

Globalization and International Trade

The term globalization is used to describe economic, political, behavioural, technological, and biological migration, as discussed in Chapter 1. Globalization, in an economic context, is the movement of goods, services, technology, investment, ideas, and people throughout the world. It is the process of nations and corporations merging into one common culture and marketplace. One reason globalization has occurred is that trade barriers across national borders have been reduced or removed. Globalization has increased dramatically since World War II because of the rapid growth of technology, communication, and travel. There are many positive effects of globalization. These include:

- **Outsourcing.** Other countries present opportunities to access cheaper raw materials and labour.
- **Lower prices.** Increased competition causes companies to be more competitive and decrease prices to attract customers. Inflation is kept low.
- **Improved human rights.** Extensive media coverage of human rights violations in countries that do business internationally has brought world pressure to improve human rights.
- **Increased productivity.** When countries produce the products in which they have a comparative advantage (see Chapter 4), their productivity rises. Increased productivity leads to an improved standard of living.
- **Innovation.** Open borders allow ideas to flow from one country to another, stimulating creativity.
- **Better jobs.** Export jobs usually require higher education and a high skill level; therefore, these workers are paid more.
- **Increased capital flow.** Countries actively seek foreign investment in order to provide employment for their citizens. Being connected to foreign countries allows companies, especially those in smaller nations, to borrow money from financial institutions in other countries.



Pressure from the global community on countries that do business internationally to improve human rights is one of the positive effects of globalization.



Among the negative effects of globalization is the exploitation of those who can be used to provide cheap labour, including children.

There are also many negative effects of globalization. These include:

- **Lost Canadian jobs.** Many Canadians have lost their jobs to outsourcing. The jobs that they find to replace them are often lower paying.
- **Fear of job loss.** Many Canadians work with the fear that they may soon lose their jobs to countries with cheaper labour sources.
- **Loss of Canadian productivity.** Some Canadian companies will lose their comparative advantages to countries with cheaper labour.
- **Exploitation of cheap labour.** Children, prisoners, and the uneducated are forced to work in substandard conditions.
- **Increased pollution.** Companies move their factories to countries with limited pollution regulations so they can cut costs.
- **Unhealthy products.** Companies like McDonald's, Burger King, and KFC are spreading across the world. Many of the products sold by these companies have an adverse effect on citizens' health. Businesses in other countries do not work under the same strict regulations as Canadian companies. As a result, tainted products, such as melamine-contaminated dog and cat food from China, make their way into the Canadian market.
- **Spread of disease.** Diseases such as HIV/AIDS, SARS, and the H1N1 virus are contracted by travellers and taken back to their home countries.
- **Increase in the income gap.** The gap between the rich and the poor is widening.
- **Influence of multinational corporations (MNCs) on governments.** Powerful MNCs can manipulate global politics. The annual output of some MNCs is greater than the GDP of some countries. In 2008, only twenty-five countries in the world had GDPs that were higher than Walmart's revenues, which were \$4.05 trillion. In the first half of 2008, Walmart spent approximately \$3.6 million lobbying the U.S. federal government on union matters, cargo security, and product safety legislation.

Globalization Strategies

Is Coca-Cola identical in every country? Is it marketed the same way? Companies deal with globalization in different ways. Some decide to treat the world as one large market, while others establish different strategies depending on the product, culture, and country. Coca-Cola actually uses a combination of strategies. Coke is available in most markets of the world; however, to adapt to local tastes, Coca-Cola also produces other soft drinks, including Thums Up in India and Beverly in Italy. Coca-Cola Recipes are tailored to each market's specific tastes.

Companies use three major types of globalization strategies:

- **Global strategy.** This strategy regards the world as one big market. The product and its marketing are uniform across the globe. Key decisions are centralized at corporate headquarters in the business's home country. The major strengths of this strategy are that it allows companies to take advantage of economies of scale (proportionate savings gained by producing larger quantities), develop products faster, and co-ordinate activities. The weaknesses are a lack of response to individual cultures and the need for intense synchronization and communication between countries. This strategy has an ethnocentric view—that is, the idea that all people want the same products and will respond in a similar fashion to the marketing strategies used in the home market. Jeans manufacturer Levi Strauss uses this strategy, because its product fulfills similar needs, and is used in the same way, throughout the world.



Coca-Cola as it is marketed in North America.



Coca-Cola produces Thums Up for its Indian market.



An ad for Coca-Cola near the Great Wall of China outside Beijing includes some features recognizable to North Americans, as well as a markedly different bottle label.

Think About It!

