

## GLOBALIZATION AND NATIONAL ECONOMIC DEVELOPMENT: ANALYZING BENEFITS AND COSTS\*

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*Recognizing that liberalization of economies leads to economic growth, many governments throughout the world have been eager to embrace globalization. Generally this has led to higher rates of growth. Indeed, those countries which have avoided globalization have been the slowest growing group of economies. However, a growing number of individuals—many within the fastest growing economies, including the developed countries—are joining the protests against globalization. This paper attempts to explain the reasons for the push for and the protests against globalization. The objective of the paper is achieved by examining the impact of globalization on labor and capital markets.*

### INTRODUCTION

Globalization refers to a situation in which national economies amalgamate into an autonomous global economic system (Hill, 2002). In other words, globalization can be viewed as the shift towards a more integrated and interdependent world economy.<sup>1</sup> Globalization provides opportunities beyond domestic markets and allows for a greater degree of economies of scale in production and sales potential. As Adam Smith might have argued, the extent of specialization is extended by the size of the market. Globalization is closely linked to economic growth, which is related to the growth of international trade (Van Den Berg, 2001). Multinational Corporations (MNCs) are among the main engines of globalization, which is driven by capital seeking profits across national borders.

As this process of economic globalization proceeds, however, it impacts on other aspects of human organization. Critics charge that globalization will destroy the political power of a community by eroding the capacity of the state to operate as a defender of local customs and laws and an agency for mitigating the egalitarian impact of an unrestrained market and checking the power of large organizations of capital. They also argue that cherished aspects of society and culture may be homogenized by the conformist-encouraging products and marketing methods of private institutions with a global reach and an interest in creating a more uniform market for their products.

Globalization can be divided into two broad categories: the globalization of markets and the globalization of production. The globalization of markets is the coming together of distinct

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and separate national markets into a single global market. Globalization of markets is not standardization. As far as the consumer goods are concerned at present due to cultural and other differences there is little convergence in taste.<sup>2</sup> However in the area of capital-intensive manufactured products tastes are very similar, as, for example, with microprocessors, cars and aircraft. The same applies to the market for financial assets. Due to improvements in standards of living, customers are demanding specialized and customized products that draw from worldwide best practices.

Globalization of production refers to the inclination of firms to source goods and services from locations around the globe to take advantage of the availability of cheaper factors of production. This allows firms to reduce the average cost of production. In addition firms are able to supply a wider range of goods and services. Consumers benefit from lower costs and greater product diversity.<sup>3</sup> For a firm to have a sustainable long-term competitive advantage, it has to cater to customer needs in a way that cannot be easily copied or imitated. This must be done across a wide variety of markets (Prahalad & Hamel, 1990).

Globalization became a buzzword for describing business practices in the 1990s. Globalization is not a new phenomenon. It is a process that has been going on for centuries. However it gained momentum during the past few decades.<sup>4</sup> The big leap to more globally integrated markets took place in the second half of the 19<sup>th</sup> century. As indicated by O'Rourke and Williamson (1999), by 1914 prices in most domestic markets around the globe were influenced by foreign markets. The collapse of Soviet Union in 1991 and the realization by economies like India and China that import substitution and protectionism are not the right strategies to achieve rapid economic growth resulted in a major push for trade liberalization. As trade became globalized, even the large economies such as the U.S. realized that they cannot go it alone.<sup>5</sup> A number of significant events took place in 1990s: the devaluation of the Mexican peso in 1994; the Asian financial crisis of July 1997; the collapse of the Russian ruble in 1998; the fall of the Brazilian real in 1999; and more recently problems faced by Argentina. These developments have provided businesses with new challenges in their operations worldwide. Countries are becoming more involved in economic integration, which can be viewed as a compromise between protectionism and globalization (Baldwin, Cohen, Sapir, & Venables, 1999; El Kahal, 2001).

