environmental)
6. Periodic financial crises are caused, disrupting the economies of many countries
7. Intellectual property is not respected
8. Homogenizes cultures
9. Fuels income inequality between nations
10. Increases the gap between haves and have-nots
11. Causes problems that cannot be resolved by single nations
12. Globalization institutions run by developed countries

# Institutions of Globalization

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- *Supranational Institution*: an international organization that transcends national boundaries where the member states share in decision making on particular issues pertaining to the members

# Institutions of Globalization

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- **The World Bank:**
  - Provides financial and technological assistance to developing countries.
- **The International Monetary Fund (IMF):**
  - Fosters financial stability, international trade, employment, and reduction of poverty.
- **International Labour Organization (ILO):**
  - UN agency that seeks to promote social justice and internationally recognized human and labour rights.
- **World Trade Organization (WTO):**
  - Coordinates agreements reducing trade barriers
- **Organization for Economic Cooperation and Development (OECD)**
  - Promotes economic globalization with a view to achieve the highest sustainable economic growth and employment, sound economic expansion, and to expand world trade
- **United Nations Environment Program (UNEP):**
  - UN body responsible for environmental protection
- **United Nations Commission on Human Rights (UNCHR):**
  - UN body for the promotion and protection of human rights worldwide



# World Bank

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- Founded at the Bretton Woods Conference in 1944 (post WW2)
  - Note: John Maynard Keynes was the head of the UK delegation
- *“The economic health of every country is a proper matter of concern to all its neighbors, near and far”* – Franklin D. Roosevelt”
- Official goal is the reduction of poverty through open markets and the end of economic nationalism
- Provides loans to developing countries specifically for capital programs
  - “Infrastructure is basic physical and organizational structures needed for the operation of a society or enterprise, or the services and facilities necessary for an economy to function”

# World Trade Organization

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- “The World Trade Organization (WTO) deals with the rules of trade between nations at a global or near-global level”
  - A negotiating forum
    - “the WTO is not just about liberalizing trade, and in some circumstances its rules support maintaining trade barriers — for example to protect consumers or prevent the spread of disease”
  - A set of rules
    - “the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives”
  - Helps settle disputes
    - “settle these differences is through some neutral procedure based on an agreed legal foundation”

# WTO – Principles of trading

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- Trade without discrimination
  - No concept of “Most Favoured Nation”
    - You can create a free-trade group that applies only to members of the group
    - You can create barriers against products that you consider to be unfairly traded by some countries
    - When you open a market or lower a barrier, it must apply to *all* trading partners
  - National Treatment
    - Imported and local goods should be treated equally once those good have entered the market
      - This does *not* mean you cannot charge import duties
- Freer trade, gradually
- Predictability
  - Lack of arbitrary changes
- Promoting competition
  - Governments should not grant export subsidies / dumping
- Encourage development and economic reform
  - Specifically target the “least-developed” countries for assistance
    - Both freer trade and technical assistance

# Globalization's effect on Government

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- ❑ Perceptions of loss of ability to govern
- ❑ Changes in industrial policy and the instruments available
- ❑ Changes in tax base and fiscal policies
- ❑ Greater transparency in the activities of government
- ❑ Increased number of stakeholders

# Globalization's effect on Civil Society

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- More available and accessible information
- Larger receptive audience
- Greater capacity to raise public awareness
- New sources of resources
- Greater network capacity

# International Non-governmental Organizations

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- INGOs:
  - ▣ Groups that hold shared values and attitudes about the issues relating to globalization and advocate for changes to improve conditions in developing countries
  - ▣ Put pressure on corporations and governments
- INGOs are also referred to as transnational non-government actors (TNGOs) or transnational social movement organization (TSMOs)
- Examples:
  - ▣ Amnesty International
  - ▣ Greenpeace

# Globalization's effect on Canadian Business

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- Pressure to forge international links
- Must meet challenges of global restructuring (e.g., R&D, education, competition policy, cost of capital, etc.)
- Attract more investment in natural resource plants
- More direct investment abroad

