Globalization: Yesterday-Today-Tomorrow
Osher Lifelong Learning Institute, George Mason University

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Agenda

- What is globalization
- How globalization evolved
- Some drivers of globalization
- Current and future globalization trends
- How globalization impacts us
- The global economy of the 21st century
  - It’s the connected economy
  - Anti-globalization protests
  - Globalization controversies
The Globalization of Starbucks

- 1971: First store at Pike’s Place, Seattle
  - A roaster and retailer of whole bean and ground coffee, tea and spices with a single store in Seattle’s Pike Place Market.
- Some history
  - 1982: Howard Schultz joins Starbucks
  - 1983: Visits Italy, impressed with the espresso bars in Milan
  - 1984: Starbucks Caffè Latte served at the Pike’s Place store
- Started internationalization in 1996, with a joint venture in Japan
  - Today, Starbucks has 22,500 stores in 67 countries
  - Owns Seattle’s Best Coffee, Teavana, Tazo, Ethos Water, etc.
  - Continuing global expansion; most recent entries – Brunei, Colombia, and Panama

### The Globalization of Starbucks

<table>
<thead>
<tr>
<th>Year</th>
<th>Total # Stores</th>
<th>Countries/Regions Entered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1,015</td>
<td>Japan, Singapore</td>
</tr>
<tr>
<td>1997</td>
<td>1,412</td>
<td>The Philippines</td>
</tr>
<tr>
<td>1998</td>
<td>1,886</td>
<td>England, Malaysia, New Zealand, Taiwan, Thailand</td>
</tr>
<tr>
<td>1999</td>
<td>2,498</td>
<td>China, Kuwait, Lebanon, South Korea</td>
</tr>
<tr>
<td>2000</td>
<td>3,501</td>
<td>Australia, Bahrain, Hong Kong, Qatar, Saudi Arabia, UAE</td>
</tr>
<tr>
<td>2001</td>
<td>4,709</td>
<td>Austria, Scotland, Switzerland, Wales</td>
</tr>
<tr>
<td>2002</td>
<td>5,886</td>
<td>Germany, Greece, Indonesia, Mexico, Oman, Puerto Rico, Spain</td>
</tr>
<tr>
<td>2003</td>
<td>7,225</td>
<td>Chile, Cyprus, Peru, Turkey</td>
</tr>
<tr>
<td>2004</td>
<td>8,569</td>
<td>France, Northern Ireland</td>
</tr>
<tr>
<td>2005</td>
<td>10,241</td>
<td>Bahamas, Ireland, Jordan</td>
</tr>
</tbody>
</table>
The Globalization of Starbucks, contd.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total # Stores</th>
<th>Countries/Regions Entered</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>12,440</td>
<td>Brazil, Egypt</td>
</tr>
<tr>
<td>2007</td>
<td>15,001</td>
<td>Denmark, the Netherlands, Romania, Russia</td>
</tr>
<tr>
<td>2008</td>
<td>16,680</td>
<td>Argentina, Belgium, Bulgaria, Czech Republic, Portugal</td>
</tr>
<tr>
<td>2009</td>
<td>16,635</td>
<td>Aruba, Poland</td>
</tr>
<tr>
<td>2010</td>
<td>16,858</td>
<td>El Salvador, Hungary, Sweden</td>
</tr>
<tr>
<td>2011</td>
<td>17,003</td>
<td>Guatemala, Curacao, Morocco</td>
</tr>
<tr>
<td>2012</td>
<td>18,066</td>
<td>Costa Rica, Finland, India, Norway</td>
</tr>
<tr>
<td>2013</td>
<td>19,676</td>
<td>Vietnam, Monaco</td>
</tr>
<tr>
<td>2014</td>
<td>20,519</td>
<td>Brunei, Colombia</td>
</tr>
<tr>
<td>2015</td>
<td>22,519*</td>
<td>Panama</td>
</tr>
</tbody>
</table>

* Up to June 28, 2015

Source: www.Starbucks.com

So, what is globalization?
For some, it’s the root of all evil…

- Export of jobs
- Decline of incomes
- Growing income inequality
- Loss of national sovereignty
- Americanization of the world
- Environmental decay
- Spread of disease
- Rise of terrorism
- Sweat shops

For others, it’s a panacea…

- Better resource utilization
  - Greater efficiency
  - Greater choices for consumers
  - Lower prices for goods and services

- Creation of wealth

- Economic progress
  - Impetus for democracy

- Greater attention to human rights

- Enrichment of life through sharing of ideas, cultures, foods, etc.
Many Types of Globalization

- There are many types of globalization; we will be concerned mostly with economic globalization.
- Globalization is the trend towards a more integrated global economic system.
  - Greater economic interdependence between and among nations.
  - Growth of multinational enterprises (MNEs).
  - More trade in goods and services.
  - More foreign direct investment (FDI).
  - More cross-border capital flows.
  - More cross-border knowledge flows.
  - Increasing harmonization of standards (technical, regulatory, accounting, etc.).
  - Increasing worker migration and workplace diversity.