The successful industrialization by Taiwan, Singapore, South Korea and Hong Kong has convinced countries like China and India to embrace globalization. Since the end of the Second World War, significant progress has been made towards globalization, which means that in the areas of trade, production and finance the world has become much more interconnected and integrated than ever before. Countries that have embraced globalization have enjoyed very high rates of economic growth. It has been argued that high economic growth has resulted in political freedom. Higher economic growth has also allowed governments to increase social spending that has resulted in increases in life expectancy and literacy rates (Czinkota & Ronkainen, 2001). Globalization involves both positive and negative consequences. Gupta and Govindarajan (2001) have argued that globalization has ceased to be an option for firms and has become a strategic necessity for almost all businesses. Growth is a must if a business is to remain viable. Globalization provides new avenues for growth to business firms. However, the gap between the developed and developing countries is likely to increase if the developing countries do not participate in the process of

globalization. Those that do have realized higher growth rates and have narrowed the income gap between them and the developed countries.<sup>6</sup>

Strong government regulations and cultural differences divide the world into the three blocs of North America, the European Union and Japan. Of the world's largest 500 multinational enterprises, 434 are based in the triad, accounting for 90 per cent of the world's stock of foreign direct investment (Dunning, 1998). Globalization reduces the effectiveness of national governments in some areas of economic management. For example, it weakens national governments and reduces their ability to soften the effect of external shocks. However, globalization cannot erase the differences between countries or render local knowledge, local talent, and local relationships obsolete.

On one hand many governments around the globe, particularly in developed countries, are attempting to speed up the process of globalization. On the other hand, individuals residing mostly in developed countries are regularly organizing demonstrations against globalization. The main purpose of this paper is to examine the reasons for the push for and the protests against globalization. The objective of the paper is achieved by examining the drivers of globalization and its impact on labor and capital markets.

The paper is organized as follows. Section 2 deals with the drivers of globalization. The impact of globalization on the labor market is examined in section 3, while section 4 deals with the link between the globalization and the capital markets. Section 5 explicitly considers the potential disadvantages of globalization and the last section contains some concluding remarks.

## DRIVERS OF GLOBALIZATION VERSUS REGIONALIZATION

Globalization is changing the world economic landscape in fundamental ways. It has resulted in growing international integration of markets for capital, goods and services. Globalization is driven by a widespread push for liberalization of trade and capital markets. Increasing internationalization of production and distribution strategies, and technological progress is responsible for the rapid dismantling of barriers to (a) international trade in goods and services, and (b) international capital mobility. In other words, globalization is creating a situation where there is a wider market for trade and more commodities are traded. In addition there is relatively large private capital mobility. Technological advances and free market reforms adopted by developing economies have made significant contribution to the cause of globalization. In addition, some firms are attempting to defend their home markets from foreign competitors by entering the competitors' home markets. This has resulted in a significant increase in the size and number of multinational corporations.

Drivers of globalization can be divided into two broad categories: (1) decline in barriers to trade and capital mobility, and (2) technological improvements in the means of communication and transportation. Recent trends toward integration such as the formation of the European Union have resulted in significant changes in the world political map. The reduction in the barriers to trade and foreign investment and the privatization of industry are speeding up the opening of new markets by multinational firms.<sup>7</sup> Technological advances in computers and communications technology have contributed to an increased flow of ideas and information

across international boundaries.<sup>8</sup> Worldwide deregulation of the telecommunication industry has further reduced the marginal cost of computing and communications, which has enabled a massive increase in the flow of information across international boundaries. Consequently even small firms are able to compete globally.

Regionalization is favored by some nations because it is characterized by preferential trading arrangements among countries. Countries with different levels of economic development are also involved in regionalization (e.g., members of the North American Free Trade Area). Although regionalization and globalization appear to be very different from each other, regional and global strategies can complement each other (Mucchielli, Buckley, & Cordell, 1998). Morrison, Ricks, and Roth (1998) have argued that at the firm level, regional strategies represent a far safer and more manageable option as compared to more costly global strategies.

