

Geo-Politics (Mgmt 715)

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I. Globalization – Economic Issues

- A) Globalization –
- B) Trade with low wage countries – effect on America (Golub)–
 - Key –
 - differences b/w wage rates largely reflect differences in labor productivity
 - low wages really reflect low productivity
 - exceptions – macro-economic shocks and exchange rate fluctuations can entail large discrepancies for years
 - Recommendation -
 - do not tax imports
 - help those adversely affected by global trade
 - Comparative v. Absolute Advantage –
 - **absolute advantage** – wages are determined by overall productivity of labor
 - ◆ e.g., US = more productive than Mexico
 - ◆ depends on ability of a worker in one country to produce more than worker in other country
 - ◆ determines overall wage levels
 - **comparative advantage** – industry by industry differences in productivity across countries
 - ◆ e.g., US has greater productivity benefit in some industries (this is where should focus its efforts)
 - ◆ depends only on ratio of productivity in the industries within each country
 - ◆ determines trade patterns
 - goal – country should specialize in industry where it has a comparative advantage
 - int'l trade
 - ◆ effect <> lose jobs = shift labor
 - ◆ limits ~ relocation costs + displacement of low skilled labor (by reducing their wages even after relocated)
 - Int'l Trade & US Labor market
 - LT benefits in standard of living outweigh ST detriment incurred by dislocated workers whose skills become obsolete
- C) Private Foreign Investment (Meier) –
 - General
 - some foreign countries - control / limit foreign investment
 - ◆ key sectors may be prohibited – limit on %, amt of π , impose exchange controls on π remission
 - other foreign countries – encourage foreign investment
 - benes of private foreign investment
 - labor – higher wages + raise productivity + employ larger % of workforce + alt to labor migration
 - consumer – lower P

- gov't – higher tax revenues (failsafe – even if all bene is appropriated by foreign investor, gov't can take a share on the way out the door)
- indirect gains - realization of **external economies** (~ stimulus to additional domestic investment in recipient country)
- foreign investments often break bottlenecks → frees up other capacity t/b more productive
- as long as foreign investor raises productivity AND does not appropriate entire gain in productivity → benefits remain
- social returns > private returns IF value added by foreign capital > amt appropriated by foreign investor
- consider if factoral / income terms of trade improve in spite of worsening in commodity terms of trade
- cons of private foreign investment –
 - special concessions granted to foreign investor – tax concessions may h/t/b granted broadly if country cannot discriminate
 - shift π away from domestic industries
 - over encouraging foreign investment – if no collective agreement exists b/w capital receiving countries
 - worsening terms of trade
 - balance of payments adjustments – pressure may arise if foreign debt m/b serviced (outflow of capital requires reallocation of capital or devaluation)
- economics
 - if inflow of capital increases country's rate of development w/o a change in the terms of trade → country's growth in real income equals growth in output
- attracting foreign capital –
 - <> money – is less relevant
 - = security of investment thru investment guarantees (gov't sponsored insurance coverage, treaties, etc.)
 - = greater π making opps
 - = ensure supply of trained labor
 - <> tax concessions – no help unless investment is successful
- how to acquire knowledge
 - act as partner
 - K through licence
- **D) MNCs (Stopford)** –
 - Notions
 - globalization has made MNCs footloose – **partly true**
 - MNCs are creatures of home countries above all else – **not always**
 - all MNC are large – **no**
 - MNC markets are impenetrable to rivals – **no**
 - only some industries are going global – **no**
 - MNCs are bigger than their assets – **yes**
 - ◆ FDI (foreign direct investment) – mobilizes / enhances value of local capital + frees up domestic policy agenda + establishes new quality standards
 - ◆ strategic alliances affect competition
 - MNCs inherently exploit – **yes and no**
 - ◆ labor <> biggest driver re: location
 - ◆ local firms = more exploitive + pollutes more + evade taxes more
 - ◆ Kyoto – not enforceable locally – only against large MNCs
 - MNC investments = good; Money mgr investments = bad – **not necessarily**
 - MNCs are creations of wealthy countries – **no**
 - ◆ Taiwan, Korea, et al
 - MNCs = beyond gov't control – **no**
 - ◆ relationship = complex distribution of benes + upgrading quality
 - ◆ consider – MNC locked in to country once enters (at least to some extent)
- **E) UN Development program – humanistic globalization** –

- **F) Importance of Maquiladoras** –
- **G) Dueling Globalizations** (Ramonet / Friedman –
- **H) Key Questions** –
 - i) Compare misc countries re – Imports / Exports / FDI / Portfolio Investment
 - ii) cf
 - iii) major criticisms of globalization
 - iv) what s/b response of firms / managers to these criticisms
 - v) what are effects if
 - vi) effect of NAFTA on Mexico
 - vii) What are differing effects / perceptions of NAFTA b/e US and Europe?