When did globalization begin?
The World is Flat: A Brief History of the 21st Century (Tom Friedman, 2005)

The Three Ages of Globalization

Globalization 1.0 (1492-1800)
• Driven by countries' search for resources and by imperial conquests

Globalization 2.0 (1800-2000)
• Driven by companies' search for markets and labor

Globalization 3.0 (2000+)
• Driven by individuals using technology to access ideas and markets without having to relocate

Actually, the integration of the world began thousands of years ago...

• With:
  ▪ Trade
  ▪ Colonization

• Driven by:
  ▪ Explorers
  ▪ Traders
  ▪ Armies
  ▪ Missionaries

Marco Polo

A Ship of the British East India Company
The Silk Road & the Spice Routes
c. 2000-3000 BC

The last 1000 years...

- **Explorers**
  - Marco Polo (13th century)
  - Christopher Columbus (15th century)
  - Vasco da Gama (15th/16th centuries)
  - David Livingstone (1813-1873)

- **Traders and colonists**
  - The British East India Company (1600-1874)
  - The Dutch East India Company (1602-1799)
    - Was given “quasi-government powers, including the ability to wage war, imprison and execute convicts, negotiate treaties, strike its own coins, and establish colonies”
  - The French East India Company (1664-1793)
  - The Portuguese East India Company (1628-1633)
More recently...

The last 250 years…
- Canals, turnpikes, and railroads
  - Britain: 1760s onwards
  - United States: 1800s
- The United States – transportation and communication revolution
  - Railroads boom – late 1840s and 1880s
  - Steamships, telegraphy, and telephone network
  - Growth of mass production, mass marketing, branded goods, new management and organizational practices
- Radio and television
- Airplane — Reducing distances and costs

The Boston Tea Party
December 16, 1773
Still more recently...

Integration of the world has been driven by:

- Actions of governments
  - Multilateral institutions (IMF, World Bank, WTO)
  - Trading blocs, e.g., NAFTA, EU
- Multinational enterprises (MNEs) and NGOs
- Information, communication, and transportation technologies
  - The Internet, IT, videoconferencing, VoIP, email
  - Commercial jet aircraft; containerization in shipping
  - Social media
- New world order; fall of communism; economic liberalization and deregulation

Still reducing distances and costs

Freight Costs Fell by 70% Between 1920 and 1990
What is different about globalization today?

- Tariffs are much lower today than at any time in the last 200 years
- Cross-border flows of goods, services, capital, and know-how as % of world GDP are much larger today than in the past
- Continuing role of the global (multilateral) institutions
- Technology on steroids
- Hyper-competition for most goods and services
  ... and much else

Declining Barriers to Trade and Investment

- **International trade** (trade) occurs when a firm exports goods or services to other countries, or imports goods or services from other countries
- **Foreign direct investment** (FDI) occurs when a firm invests resources in business activities outside its home country
- After World War II, most countries made a commitment to lower barriers to trade and investment
  - Since 1950, average tariffs (customs duties) have fallen significantly and are now at about 4% in advanced countries
  - Countries have also been opening their markets to FDI
Value of Total World Trade in Goods (2014): $19 trillion
Average Tariff for goods at WTO members (2014): 9%

World Foreign Direct Investment Outflows

Global (Multilateral) Institutions

- Institutions are needed to:
  - help manage, regulate, and police the global marketplace
  - promote the establishment of multinational treaties to govern the global business system

- Institutions created after the end of World War II:
  - the General Agreement on Tariffs and Trade (GATT)
    ➔ the formation of World Trade Organization (WTO) in 1995
  - the International Monetary Fund (IMF)
  - the World Bank
The World Trade Organization (WTO)

- The World Trade Organization (like its predecessor GATT) is primarily responsible for policing the world trading system and making sure that nation-states adhere to the rules laid down in trade treaties signed by WTO members
  - Helping to create a level playing field for all nations
- As of 2015, WTO has 162 member countries accounting for over 97% of world trade
- GATT and the WTO have been very successful in helping to lower barriers to trade and investment in the last 70 years