### GLOBALIZATION OF LABOR MARKETS

Economic changes often involve winners and losers. In order to complete the labor-intensive stage of production, multinational corporations (MNCs) are aggressively looking for production facilities in low wage countries like China, India and Mexico. This does not imply that MNCs are necessarily exploiting labor in less developed countries. In fact the wages paid by MNCs to workers in less developed countries are generally higher than the wages paid by domestic firms. However, the wages paid by MNCs to workers in less developed countries are lower than the wages paid to the workers in developed countries.

Numerous firms whose production facilities were initially based in high-wage countries have re-located to low-wage countries although their major markets remain in the high-income economies—like sports shoes manufacturers such as Nike. This has resulted in a significant decrease in the cost of production that is a feature in the globalization drive. However re-location of production facilities to low-wage countries has also led to a decrease in demand for unskilled or semi-skilled workers in developed countries, particularly in labor intensive manufacturing sectors like textiles, footwear and clothing. The disruption to the livelihood of affected workers in high wage countries has sometimes resulted in protests against globalization. It is interesting to note that protests against globalization are mainly taking place in the developed countries. Capital-poor developing countries usually benefit from foreign investment that creates employment. However, the relocation of resources due to economic integration generates friction, which is likely to result in protectionist pressures. These pressures are likely to increase if the affected countries cannot facilitate the relocation of resources through the creation of more flexible markets.

There has been a decline in the number of workers employed in the manufacturing sector in China (Statistical Bulletin of China, 2000). This reflects not only the increase in the productivity of workers but also the utilization of capital-intensive methods of production. Globalization is going to lead to greater competition in the market place, which is likely to result in accelerating product cycles. In such an environment there will be more uncertainty because firms will be permanently vulnerable. This will give rise to mergers that will result in the emergence of large firms specializing in the production of high quality products.

For a number of years developing countries like India relied heavily on less effective development strategies linked to import-substitution and protectionism. Failure of these strategies to achieve the desired level of industrialization—together with the collapse of their Soviet sponsor—resulted in their disbandment. Agiomirgianakis and Zervoycanni (2001) have argued that international labor mobility has a beneficial effect on national employment levels. On the other hand, Minzberg and Quinn (1991) consider globalization to be a strategy for success for the comparative advantage of the participant state. They argue that globalization is a strategy that increases profit and market share and firms are not interested in creating jobs and/or improving national welfare.

Krugman and Venables (1995) have indicated that the rise of manufacturing industries in less developed countries can lead to a decline in the manufacturing industries of the industrialized countries. Globalization allows firms to substitute high wage unskilled local workers with the low-wage unskilled workers overseas. Labor costs continue to affect investment locations. In the long-term, globalization can lead to the convergence in working conditions across countries.

Judy and D'Amico (1997) have considered the impact of globalization on the American workers. They argue that by year 2020, the present labor force, which is very productive, will retire.<sup>9</sup> They further argue that the new workforce is likely to be relatively less productive and hence there is a need for government intervention to ensure that the new workforce is at least as productive as the present workforce.

### **FOREIGN DIRECT INVESTMENT AND THE GLOBALIZATION OF CAPITAL MARKETS**

The emergence of MNCs is one of the most important developments in the history of international trading relations. MNCs are firms that own and/or control value-added activities in two or more countries. MNCs are vehicles for foreign direct investment (FDI). Some MNCs also engage in foreign production by means of cooperative alliances with foreign firms. As multinational corporations set up subsidiaries around the world, the momentum of globalization is gaining strength. MNCs have become the engines of economic globalization, engaging in foreign direct investment with a view to international production and sales through networks of subsidiaries and in strategic alliances.<sup>10</sup>

Increasing international trade and foreign investment has further integrated national economies. It is well-known that protectionism is not a guarantee of economic stability. Due to the expansion of international trade, total output has recorded enormous growth that has facilitated growth in FDI.<sup>11</sup> Over the past few decades, FDI flows have grown three times faster than trade flows and almost four times faster than output. Multinationals now control one-third of the world's private sector assets and 30% percent of private Gross National Product (GNP) in the major European countries (Hill, 2002). In many developing countries FDI constitutes a major source of foreign capital.