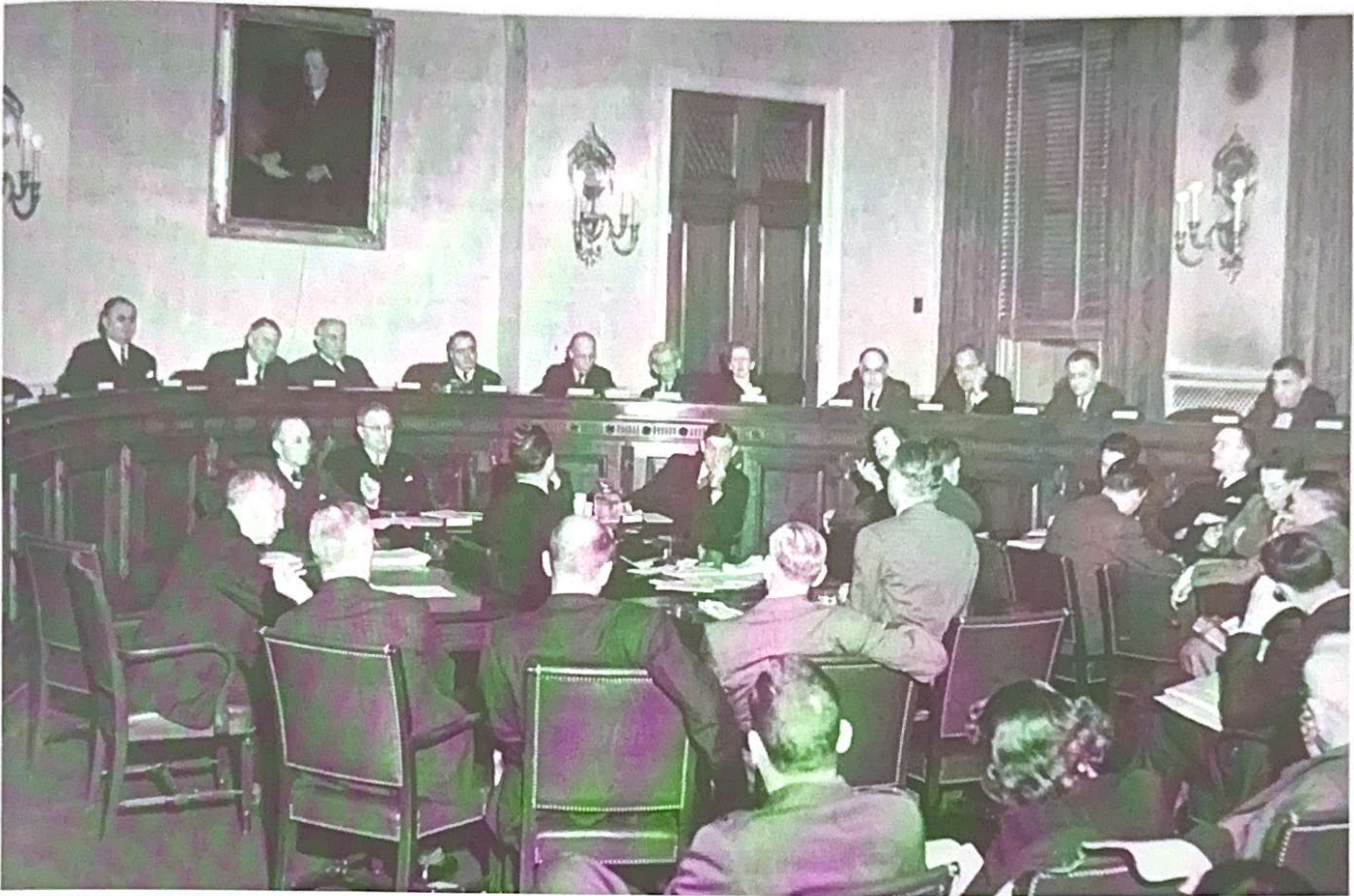


- 5.1. What is globalization?
- 5.2. State four positive effects of globalization.
- 5.3. State four negative effects of globalization.
- 5.4. State and define the three types of globalization strategies.

- **Multidomestic strategy.** This strategy tries to customize products, services, and marketing for the local culture, and is effective when cultural differences are prominent. Decisions are decentralized and made with local needs and customs in mind. The competition in each market is also considered. Advantages of a multidomestic strategy include less political and exchange-rate risk, increased product differentiation, and greater responsiveness to local needs. This strategy has a polycentric view, which is the idea that local management is most capable of determining what is best for the local subsidiary. European companies often use this strategy because of the different cultures, history, and languages found in Europe. McDonald's also uses a multidomestic strategy, adjusting its menu throughout the world to adapt to cultural tastes. In India, the Maharaja Mac is made from lamb or chicken because Hindus do not eat beef. In Japan, a shrimp burger called the Ebi-filet-O is served; in Norway, a salmon-and-dill sandwich called the McLaks is on the menu; and in Greece, a Greek Mac is made with a pita, not a bun. In Germany, McDonald's serves beer.
- **Transnational strategy.** This strategy tries to combine the best elements of the global and multidomestic strategies. It attempts to respect the needs of the local market, while maintaining the efficiencies of a global strategy. Products are manufactured at the least expensive source, while human resources and marketing are achieved at a local level. This strategy is difficult to accomplish because of the simultaneous need for strong controls and commitment to local diversity. This strategy has a geocentric view that values both local differences and what is best for the company. For example, if the company can produce the product less expensively in one country to exploit economies of scale, it will use this production method. If the company needs a new vice-president, it will select the best person for the job regardless of their ethnicity; but in many cases, a local person who understands the culture and market will get the job. Coca-Cola successfully uses a transnational strategy. As described at the beginning of this section, its main soft drink, Coke, is primarily the same product throughout the world. However, its marketing strategies vary in each location, and its senior executives are hired locally from around the world.



McDonald's adapts its menu to meet cultural preferences. In India, the Maharaja Mac is made from lamb or chicken because Hindus do not eat beef.



The Bretton Woods Conference (formally known as the United Nations Monetary and Financial Conference) in 1944 led to the formation of the International Monetary Fund and the World Bank.

Trade Agreements

The idea of globalization began to gain prominence when representatives from many countries met at the Bretton Woods Conference in July of 1944. The conference established stable currency exchange systems and free trade. It also laid the foundations for the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (now called the World Bank). In subsequent years, a variety of other trade organizations were formed. These trade organizations led to a series of trade agreements throughout the world.

A **trade agreement** is an enforceable treaty between two or more countries that addresses the movement of goods and services, eliminates trade barriers, establishes terms of trade, and encourages foreign investment. There are many worldwide trade agreements. These include multi-lateral agreements (which involve three or more parties), such as NAFTA, and the European Union, and bilateral agreements (which involve two parties), such as the Canada-Costa Rica Free Trade Agreement (CCRFTA) and the Canada-Israel Free Trade Agreement (CIFTA). Trade agreements are critical to a country like Canada, with a relatively small population and GDP, because they allow decisions to be based on the rule of law rather than on economic power. A number of Canada's trade agreements are listed in **Table 5.1** on page 130.

Table 5.1: Canada's International Trade Agreements

Country	Agreement Name
United States	North American Free Trade Agreement (NAFTA)
Mexico	NAFTA
Iceland	European Free Trade Association (EFTA; Canada is party to this agreement with the four states of the European Free Trade Association)
Liechtenstein	EFTA
Norway	EFTA
Switzerland	EFTA
Chile	Canada-Chile Free Trade Agreement
Israel	Canada-Israel Free Trade Agreement
Costa Rica	Canada-Costa Rica Free Trade Agreement
Jordan	Canada-Jordan Free Trade Agreement
Colombia	Canada-Colombia Free Trade Agreement
Peru	Canada-Peru Free Trade Agreement

The North American Free Trade Agreement (NAFTA)

In January 1994, Canada, the United States, and Mexico launched the world's largest free trade area. The **North American Free Trade Agreement (NAFTA)** sets rules surrounding the movement of goods, services, and investments across North America. It eliminates tariffs and other trade barriers, and promotes fair competition among the three countries. Intellectual property rights, including patents, copyrights, trademarks, and technical designs, are also protected across the continent.