IMF and the World Bank

The International Monetary Fund and the World Bank were created in 1944
- The IMF was established to maintain order in the international monetary system
  - To help stabilize exchange rates
  - Lender of last resort for countries that get into financial difficulties
- The World Bank was established for rebuilding Europe after the 2nd World War and to help promote economic development
  - Its focus changed to developing countries in the 1950s as the U.S. started to provide assistance to European countries directly
### World’s Top 10 Economies by GDP, 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>At Current Prices ($ Trillion)</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>4.731</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>1.892</td>
</tr>
<tr>
<td>4</td>
<td>U.K.</td>
<td>1.497</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>1.372</td>
</tr>
<tr>
<td>6</td>
<td>China</td>
<td>1.193</td>
</tr>
<tr>
<td>7</td>
<td>Italy</td>
<td>1.107</td>
</tr>
<tr>
<td>8</td>
<td>Brazil</td>
<td>0.645</td>
</tr>
<tr>
<td>9</td>
<td>India</td>
<td>0.477</td>
</tr>
<tr>
<td>10</td>
<td>Russia</td>
<td>0.260</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Database, 2001

### World’s Top 10 Economies by GDP, 2015

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>2015 GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>At Current Prices ($ Trillion)</td>
</tr>
<tr>
<td>1</td>
<td>U.S.A.</td>
<td>17,968</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>11,385</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>4,116</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>3,371</td>
</tr>
<tr>
<td>5</td>
<td>U.K.</td>
<td>2,865</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>2,423</td>
</tr>
<tr>
<td>7</td>
<td>India</td>
<td>2,183</td>
</tr>
<tr>
<td>8</td>
<td>Brazil</td>
<td>1,800</td>
</tr>
<tr>
<td>9</td>
<td>Russia</td>
<td>1,236</td>
</tr>
<tr>
<td>10</td>
<td>Indonesia</td>
<td>873</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Database, 2015
World’s Top 10 Economies: Contribution of Different Sectors to GDP, 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution of Different Sectors to GDP (2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Services</td>
</tr>
<tr>
<td>United States</td>
<td>79.7%</td>
</tr>
<tr>
<td>China</td>
<td>46.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>71.4%</td>
</tr>
<tr>
<td>Germany</td>
<td>71.1%</td>
</tr>
<tr>
<td>France</td>
<td>79.8%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>78.3%</td>
</tr>
<tr>
<td>Brazil</td>
<td>67.2%</td>
</tr>
<tr>
<td>Russia</td>
<td>60.1%</td>
</tr>
<tr>
<td>Italy</td>
<td>73.8%</td>
</tr>
<tr>
<td>India</td>
<td>56.9%</td>
</tr>
</tbody>
</table>

Source: IMF

Fortune Global 500, 2005-2015

<table>
<thead>
<tr>
<th>Category</th>
<th>Country</th>
<th>2005</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>G7</td>
<td>United States</td>
<td>175</td>
<td>141</td>
<td>128</td>
</tr>
<tr>
<td></td>
<td>U.K.</td>
<td>33</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>34</td>
<td>36</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>40</td>
<td>40</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>81</td>
<td>71</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>Canada</td>
<td>14</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Italy</td>
<td>10</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>NICs</td>
<td>South Korea</td>
<td>11</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Taiwan</td>
<td>1</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Singapore</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>BRICs</td>
<td>China</td>
<td>18</td>
<td>47</td>
<td>98</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>5</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td>4</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Russia</td>
<td>3</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Fortune Magazine, Various Issues
“In terms of size, speed, and directional flow, the global shift in relative wealth and economic power now under way — roughly from West to East — is without precedent in modern history.”

Now, Coming to America

America's Growing Globalization, 1900-2006

Made in America?
(Robert Reich, WSJ, 1991)

Example: Pontiac Le Mans (say, @ $20,000)

$6,000  South Korea for assembly
$3,500  Japan for advanced components
$1,500  Germany for design services
$800    Taiwan, Singapore, Japan for small components
$500    U.K. for advertising and marketing services
$100    Ireland and Barbados for data processing
$7,600  GM Shareholders + employees + lawyers + lobbyists + bankers +++
Who makes the Apple iPhone?