Since the 1980s, there has been a marked liberalization of government policies and attitudes toward foreign investment in both developed and many developing nations. As a result worldwide production and consumption of goods and services has become increasingly

internationalized. The average yearly outflow of FDI increased from US\$25 billion in 1975 to US\$430 billion in 1998 (Hill, 2002). There are at least 45,000 parent firms with 280,000 foreign affiliates, which generated sales over \$7 trillion in global sales (Hill, 2002).<sup>12</sup>

Up until the late 1980s, most FDI took place from one developed country to another. However, during the 1990s a significant proportion of these flows went to the emerging markets such as China, Indonesia, Turkey and Vietnam. Some of these countries used to seek their finance primarily from official sources such as the World Bank and the IMF. Today, almost 50% of direct foreign investment and well over 10% of portfolio capital flows are directed toward these markets, even though they account for less than 25% of world GDP. Moreover, these flows are increasingly oriented toward the long term.

Foreign investment brings new ideas and technologies to host countries. Successful industrialization by Singapore, Hong Kong, Taiwan and South Korea has highlighted the importance of foreign investment in improving the living standards. There is little doubt that foreign investment significantly affects the economic performance of host countries. However, competition for foreign investment has significantly increased (Thomsen, 1999). Without appropriate infrastructure and supporting institutions, it is virtually impossible to attract foreign investment.<sup>13</sup>

It is interesting to note that the International Monetary Fund (IMF) was created in the late 1940s to help countries facing severe balance of payment problems. At the time of the creation of the IMF, capital mobility was limited and imbalances in trade in goods and services were the primary source of the balance of payment problem. Liberalization of capital flows and improvement in communications technology has made the transfer of significant funds across international boundaries a very simple task. The primary source of balance of payment problems in the 1990s has been the imbalance in capital account, not the current account.

Globalization of financial markets influences both financial and physical assets. It is well known that trade in financial assets and a debt is much easier to globalize than trade in goods and services. Accordingly the globalization of trade in financial assets has progressed most rapidly. Financial transactions mainly involve exchanging pieces of paper or making entries in electronic ledgers. Technological progress in the means of communications has made these transactions very easy and cheap.<sup>14</sup> The rationale for globalization of financial markets is that it can assist the movement of productive capital from developed economies to developing countries. The economies of East Asia have been the main beneficiaries of foreign investments. However much of their capital inflows have taken the form of short-term loans of hard currencies to banks located in Indonesia, Malaysia, the Philippines, South Korea and Thailand. The periods of increasing loans were also periods of increasing growth and investment in those countries receiving the loans (Tobin, 2000). The availability of hard currency loans resulted in the overvaluation of national currencies that then led to growing deficits on current accounts.<sup>15</sup> Financial crises resulted in the late 1990s when the lenders refused to renew the loans. Obviously financial globalization is worthwhile if expected benefits are likely to outweigh the expected costs.

Not so long ago, the greater part of a country's savings could circulate only within the domestic financial institutions. Integration of capital markets has significantly changed that

situation. At present, international financial institutions operating on a worldwide scale handle national saving centrally. Globalization has increased the competition between policy regimes. National savings increasingly flow to locations where profit is likely to be higher. Prospects of higher profit are the major inducement. But higher profits are generally associated with higher risk. Global capital market integration combined with the volatility of capital flows is going to make macroeconomic management more complex (Kim & Singal, 2001).

At the microeconomic level, international financial markets allow residents of different countries to pool various risks. This implies that investors can achieve more effective insurance than purely domestic arrangements would allow. At the macroeconomic level, a country suffering from a recession can borrow from the international capital market. In simple words, international capital markets channel the world's savings to its most productive uses, irrespective of location.<sup>16</sup> International capital markets are capable of disciplining policymakers seeking to exploit a captive domestic capital market. Inward foreign direct investment almost always reduces the overall unemployment rate. Markets are increasingly becoming international in scope while governments remain national. Accordingly, the gains from globalization depend heavily on the response and restructuring of national economies. In general terms globalization enhances production efficiency. The governments through their power of taxation have to ensure that efficiency is not achieved at the expense of equity.