# The Acceptance of Global Capitalism

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- *Bottom of the Pyramid*: Corporations should not ignore as consumers the world's population living in poverty (4 billion people)
- *Fair trade*: Trading partnership which aims at sustainable development for excluded and disadvantaged producers (e.g., Fairtrade Foundation, Oxfam, and Traidcraft)
- *Microfinance*: Provision of financial products such as micro-credit or micro-insurance to people living in poverty (e.g., Grameen Bank in Bangladesh)



# The Big Mac Index

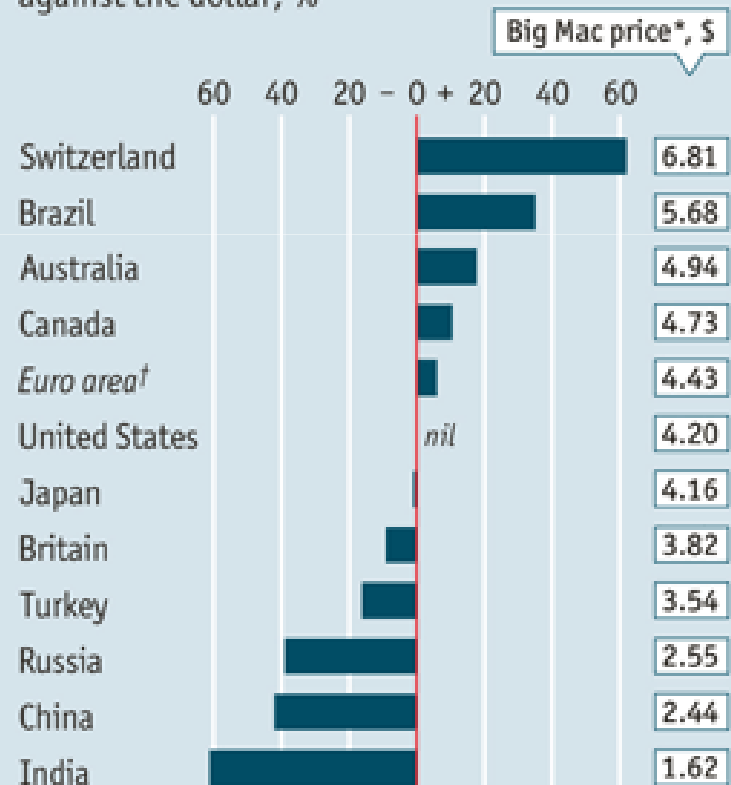
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- In the long run, exchange rates should adjust to equal the price of a basket of goods and services in different countries
- The exchange rate that would equalise the price of a Swiss Big Mac with an American one is 1.55 francs to the dollar; the actual exchange rate is only 0.96
- “Burgernomics”

<http://www.economist.com/node/21542808>

## Big Mac index

Local currency under (-)/ over (+) valuation against the dollar, %



Source: McDonald's;  
The Economist

\*At market exchange rate  
(Jan 11th 2012) †Weighted  
average of membercountries

# Questions, concerns, comments



# For next lecture



- For next class
  - Review case 15.2
  
- **Quiz 2 –Monday Nov 12**
  - ▣ **30 True/False & Multiple Choice (60 marks)**
    - **Includes chapter 14 (W8,1), 10 (W8,2), 15 (W9,1)**

# Amended course outline

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- November 12 – Quiz 2
- November 14 – Globalization part 2
  - Diversity in Business Management
- November 19 – Business and Management in a Multicultural Society
- November 21 – Developing an Ethics Program
- November 26 – Implementing and Auditing an Ethics Program
- November 28 – Guest Speaker: How Business Influences Government and Civil Society
- December 3
  - **GROUP PROJECT DUE**
  - Corporate Governance and Consequences of Governance Failure
- December 5 – Synthesis and Review
- December 19 – Final Exam