<table>
<thead>
<tr>
<th>Major Components</th>
<th>Supplier</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compass</td>
<td>AKM Semiconductor</td>
<td>Japan</td>
</tr>
<tr>
<td>Accelerometer</td>
<td>Bosch Sensortech</td>
<td>Germany</td>
</tr>
<tr>
<td>Touchscreen Controller</td>
<td>Broadcom</td>
<td>U.S.</td>
</tr>
<tr>
<td>Audio Chips</td>
<td>Cirrus Logic</td>
<td>U.S.</td>
</tr>
<tr>
<td>Gorilla Glass Screen Overlay</td>
<td>Corning</td>
<td>U.S.</td>
</tr>
<tr>
<td>LCD Screen</td>
<td>LG</td>
<td>South Korea</td>
</tr>
<tr>
<td>LCD Screen</td>
<td>Sharp</td>
<td>Japan</td>
</tr>
<tr>
<td>Wi-Fi Chip</td>
<td>Murata</td>
<td>U.S.</td>
</tr>
<tr>
<td>Camera + Chips</td>
<td>Qualcomm</td>
<td>U.S.</td>
</tr>
<tr>
<td>A-Series Processor</td>
<td>Samsung</td>
<td>South Korea</td>
</tr>
<tr>
<td>Flash Memory</td>
<td>Toshiba</td>
<td>Japan</td>
</tr>
</tbody>
</table>

Assembly: Foxconn and Pegatron, Taiwan

Who shares the bounty?

<table>
<thead>
<tr>
<th>Company</th>
<th>Share of Average Sale Price</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>$368.00</td>
<td>65.7%</td>
</tr>
<tr>
<td>Foxconn</td>
<td>$14.00</td>
<td>2.5%</td>
</tr>
<tr>
<td>Other Suppliers</td>
<td>$178.00</td>
<td>31.8%</td>
</tr>
<tr>
<td>Total</td>
<td>$560.00</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: The Economist and Other Sources
How does globalization impact us?

The Connected Economy of the 2010s and Beyond

• Global – comprising both developed and developing nations
• Goods – range from physical goods, digital goods, and smart machines, i.e., goods with digital characteristics (hardware, software, and sensors) embedded into them and connected to the internet
• Services – range from simple location-bound services to services that can be performed anywhere, not necessarily close to the customer
• Connectivity – provided by multilateral institutions, governments, corporations, and digital technologies and networks
• Speed – business and economic phenomena operate in real time, 24/7, and at increasing speeds of change
One example - Investing in S&P 500

Some Unintended Consequences of Globalization

- Industrial restructuring
- Unethical acts by corporations
  - Backlash against globalization, MNEs, multilateral institutions
  - Impacts on workers, industries, and nations
- Environmental degradation
- Globalization of:
  - Piracy
  - Disease
  - Money laundering
  - Terrorism
  - Drugs
  - Money laundering
Global Spread of Disease

Black Death, 1348

Anti-Globalization Protests
Anti-Globalization Protests, Seattle 1999

• More than 40,000 anti-globalization protesters took to the street at the WTO meeting in Seattle in 1999
• Protesters now regularly show up at major meetings of the global institutions
  ▪ Globalization critics argue that falling barriers to trade are destroying manufacturing jobs in advanced countries
  ▪ Supporters of globalization contend that the benefits of this trend outweigh the costs — that countries will specialize in what they do most efficiently and trade for other goods that other countries produce more efficiently — and all countries will benefit

The Globalization Debate

Is the shift toward a more integrated and interdependent global economy a good thing?

• Critics worry that globalization will cause job losses, lower wages, environmental degradation, and the cultural imperialism of global media and the multinational enterprises
• Supporters believe that increased trade and cross-border investment mean lower prices for goods and services, greater economic growth, higher consumer incomes, and more jobs
Globalization, Labor Policies, and The Environment

- **Globalization critics** argue that firms avoid costly efforts to adhere to labor and environmental regulations by moving production to countries where such regulations do not exist, or are not enforced stringently.

- **Globalization supporters** claim that tougher environmental and labor standards are associated with economic progress, so as countries get richer from free trade, they adopt tougher environmental standards and labor regulations.

Globalization and National Sovereignty

- **Critics of globalization** worry that today’s interdependent global economy is shifting economic power away from national governments toward *supranational organizations* (e.g., like the WTO, the IMF, the EU, and the UN) and the multinational enterprises.

- **Supporters of globalization** contend that the power of these organizations is limited to what nation-states agree to grant them, and that the power of the organizations lies in their ability to get countries to agree to follow certain actions.
Globalization and The World’s Poor

- Critics of globalization argue that the gap between rich nations and poor nations is getting wider.
- Supporters of globalization claim that the best way for the poor nations to improve their situation is to reduce barriers to trade and investment and implement economic policies based on free market economies, and to receive debt forgiveness for debts incurred under totalitarian regimes.

Surprise Dance on Finnair Flight
January 26, 2012

https://www.youtube.com/watch?v=mEsnb3kUDAw
Thank You