As the World Bank (1995) report on the impact of globalization on the international labor market argued, wage rates are determined by both the occupation and sector within which the worker is located, and by the country within which the work is undertaken. Wage rates for highly skilled workers in efficient multinational companies operating in developing countries in some cases may have already overtaken those of low skilled workers in labor intensive sectors in developed countries. An international hierarchy of labor has emerged which stretches from low skilled agricultural laborers in low growth, non-globalized economies through to high skilled workers in technology intensive sectors in high growth, globalize economies. This hierarchy is not static however and will develop dynamically and differentially as capital moves to areas and sectors of most recent opportunity. In turn, this will be determined by government policy regimes, technological change and the efficiency of labor and capital. Protests against this process are not only unlikely to be effective, but, paradoxically, if successful in changing policy regimes, result in a deterioration of the conditions under which local labor operates. Hence, the most recent World Bank study (World Bank, 2002) found that those states which had least committed to globalization had the worst economic growth rates and the correspondingly lowest rates of growth of labor remuneration.

Developments in international capital markets are driving a convergence of economic policy across more and more countries. Economies that are viewed by the investors as fiscally responsible and politically committed to free market policies attract significant amount of foreign capital. This capital is often utilized to develop local production infrastructure. In order to attract foreign investment, countries offer incentives including tax holidays, preferential access to credit and reduction of import duties on raw material (Fortanier & Maher, 2001). Investment liberalization has significantly increased during the 1990s. As a result some developing countries such as China have been able to accumulate capital much

more rapidly than its counterparts among the developed countries. This situation has resulted in the narrowing of the per-capita income gap. While it is generally agreed that free capital flow leads to efficiency, the recent Asian financial crisis has demonstrated that uncontrolled capital flows can be risky and destabilizing particularly when accompanied by fixed exchange rate regimes. Increasing integration of the capital markets has resulted in significant deviations of exchange rates from their long-term stable levels. This phenomenon is known as exchange rate misalignments.<sup>17</sup>

### THE CASE AGAINST GLOBALIZATION

Globalization offers significant benefits but at the same time creates serious hazards. The presence of asymmetric information and imperfect contract enforcement in the real world complicates the situation further (Razin & Sadka, 1999). Rapid globalization in tastes, production, and in labor markets has resulted in a sharp increase in the level of international competition. Rising international competition has forced business firms to reduce the cost of production. As a result, growth in employment and real wages within the industrialized countries has been minimal (Salvatore, 2001). Restructuring, downsizing and utilization of improved technologies has allowed firms to compete vigorously at the international market place. In most developed countries at least some sections of the society consider globalization as a threat to employment. Due to high levels of poverty, resistance to globalization is not strong within the developing countries. However, increasing competition for foreign capital can force the governments of less developed countries to make structural adjustments at the expense of the long-term interests of local economies (Dunning, 1998).

Globalization can result in cultural changes. Czinkota and Kotabe (2001) have considered cultural issues in the context of the most challenging markets, including Japan, where the interlocking relationships among suppliers and manufacturers make market entry and development a daunting task to outsiders. Competition for foreign investment can force governments to spend large sums of monies on production infrastructure that may not be productive for the country. This can result in excess capacity. Excessive investment in production infrastructure may be funded at the expense of social welfare programs that could lower the standard of living of a country.<sup>18</sup> In the absence of restrictions on capital flows, capital can move to locations where the tax rate is relatively low. Consequently small countries lose some of their autonomy with respect to capital tax rates. This situation gives rise to international capital tax competition. Over \$1.5 trillion is exchanged every day in currency markets around the world. About 95% of this total represents speculative transactions that fail to benefit the world's poorest countries.

Economic development resulting from globalization has increased the level of pollution in Hong Kong, China, and India (Chan, 2001). It appears that the real beneficiaries of the globalization are the MNCs. The combined sales of the world's top 200 companies surpass the combined economies of 182 countries (Hill, 2002).