Advantages of NAFTA

Since its inception, NAFTA has benefitted many manufacturers, consumers, workers, and families in each country. NAFTA has increased prosperity for North American citizens. Many higher-paying jobs have been created in Canada in the education, engineering, and banking sectors, and market competition has grown, improving choices for consumers.

NAFTA has been beneficial to businesses by allowing a freer flow of goods and services across North American borders. This provides businesses with access to better raw materials, talent, capital, and technology. This flow is critical if North America is to remain competitive against the rising economies in Asia.

Since NAFTA's inception, trade has tripled between the three partners, reaching CAD\$961 billion (USD\$894.3 billion). The exchange between Canada and the United States has doubled. Trade between the three countries has reached CAD\$2.6 billion (USD\$2.5 billion) a day, or CAD\$11 million (USD\$10.2 million) each hour. North American GDP has doubled since NAFTA began. The cumulative GDP of the partner countries reached CAD\$17.3 trillion in 2007, up from CAD\$9.8 trillion in 1993. Employment has improved almost 24 percent, with the addition of 39.9 million jobs.

Disadvantages of NAFTA

Labour costs in Mexico are substantially lower than in Canada and the United States. As a result, many manufacturing jobs have been lost to Mexico. In cases where jobs have stayed in Canada and the United States, employers may threaten to move manufacturing facilities if employees do not accept lower wages. This limits wage growth. Since NAFTA's inception the wage gap (between the rich and the poor) in the United States has widened.

In Mexico, small farmers have protested NAFTA, stating that when tariffs on corn, beans, sugar, and milk imported into Mexico were lifted, it became too difficult to compete. Many of these farmers have left Mexico and migrated to the United States. Mexico's pollution has increased because it is more concerned with financial and economic growth than environmental regulations. Mexico has also had to deal with *maquiladoras*, factories established by U.S. companies in Mexico. At these factories, U.S. companies employ workers who have little health protection, work twelve hours a day, and earn low wages. Canada's main disagreements with NAFTA are a loss of Canadian culture and Canadian companies being sold to foreign investors.



Mexican demonstrators protest the end of import protections for the country's farm goods, including beans and corn, which were granted when NAFTA was negotiated in 1993.

Think About It!



- 5.5. What is a trade agreement?
- 5.6. What is NAFTA?
- 5.7. State and explain three advantages of NAFTA.
- 5.8. State and explain three disadvantages of NAFTA.
- 5.9. Name four trade agreements Canada has signed.

Other Agreements

Canada is involved in creating the Free Trade Area of the Americas (FTAA), which would encompass all of the countries in North and South America except Cuba. It would be the world's largest trading zone, with a GDP in excess of \$19.2 trillion and would include approximately 36 percent of the world's economic activity. The agreement was set to be signed in January 2005 but was not, because Brazil and Venezuela opposed the subsidies and agricultural provisions in the agreement. The countries involved have agreed to meet again, but have not set a specific timeline. As of the beginning of 2010, Canada also had pending free trade agreements with the European Union, Morocco, Panama, Korea, Singapore, the Caribbean Community, Dominican Republic, and Central America.

Tax Treaties

Canada has established a series of tax treaties or agreements with countries throughout the world. A tax treaty is created to prevent double taxation and tax evasion for people who would pay taxes in Canada and another country on the same income. The treaty determines how much tax each country can collect on income received from pensions, wages, salaries, or interest. Canada has signed tax treaties with ninety-two other countries, including the United States, Japan, India, and New Zealand, and continues to negotiate and renegotiate treaties with other countries.

Tax treaties are also a factor in international business. They make business operations more predictable for companies expanding globally. Tax treaties allow goods, capital, and technology to move more easily across borders. In developing countries, tax treaties provide a framework for taxation and improve investor confidence.



Canada has signed tax treaties with many countries. In 2007, U.S. Secretary of Treasury Henry Paulson and Canadian Finance Minister Jim Flaherty signed a protocol to the Canada-U.S. Tax Treaty.



The majority of the countries in Europe are part of the European Union.

The European Union (EU)

Imagine arranging a shipment of goods from Windsor to Montreal. The distance is a little over 800 kilometres. Now imagine the shipment going approximately the same distance from Budapest, Hungary, to Amsterdam in the Netherlands. In Canada, the shipment would move easily along Highway 401 (Highway 20 in Quebec), its only impediment the busy traffic, especially around the GTA (Greater Toronto Area). The European shipment, however, would have to travel through five countries: Hungary, Slovakia, the Czech Republic, Germany, and the Netherlands. This would involve four border crossings, the use of five languages, five sets of import and transportation documents, and historically, five different currencies. The formation of the **European Union (EU)** has removed many of these obstacles.

The EU is a trade agreement encompassing twenty-seven countries in Europe and a population of almost half a billion people. It has its own flag, anthem, and currency. It also has common financial, security, and foreign policies. The treaty was first signed on November 1, 1993. It included the following twelve countries:

- | | |
|-----------------|-------------------|
| ■ Belgium | ■ Denmark |
| ■ France | ■ Germany |
| ■ Great Britain | ■ Greece |
| ■ Ireland | ■ Italy |
| ■ Luxembourg | ■ The Netherlands |
| ■ Portugal | ■ Spain |

In 1995, Austria, Finland, and Sweden joined the European Union. Ten new countries joined in 2004:

- | | |
|------------|------------------|
| ■ Cyprus | ■ Czech Republic |
| ■ Estonia | ■ Hungary |
| ■ Latvia | ■ Lithuania |
| ■ Malta | ■ Poland |
| ■ Slovakia | ■ Slovenia |

Finally, in 2007, Bulgaria and Romania joined.