The globalization of financial markets with their volatile effects on national economic management has destabilized and weakened the autonomy of all countries. It has been argued that the global market represents a concentration of power capable of influencing macroeconomic policies of countries. Globalization is potentially likely to result in a

borderless world. Opponents of globalization argue that it is a process of suppressing state influence on the economy and of giving private capital authority over any investment decision.

It is becoming increasingly difficult to distinguish domestic economic activity from international events. Decisions made elsewhere in the world are already significantly influencing domestic economies.<sup>19</sup> Given the benefits to be derived from globalization, governments are eager to take advantage of the opportunities, but may at the same time also have to accept the negative consequences of increased competition. Czinkota and Ronkainen (2001) have considered the role of export assistance by exploring the dimensions that make exports different from other economic activities. Czinkota and Ronkainen argue that the effective export assistance efforts by governments must have clarity of purpose and tightness of focus. In the face of these global opportunities and threats, many companies are finding that the very ways in which they develop strategies and organize themselves are becoming obsolete. Because of the increased competition, managers have to make decisions at a very short notice. Scarcities of globally trained managers can slow down the process of globalization.

### CONCLUSIONS

Globalization is a process by which the world economy is transformed from a set of national and regional markets into a set of markets that operate without regard to national boundaries. The trend towards globalization is facilitated by the development of cheaper communication technologies, deregulation and the declining cost of transport. Globalization creates a competitive drive that weakens nationally established monopolies and protected industries. Rather than a policy option, globalization has become a necessity. Globalization is particularly important for less developed countries. It provides means for future economic growth for developing countries.

Globalization is transforming the world into a single market that is likely to lead to more efficient allocation of resources. The benefits of globalization are available only if countries give up some measure of independence and autonomy in decision-making. However the full benefits of globalization cannot be enjoyed unless free movement of goods, services, labor, and capital across borders is supplemented by the development of common economic institutions. In other words, unless a single authority rules the world operating under a single law it will be difficult to achieve an equitable outcome. Opposition to globalization is likely to result in increasingly nationalist economic policies and politicians. Deteriorating economic conditions may lead to social pressures that might result in protectionism thereby canceling all steps that have been taken to open up worldwide markets. The opponents of globalization have argued that it can widen inequality, increase poverty and social exclusion. It is therefore necessary for governments to take steps to check the widening gap between the rich and the poor.

Globalization presents many opportunities and challenges. During the past decade there has been a significant decrease in barriers to free trade and capital mobility. However impediments such as business practices continue to test businesses globally. In other words, while governmental controls are weakening, cultural barriers are still strong. Globalization is likely to increase the interaction between economies with diverse cultures and standard of living.

The process of globalization has been under way for a very long time. International conflicts in the first half of the twentieth century slowed it down. However, the increasing availability of global capital, coupled with advances in computing and communications technology in the early 1990s served to accelerate the processes of globalization. The protests against globalization are meant to slow down the process.

The opponents of globalization argue that it has resulted in an increase in unemployment among the unskilled and semi-skilled workers in developed countries. The impact of globalization on the employment level of unskilled workers in less developed countries has been positive. However, opponents of globalization consider the relocation of production facilities to less developed countries as exploitation of labor. As far as the free flow of capital is concerned, the Asian financial crisis of 1997-98 has suggested that unregulated capital inflow can convert an export-led economy into an import-led economy.

Arguments in favour of globalization essentially revolve around the core issue of its generating faster economic growth. Since the relationship between economic growth and the expansion of the size of the market and its freedom of operation are among the core beliefs of the intellectual structure of modern economic theory, economists generally support this development. Since this process has the capacity to undermine the sovereign power of the state and the unique characteristics of localized cultures, supporters of these more traditional features of human society are likely to object to the process. Economic theory and technological change suggests that for the foreseeable future the economic process of globalization will remain in the ascendancy.

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### ENDNOTES

- 1 Academics outside the study of business have created their own definitions of globalization. For example, sociologists broadly define globalization to include "convergence" of cultural, social and political life, as well as economic. Political scientists frequently blame globalization for the apparent demise of the power of the government (O'Rourke & Williamson, 1999).
- 2 Consumer products that are almost universally accepted include McDonald's food, Coca-Cola, Gillette razors, Levi jeans and Toyota cars.
- 3 Globalization in production is associated with the rise of MNCs that are managed by international team of managers. Multinational corporations purchase raw material from cheapest source around the world. Examples include automobiles, steel, aircraft, consumer electronics and pharmaceutical products.
- 4 East India Company established foreign branches in 1600. Colt Fire Arms had an English plant before the American Civil War. By 1914, there were 37 American firms with production facilities in two or more overseas locations. National Cash Register, Burroughs, Parke-Davis, and Ford were some of the first firms to have overseas plants. It is interesting to note that the European firms were going overseas at the same time (see Hill, 2002).
- 5 Global America. It is now well recognized that the world marketplace is too large and the competition too strong for even the largest multinationals to do everything independently. Because of free flow of information, technologies are converging, making the cost and the risk of both goods and market development even greater. In order to exploit the opportunities available, management in firms has become more pragmatic about what it takes to be successful in global markets. For further discussion see Catley and Mosler (2000) and Catley (1996).
- 6 See World Bank (2002).
- 7 Since the end of the Second World War, negotiations under the auspices of GATT have resulted in significant reductions in barriers to international trade and capital mobility. This can also be attributed to lobbying by representatives of multinational firms that have most to gain from free trade.
- 8 The number of Internet hosts has grown from 9 million in 1993 to 72 million in 2000. A total of 304 million people were estimated to be online in 2000 with explosive growth expected from new, and increasingly more affordable, computer and telecommunication technologies. Advances in transportation and ease of travel allow consumers to experience new markets and products in person (Czinkota & Ronkainen, 2001).
- 8 As compared to 1992, the output per hour of the US workers in 2000 was 42.8% higher (U.S. Bureau of Labor Statistics).
- 9 Greider (1997) has argued that the global capital markets are linked with global labor markets. This implies that the negative impact of globalization on capital markets is transmitted to global labor market.

- <sup>10</sup> The largest 500 MNCs account for 90 per cent of the world's stock of foreign direct investment. They also carry out half of all trade, often in the form of intra-company sales between subsidiaries.
- <sup>11</sup> More than 60% of the US foreign investment takes place in Europe. At the same time approximately 50% of the European foreign investment takes place in the US (Appleyard & Field, 2001).
- <sup>12</sup> One of the myths of globalization is that local firms will lose to large multinationals. It has been argued that local firms can compete with foreign multinationals if they focus on the areas ignored by the multinationals (Ger, 2001; Obstfeld, 1998).
- <sup>13</sup> The only barriers to financial transactions are national regulations (Tobin, 2000).
- <sup>14</sup> The worldwide gross volume of foreign exchange transactions are approximately worth US\$1.5 trillion per business day. However most of these transactions are reversed within a week, 40% within a day. This suggests that most of these transactions are speculative that do not contribute much towards the economic growth (Tobin, 2000).
- <sup>15</sup> It is estimated that the world economy that is open to global competitors in product, service, or asset ownership markets has risen from approximately \$4 trillion in 1995 to well over \$21 trillion in 2000 (Czinkota & Ronainen, 2001).
- <sup>16</sup> Misalignment is defined in terms of the deviation of the level of the real exchange rate under price rigidity from its equilibrium real level under perfect price flexibility.
- <sup>17</sup> The success of globalization is closely linked with the provision of appropriate infrastructure. It is interesting to note that government spending on infrastructure in Hong Kong was more than HK\$20,000 million during the 1990s.
- <sup>18</sup> A simple example is the currency exchange rates. The Australian dollar has significantly depreciated against the US dollar despite the fact the Australian economy is strong. Indeed, its devaluation permitted the maintenance of domestic growth.