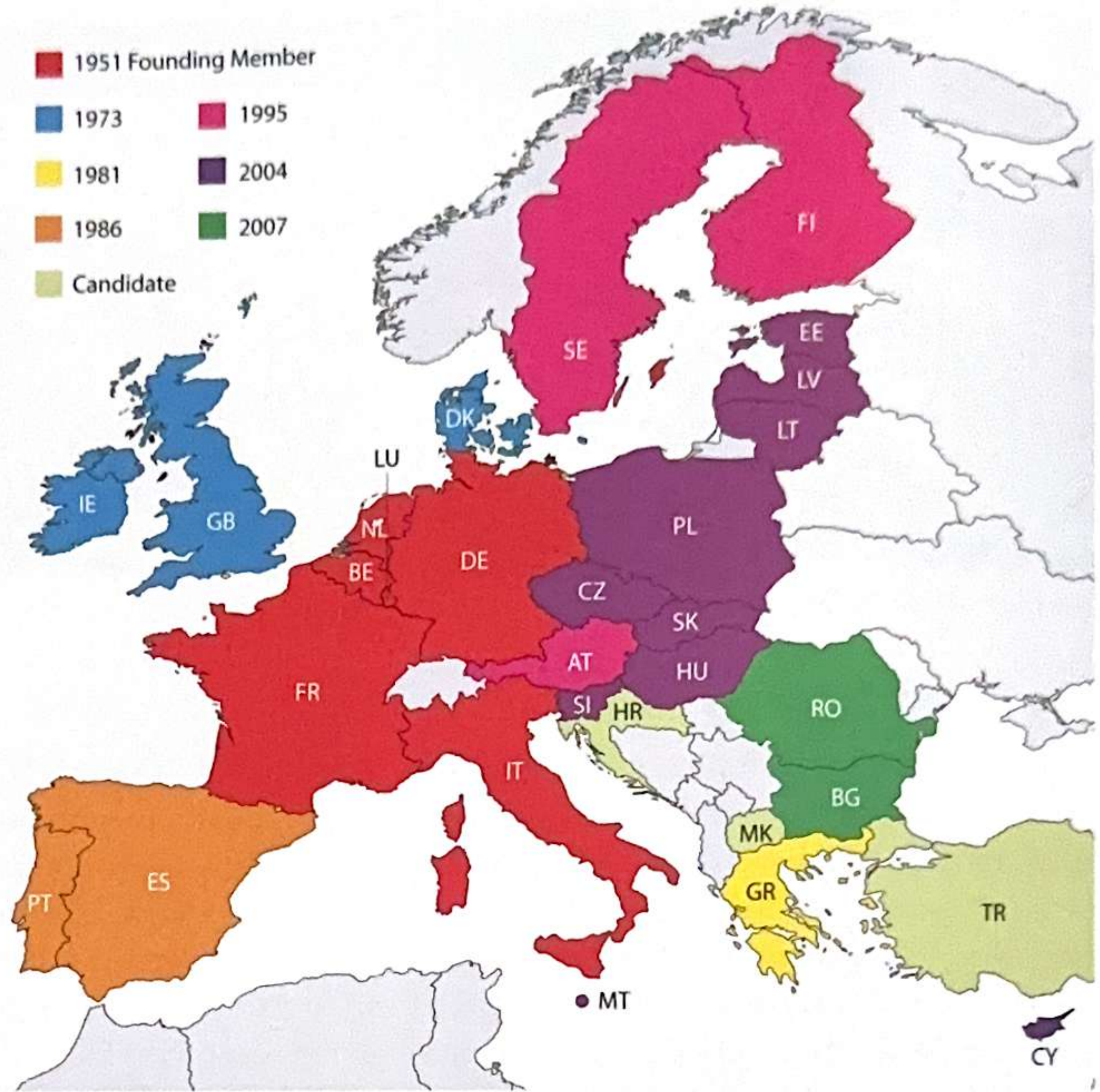
Member countries:

- AT: Austria (€)
- BE: Belgium (€)
- BG: Bulgaria
- CY: Cyprus (€)
- CZ: Czech Republic
- DK: Denmark
- EE: Estonia
- FI: Finland (€)
- FR: France (€)
- DE: Germany (€)
- GR: Greece (€)
- HU: Hungary
- IE: Ireland (€)
- IT: Italy (€)
- LV: Latvia
- LT: Lithuania
- LU: Luxembourg (€)
- MT: Malta (€)
- NL: Netherlands (€)
- PL: Poland
- PT: Portugal (€)
- RO: Romania
- SK: Slovakia (€)
- SI: Slovenia (€)
- ES: Spain (€)
- SE: Sweden
- GB: United Kingdom

Candidates:

- HR: Croatia
- MK: Former Yug. Rep. of Macedonia
- TR: Turkey

- 1951 Founding Member
- 1973
- 1981
- 1986
- Candidate
- 1995
- 2004
- 2007



Turkey, Macedonia, and Croatia are candidate countries for joining the EU. The criteria for becoming an EU member are economic stability, market economy, democratic government, positive human rights record, legal institutions, and the ability to administer the EU laws and policies.

The purpose of the EU is to promote peace, economic growth, government co-operation, strong bonds between people, political integration, and to ensure that the population can prosper in a safe society. This single market allows labour, goods, services, and investments to flow freely across borders. The agreement eliminates protectionism and allows all governments to purchase goods from each of the EU countries. Since the agreement was signed, trade across European borders has dramatically increased and the EU has become a trading superpower. In 2008, its GDP was the largest in the world at CAD\$19.5 trillion. The EU faces difficulties in achieving its goals because there is a wide gap in the per capita income of its member countries, and the newly admitted countries are less developed technologically and economically.

The European Union headquarters are located in Brussels, Belgium. The EU consists of three major organizations. The main decision-making body is the Council of the European Union, which is made up of one representative from each member country. The council's presidency rotates every six months. Different representatives go to the council's meetings depending on the topic under discussion. For example, environment ministers from each country go when environmental issues are being discussed. If the European Union is making a major decision, such as whether to let a new member into the EU, the vote must be unanimous, although for most decisions, a majority is sufficient.



The headquarters of the European Union are located in Brussels, Belgium.

The second organization is the European Parliament, elected by the population of the EU to pass European laws, establish a budget, and supervise the other EU institutions. It meets four times a year.

The third organization is the European Commission, which is responsible for managing the day-to-day operations of the EU. It does not have a national focus, but represents the EU as a whole. The European Commission negotiates trade agreements and allows members to have a united voice in international affairs.

The Euro

One of the major accomplishments of the EU is its implementation of a common currency—the **euro**. The euro was adopted by twelve of the originating countries—Great Britain, Sweden, and Denmark did not change currencies. Since then, Slovenia, Slovakia, Malta, and Cyprus have been allowed to use the common currency. All new EU member states are expected to adopt the euro, but to do so they must meet stringent monetary standards regarding price and exchange-rate stability, inflation, government deficits, and public debt. The monetary policy of the EU is governed by the European Central Bank.

The euro provides many advantages for the EU. These include:

- **Decreasing the risk of exchange-rate fluctuations.** Consumers do not have to speculate about changes in the exchange rate.
- **Price transparency.** Consumers are able to compare prices from country to country.



The European Union's monetary policy is governed by the European Central Bank in Frankfurt, Germany.



The European Union's adoption of a common currency—the euro—has made it possible for consumers to compare prices from country to country easily.

Think About It!



- 5.10. What is the purpose of the European Union?
- 5.11. Where are the headquarters for the EU?
- 5.12. What are the three governing bodies of the EU? What is each one's purpose?
- 5.13. State five advantages of the euro.
- 5.14. State two disadvantages of the euro.

- **Elimination of transaction costs.** Consumers do not need to pay fees to financial institutions for currency transactions.
- **Easy billing.** It is simpler for companies to bill customers in other EU countries.
- **Increased markets.** A single currency makes it easier to expand into other countries because accounting and billing practices do not need to be adapted.
- **Economic stability.** The European Central Bank provides macroeconomic stability, which has allowed inflation rates and interest rates to remain lower.
- **Enhanced labour movement.** It is easier for employees to work in other countries, because they are paid in a common currency.

There are also some disadvantages of a common currency. These are:

- **Initial costs.** Many costs are incurred when currency is changed. These include implementing new accounting software, designing and creating the new currency, and adapting signs, cash registers, vending machines, phone booths, and other cash machines.
- **Lack of national control.** Countries are no longer able to adjust their interest rates and their exchange rates to influence their monetary policies.
- **Loss of tradition.** Adopting a common currency changes a country's culture and history.

Canada and the European Union

The European Union is Canada's second-largest export trading partner after the United States. In 2008, merchandise trade between Canada and the EU reached CAD\$90 billion. Canada's major exports to the European Union include metals, precious stones, machinery, and oil. Canada is the fourth-largest source of foreign investment for the EU and the EU is the second-largest foreign investor in Canada. The European Union is also an important source of new technology for Canada. In 2009, Canada and the EU met to start negotiations on a free trade agreement.

Frank and Ernest



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Trade Organizations

Trade agreements are enforceable treaties. **Trade organizations** are groups established to help with the free flow of goods and services. These organizations may be global in their scope, such as the World Trade Organization (WTO) or Asia-Pacific Economic Co-operation (APEC). They may also be national organizations created by individual governments to help domestic companies expand into international markets. An example is the Japan External Trade Organization (JETRO) Canada, which helps Canadian companies import or export with Japan.

Table 5.2: Trade Organizations in which Canada Participates

Organization	Purpose
World Trade Organization (WTO)	Settles trade disputes
Asia-Pacific Economic Co-operation (APEC)	Promotes trade in the Pacific Rim countries
Group of Eight (G8)	Discusses macroeconomic issues such as trade, economic growth, and poverty
Group of Twenty (G20)	Discusses financial stability and the growth of developing countries
Organization for Economic Development and Co-operation (OECD)	Promotes democracy and market economies
The World Bank	Provides monetary support for developing countries
International Monetary Fund (IMF)	Tracks and analyzes economic trends



Delegates attend a World Trade Organization ministerial meeting in New Delhi, India, in September 2009, aimed at bridging the differences between developed and developing countries.

World Trade Organization (WTO)

The **World Trade Organization (WTO)** promotes trade liberalization (or easing trade restrictions) throughout the world. Economic prosperity and social development are at the heart of the WTO. It has 153 member countries, and its decisions are made by consensus. The three main purposes of the organization, established in 1995, are to provide:

- **A forum for negotiations.** The WTO is a place where countries can discuss their trade disparities and come to mutually agreeable solutions.
- **A set of rules.** The WTO's rules, or agreements, have been negotiated and signed by the governments of member countries to set guidelines for trade between nations. They promote the flow of goods and services across borders and eliminate trade barriers.
- **Dispute settlement.** The WTO is a forum for countries to consult, mediate, and arbitrate discrepancies in how countries have interpreted their trade agreements.

The WTO provides protection of intellectual property, including patents, copyrights, trademarks, geographical names used to identify products, and trade secrets. A patent under the WTO provides protection for twenty years; during that time no company in any of the 153 member states can create a product or use a process that has been patented.

There are many benefits to the WTO. It promotes peace by ensuring nations can trade fairly, and disputes are settled by consensus. The organization encourages governments to act fairly and limit protectionist policies. This lowers the cost and raises the standard of living worldwide: food, clothes, and other necessities are less expensive when high duties and tariffs are removed. Free trade has allowed for increased incomes and product selection, and greater economic prosperity.

There are also many criticisms of the WTO, and there are often major protests when it meets, as there were in Hong Kong in 2005. Common criticisms are that the WTO destabilizes markets, and drains resources and labour from developing countries. The WTO encourages countries to produce what they can most efficiently. Rather than having farmers in



Thousands of protesters demonstrated outside the WTO ministerial conference in Hong Kong in 2005. Many were South Korean farmers demanding protection against inexpensive rice imports.

Impact: Ethics



Is patent protection fair in the pharmaceutical industry?

Yes: Companies that invest in pharmaceutical research should be able to recoup costs and make a profit.

No: Citizens of poor countries do not get access to life-saving drugs because they cannot afford them.

an underdeveloped country grow soybeans, the WTO may recommend that a developed country do so. In theory, people in the underdeveloped country could then purchase soybeans at a lower price because of the increased efficiency, and the farmers would switch to growing alternate crops or working in other industries. In reality, this switch may not be possible because of lack of education, training, or viable crops. Critics also argue that the WTO helps the unfair distribution of intellectual property. Some pharmaceutical drugs are protected under WTO patent laws, which prevents other companies from producing generic, affordable versions of these drugs. The antiretroviral drugs used to combat HIV/AIDS are an example of medications patented by the WTO that are too expensive to be purchased by many who need them.

The WTO's decisions are not always clear and definitive, and negotiations can be complex and variable. The dispute involving Canadian softwood lumber, which began in 2002, went before the WTO. The United States believed that Canadian lumber was unfairly subsidized by provincial and federal governments, and argued that this allowed Canadian lumber producers to charge lower prices. The WTO ruled in favour of Canada, then overturned its decision before once again ruling in Canada's favour. The United States refused to abide by the WTO ruling. The issue was finally settled in 2006 when the Canadian and U.S. governments reached an agreement that would see the U.S. pay back \$4 billion of the import duties it had charged Canadian lumber companies.

Newsworthy: Naming Rights

Can Any Country Produce Roquefort Cheese?

Geographic indications, under the WTO TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement, protect location names that consumers associate with quality and reputation. For example, companies cannot use the names Champagne, Tequila, or Roquefort unless their products they are made in these regions. However, if a name has become commonly used and generic, a geographic indication is not possible. An example of this is cheddar cheese. Cheese does not have to come from the Cheddar region of the United Kingdom to be called cheddar cheese.

Questions

1. What is a geographic indication?
2. What trade organization provides this protection? Why is this appropriate?
3. Research and list other products that are associated with a particular geographic region.



Roquefort cheese and Champagne need to be made in specific places to use those names while cheddar cheese can be made in different places.

Canada and the WTO

Canada supports the WTO because trade is vital to Canada's success. Canada is the ninth-largest exporter in the world and the tenth-largest importer. Canada, a country with a very small population and little power, gains strength and support through its dealings with the WTO. Canada's priorities with respect to WTO negotiations are to reform global agricultural trade, improve market access for Canadian exporters, enhance rules on dumping and subsidies, and speed up border crossings.

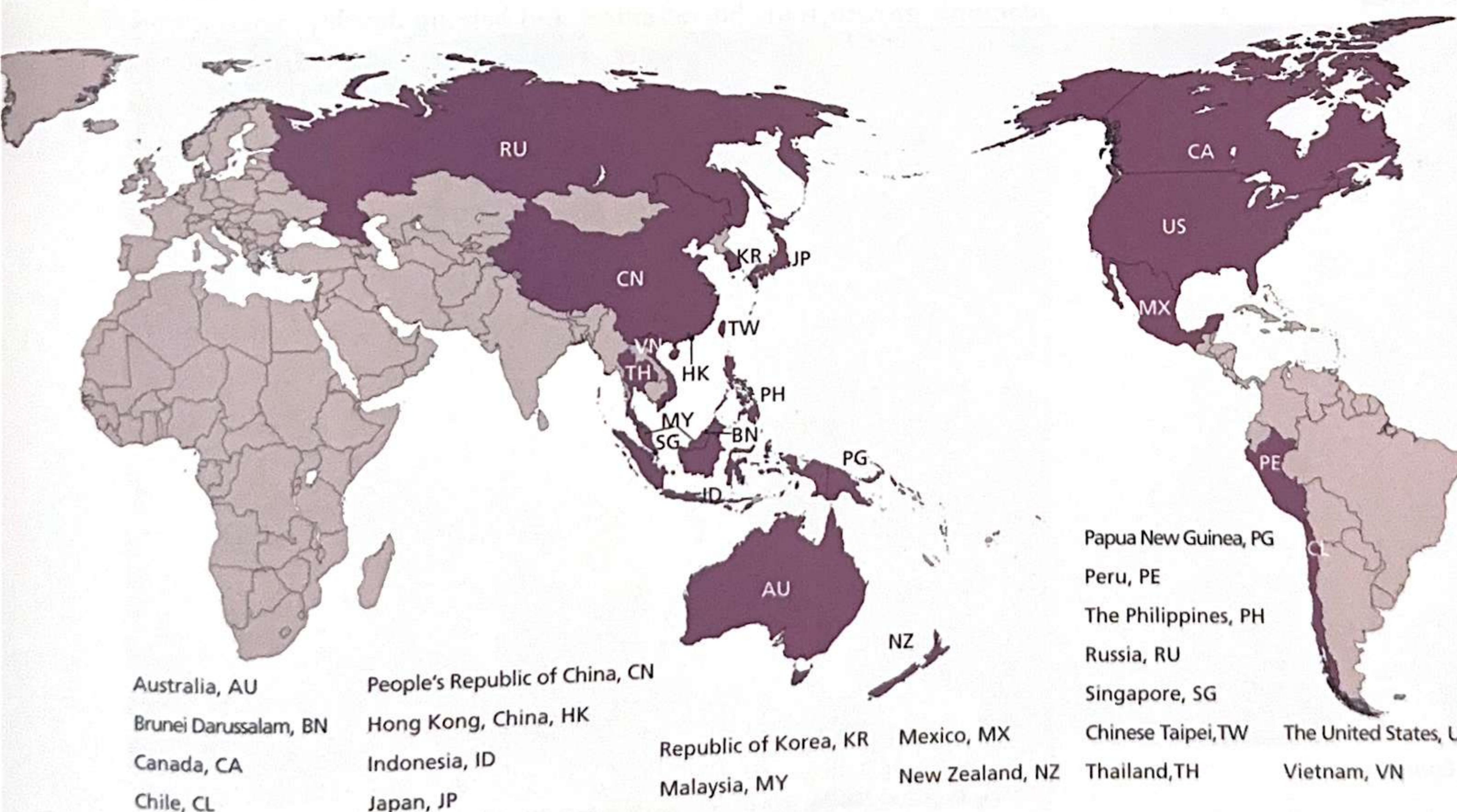
Asia-Pacific Economic Co-operation (APEC)

The **Asia-Pacific Economic Co-operation (APEC)**, created in 1989, is a trade organization that unites many of the countries surrounding the Pacific Ocean. APEC's twenty-one member countries comprise 40.5 percent of the globe's population, roughly 54 percent of its GDP, and approximately 43 percent of international trade. APEC is not established by treaties, but is based on consensus, and commitments are voluntary. APEC meetings are held annually, with the host country rotating each year. Canada last hosted in 1997 in Vancouver.

APEC's goals are to foster open and free trade among its members, increase prosperity and economic growth, and develop the Asia-Pacific community. APEC's work focuses on its three pillars: trade and investment liberalization, business facilitation, and economic and technical co-operation. Beyond trade, APEC also discusses climate change, security and terrorism, global economic success and integration, and emergency preparedness. The organization has decreased tariffs and trade barriers between its members, which has caused a dramatic increase in exports. Since APEC was created, trade between participating members has increased almost 400 percent. The map below depicts APEC member countries.

Think About It!

- 5.15. What is the WTO?
- 5.16. What are the three purposes of the WTO?
- 5.17. What are the advantages of the WTO?
- 5.18. What are the criticisms of the WTO?
- 5.19. Explain why the WTO is vital to Canada.
- 5.20. What is APEC?
- 5.21. Describe the size of APEC.
- 5.22. State and describe APEC's three pillars.
- 5.23. Describe how APEC has benefitted its members.





The leaders of the G8 meet once a year. The host country (in this case, Italy in 2009) sets the agenda.

The Group of Eight (G8)

The **Group of Eight (G8)** is a trade organization encompassing the major economies of the world. It was established as the G6 in 1975, when France, the United States, Great Britain, Italy, Germany, and Japan met to discuss global issues affecting all of the countries. Canada joined the following year (creating the G7), and the European Union joined the year after (though the organization remained the G7). The representative of the European Union cannot host or chair the organization. The G8 was created when Russia became a full member in 1998. The G8 differs from the WTO because it does not settle trade disputes.

The purpose of the G8 is to discuss macroeconomic issues, such as economic growth, trade liberalization, and helping developing countries. The G8 also discusses other issues, including the information highway, terrorism, climate control, energy, arms control, crime, and drugs. When the G8 met in 2009, it addressed the economic crisis, North Korea's nuclear tests and ballistic missile launches, and the environment.

The G8 leaders meet once a year on a rotational basis. The host country sets the agenda and takes on the leadership role. Throughout the year, a series of ministerial meetings on current and critical topics are held. For example, it is common for the finance ministers, environment ministers, and foreign ministers of each country to meet on issues critical to their portfolios. The G8 also establishes a series of working committees that discuss topical global issues, such as terrorism, nuclear energy, and organized crime. These meetings also provide an opportunity for busy leaders to network with each other and establish critical personal relationships.

The Group of Twenty (G20)

The **Group of Twenty (G20)** was established during the economic crisis of the 1990s to provide a discussion forum for the major economies of the world. The formation of the G20 filled the need to develop beyond the G8 and acknowledged the influence that countries such as Brazil, Russia, India, and China (BRIC countries) were having on world

G20 Countries

- Argentina
- Australia
- Brazil
- Canada
- China
- France
- Germany
- India
- Indonesia
- Italy
- Japan
- Mexico
- Russia
- Saudi Arabia
- South Africa
- South Korea
- Turkey
- United Kingdom
- United States of America
- The European Union

economics and trade. The G20 encompasses 90 percent of the world's gross national product, 80 percent of international trade, and 66 percent of the globe's population.

The purpose of the G20 is to strengthen economic ties throughout the world. It focuses on economic and employment growth, eliminating trade barriers, reforming financial institutions and regulations, and restructuring global financial organizations such as the International Monetary Fund and the World Bank. For example, when the G20 met in Pittsburgh in 2009, it discussed economic stability, climate change, and international food security.

The G20's importance has increased dramatically because of the emergence of economies beyond the members of the G8. When the economic crisis of 2008 hit, governments reacted by calling an emergency G20 meeting to discuss financial reform and stability regulations. It was critical that the world's major economies meet to create a comprehensive global framework for dealing with the situation.

Canada's Place in the G8 and G20

Canada needs to be concerned with its place in the global market. Canada is a very small player in comparison to the other G20 populations and GDPs. Canada's role will become smaller over time. There is talk among other countries that Canada should be replaced in the G8, and placed as a second-tier country in the G20. Becoming a rule taker instead of a rule maker will have a detrimental effect on Canada. Canada's needs, concerns, and interests will not be given the same consideration as in the past.

As of 2010, Canada has hosted the G8 countries five times, in Montebello, Toronto, Halifax, Kananaskis, and Huntsville. Canada also hosted the 2000 and 2001 G20 meetings in Montreal and Ottawa respectively, and the 2010 G20 meeting in Toronto.

Impact: Society

Do meetings of the leaders of trade organizations (such as the G8 and G20) really accomplish anything?

- ▶ Yes: The leaders' meetings provide an opportunity to have meaningful dialogue on economic issues.
- ▶ No: The leaders' meetings are expensive photo opportunities for politicians and do not really accomplish anything.



At the G20 Summit on Financial Markets and the World Economy in Washington, D.C., in November 2008, leaders agreed to take action together in response to the global financial crisis.



The OECD hosts forums on the progress of societies, where they work in collaboration to develop key economic, environmental, and social indicators that show how a particular society is evolving.

Organization for Economic Co-operation and Development (OECD)

The **Organization for Economic Co-operation and Development (OECD)** is a trade organization for the advancement of democracy and market economies. The group was established in 1961, with its headquarters in Paris, France. It has thirty member countries, including Canada.

The mission of the OECD is to:

- Promote economic growth
- Expand employment
- Improve the standard of living
- Sustain financial stability
- Help countries' economic development
- Enhance world trade

The OECD produces a series of publications on topics such as sustainable development, world health data, economic statistics, and international trade. The OECD's research into Canada's economy, published as the "Economic Survey of Canada," is of particular interest to Canadian companies. Canadian exporters will find similar research into other countries. The OECD has been instrumental in getting its member countries to work together to eliminate bribery, money laundering, and fraud, and to create a code of conduct for multinational companies.

The World Bank

The **World Bank** is not a bank in the traditional sense. It is an organization of 186 member countries (including Canada) that provides monetary and technical support for developing countries. The organization is composed of two separate institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD works primarily with developing and creditworthy underdeveloped countries, while the IDA assists the least prosperous countries in the world.

The World Bank provides loans and grants to poor countries to assist with education, health, infrastructure, farming, environmental issues, resource management, and other economic concerns. It provides funds to support HIV/AIDS assistance, biodiversity projects, clean water, electricity, and transportation, and helps poor countries move beyond conflict. In response to the worldwide food shortage, the World Bank established the Global Food Crisis Response Program (GFRP) in May 2008. By April 2009, the GFRP had a budget of \$2 billion for immediate relief to help those hit hardest by the rise in food prices and resulting food shortage. The money was used to feed the most vulnerable: children, pregnant women, and new mothers.

Canada donated USD\$200 million to the Global Trade Liquidity Program in 2009. The program is run by the World Bank, to support trade financing in developing countries. This money will be used to help these countries get their goods to the global marketplace.

There are many criticisms of the World Bank. Critics say that its policies have caused many countries to suffer because of the rules it imposes in order to receive a loan. For example, in Honduras, the World Bank imposed free market policies in return for a loan. Honduras eliminated trade tariffs and farm subsidies, and harvested more lucrative crops. The policies caused Honduran farms to switch from producing food to non-consumption crops, such as African palms. The country, which at one time produced 90 percent of the rice it consumed, now imports 83 percent of the rice it needs to feed its population. Because of rising fuel prices and the worldwide shortage of rice, Hondurans are unable to afford to buy the product they once produced in abundance.



The World Bank, located in Washington, provides loans and grants to developing countries to fund education, health care, infrastructure, farming, and so on.

The International Monetary Fund (IMF)

The **International Monetary Fund (IMF)** is an organization that tracks economic trends, analyzes countries' financial performances, warns governments of potential financial problems, provides expertise to governments, and provides a forum for discussion. The IMF represents 186 member countries, including Canada. The people who work at the IMF are principally economists with expertise in macroeconomic issues.

The purpose of the IMF is to promote financial stability, prevent and solve economic crises, encourage growth, and assuage poverty. It accomplishes this through three activities:

- Encouraging countries to adopt responsible economic policies
- Lending money to emerging and developing countries
- Providing technical training in areas such as banking regulations and exchange rate policies

For example, when the currency of Turkey devalued significantly in 2001, the IMF provided loans to help the country's economy stabilize. These loans came with stipulations, such as closing unsuccessful banks and eliminating the fixed currency exchange rate.

Not all IMF policies have had positive results. During the 1997 Asian financial crisis, the IMF required some countries to raise interest rates to their highest levels. This caused the crisis to deepen. The IMF is also often accused of increasing poverty rather than alleviating it. IMF loans often come with strict conditions that emphasize inflation controls and limit government spending. This can result in governments having to cut back on social program spending in such areas as health and education.



The International Monetary Fund spring meetings in Washington in April 2009 attracted protesters, some of whom argued that the IMF increases, rather than relieves, poverty.

Other Trade Organizations

There are many organizations around the world that assist in the flow of trade. Listed below are some of these organizations:

Organization	Purpose
Organization of Petroleum Exporting Countries (OPEC)	This twelve-member organization promotes a stable supply of oil, reduces harmful fluctuations, and secures a steady income for its members.
World Economic Forum (WEF)	A non-profit organization run by the Swiss government to build worldwide communities, influence financial strategies, and help improve global initiatives.
International Chamber of Commerce (ICC)	A global business organization that advises governments on issues such as corruption, business laws, competition, marketing, taxation, logistics, trade, and economic policies.
Canadian International Trade Tribunal (CITT)	An organization under the Canadian Minister of Finance that deals with inquiries about trade issues and complaints covered by NAFTA and the WTO.

Canadian Trade Assistance Organizations

Canada also has many organizations that assist in trade. They provide a wide variety of services, including education, research, and sustainable development. Some of these organizations are listed below:

Organization	Purpose
GLOBE Foundation of Canada	A Vancouver non-profit organization that promotes sustainable development and the idea that companies can make money and respect the environment simultaneously.
The Fraser Institute	A Canadian and American group that endorses a free and prosperous globe founded on individual choice, competitive markets, and personal responsibility.
C.D. Howe Institute	A Canadian organization that aims to improve Canada's standard of living through responsible economic and social policy.
CIGI—Centre for International Governance Innovation	A think tank based in Waterloo, Ontario that generates ideas to help with global issues, including issues involving trade. It supports research, workshops, publications, and public events.

The Role of the United Nations in International Business

The United Nations is not a government, rather it is a distinctive organization of countries that strives for world peace and social advancement. It was established in 1945 during World War II by world leaders as a mechanism to create peace and eliminate war. It has grown to include 192 countries. Its representatives discuss and collaborate on issues that affect the entire world. The main United Nations building is located in New York City.

The United Nations has four main purposes:

- To keep peace throughout the world
- To develop friendly relations among nations
- To work together to help poor people live better lives, to conquer hunger, disease, and illiteracy, and to encourage respect for each other's rights and freedoms
- To be a centre for helping nations achieve these goals

Today, the United Nations works to alleviate poverty, help eradicate land mines, improve food production, advance human rights, advocate democracy, organize disaster relief, and promote social justice. One of its greatest efforts is in the area of peacekeeping. Specialized agencies run by the UN include the International Labour Organization (ILO), the International Monetary Fund, the World Health Organization (WHO), the World Bank, and UNICEF.

What is the UN's role in international business? Aside from being responsible for the ILO, the IMF and the World Bank, the Charter of the United Nations declares the UN's commitment to devoting resources to improving the standard of living, the unemployment rate, and economic conditions throughout the world. The UN Economic and Financial Committee deals with issues such as international trade, sustainable development, globalization, and poverty elimination. The UN creates and fosters a strong economic climate so that international trade and businesses can succeed.

Think About It!

- 5.24. What is the purpose of the G8?
- 5.25. Name the countries involved in the G8.
- 5.26. What is the purpose of the G20?
- 5.27. Name ten countries that are part of the G20.
- 5.28. Describe what the OECD does.
- 5.29. What is the World Bank? What two institutions make up the World Bank?
- 5.30. What is the purpose of the World Bank?
- 5.31. Describe the purpose of the IMF.

Frank and Ernest



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Chapter Questions

Knowledge

1. Explain how globalization leads to increased productivity and innovation.
2. Explain how globalization speeds the spread of disease. State two examples.
3. What is the difference between a trade agreement and a trade organization?
4. Name five of Canada's trade agreements.
5. Why was the euro created?
6. Describe how the formation and expansion of the EU is beneficial to Canada.
7. What are Canada's priorities with respect to WTO negotiations?
8. What is the purpose of APEC?
9. Why was the G20 created?
10. Explain how the G20, the World Bank, and the IMF are connected.

Thinking

11. Explain how globalization affects the economies of the world.
12. One of the disadvantages of globalization is the fear of job loss. Explain how this fear affects employees and their companies.
13. Explain how NAFTA has been good and bad for Canada.
14. How have you personally gained or lost from NAFTA?
15. Explain how the adoption of the euro is good for a Canadian business exporting to Europe.
16. Explain how the WTO promotes international trade.
17. Why do you think the meetings of the G8, G20, and APEC rotate between the members?
18. What are the BRIC countries? Why is it important that they were included in the G20?
19. Why is the G20 becoming more important than the G8?
20. Why may Canada lose its prominence in world trade organizations? Why is it important that Canada remain a key player in these organizations?

Communication

21. Kofi Annan, a Ghanaian diplomat, the seventh secretary-general of the United Nations, and winner of the 2001 Nobel Peace Prize, stated, "It has been said that arguing against globalization is like arguing against the laws of gravity." What do you think he meant by this statement?
22. Research online to find the current status of the Free Trade Area of the Americas.