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| II. Globalization – Social Issues |
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- **A) International Labor Standards + Child Labor** (Basu)
 - problem – developed countries use myth of low wages in developing countries for protectionist ends
 - myth – low wage rate sin developing countries robs jobs in developed countries (promoted by developed countries)
 - i) developing countries import more than export (on avg)
 - ii) products developed in developing countries not really competing w/ products from developed countries
 - iii) if developing country slacks off – production replaced by other developing countries using prison labor / et al
 - currently -
 - **extra national policies** – action w/i an industrialized nation to incentivize developing country (~ prohibit import of child labor products into US)
 - ◆ most current actions are this
 - ◆ weak b/c – ignores parent’s needs in sending children to work + export sector specificity drives children into less desirable sectors + laws used in self interest by firms n industrialized countries
 - ◆ possible solution - labeling – but compliance + pushes children elsewhere + tries to eradicate child labor when need persists
 - **supra national** – action b/w countries thru int’l org to discourage whatever
 - ◆ solution s/b here
 - recommend – new labor standards → developing countries collude
 - **3 ingredients**
 - ◆ i) standards (not rules) – allow variance across countries
 - ◆ ii) limit child labor (not eradicate)
 - ◆ iii) Penalties s/b general (not sector specific)
 - **enforcement** – not the WTO (risk that protectionism will creep back in)
- **B) Intellectual Property Rights** (Thurow)
 - problem – current patent protection system does not work
 - **b/c** -

- ◆ centrality of intellectual property rights to today's world – knowledge = more valuable + determinative of success
- ◆ decline of public knowledge – gov't invests less + private has greater desire to keep knowledge secret to increase π + less free knowledge
- ◆ emergence of new technologies – have to rethink what is private property + recognize fundamental difference b/w discovering something new and simply using something discovered in new way
- ◆ globalization – copying is only way to catch up

➤ recommend –

- balance production / distribution of new ideas – financial incentive to incur cost + maximum dispersion of bene + want no judges involved
- laws m/b enforceable or not passed –
- efficiency / expediency - system must determine rights / resolve disputes quickly

➤ confounding factors –

- public v. private knowledge – some knowledge s/b public always
- developed v. developing countries – have different needs (which new system should account for)
- differences b/w industries/ knowledge / et al - recognize fundamental difference b/w discovering something new and simply using something discovered in new way

• **C) Pharmas' Responsibilities**

➤ generally -

- sleeping sickness makes comeback + no one makes drugs + no one researches for better drugs
 - ◆ 4 drugs
- pharma firms = committed to S/H
- many health policy makers solution → rich people pay up

➤ note –

- colonialism helped in past
- miniscule health budgets of developing countries

➤ pharma response –

- developing countries spend all money on military
- local doctors in developing countries leave to go abroad
- need more than just pharma's → need institutional response at all levels w/i countries

➤ Right to cheap medicine of Poor (McNeil NYT article)

- White House supports infringement by developing countries

• **D) Int'l Intellectual Property** (Aronson) –

➤ Protection regimes

- Int'l –
 - ◆ Uruguay round TRIPs
- Regional
 - ◆ NAFTA
 - ◆ EU
 - ◆ APEC

➤ Recommendation

- i) incentivize accelerated implementation (<> sanctions)

- ii) monitor implementation + use WTO dispute settlement procedure – US must accept all WTO decisions to legitimize
- iii) Promote local support for IPR in developing countries
- iv) private sector helps developing countries implement TRIPs obligations – consider self interest
- v) promote aggressive enforcement – private firms need legitimacy of using local enforcement (even if futile)
- vi) utilize Special § 301 Review under OTCA 1988
- vii) ensure domestic consensus prior to int'l negotiations
- viii) focus attention on WTO (but do not abandon WIPO)
- ix) use bilateral / regional negotiations to move process forward – but this is much slower
- x) focus on key IPR sectors
- **E) Key Questions** –
 - i) why difference in hourly wages in China v. US –
 - difference in productivity
 - social costs – gov't pays for more
 - lack of stability -
 - ii) are workers in Thailand better off in sweatshops
 - what is alternative? (better off than what)
 - iii) Should imports of child made carpets be prohibited?
 - no – drives children to worse industries (parents need income of children to come from somewhere)
 - iv) Does globalization harm / improve environment
 - localities are worst polluters
 - multi-nationals coming into countries are the least polluters
 - v) Should all countries respect international IPR?
 - No – who is to say that the current regime is best
 - compare to music / Napster
 - goal s/b innovation – will foreign pharma's innovate more if have access to good medicines more quickly?
 - vi) Do TRIPS agreements help?
 - see Aronson – they seem very preliminary – lots of potential but little actual current effect
 - vii) Are Pharma's exploiting developing countries?
 - How would they be exploiting them? They don't even want to do business there.

III. Globalization – International Institutions

- **WTO, Loving It** – Noland
 - Problem – special interest groups leach off trade issues to promote own socialist agendas
 - effect – manipulating GSP (below) generally fails to improve working conditions
 - Goal – WTO freed to focus on econ issues
 - Recommendation
 - US should promote trade liberalization
 - US should adopt multilateral approach that includes the unilateralist socio / enviro NGOs to free up WTO to focus on econ issues
 - US should use WTO to keep trade policy separate from domestic interests groups
 - NGO's should recognize that real problem is fact that there are no enviro agreements addressing their enviro concerns (not that the trade agreements / WTO are inadequate)

- Obstacles to liberal US trade policy -
 - **a) protectionism** – sparked by trade imbalance
 - ◆ WTO gains authority as US loses unilateral authority (~ seen as fairer)
 - ◆ US President – losing authority to lead trade agenda
 - > Congress - NGO, unions, others seek voice here on trade issues
 - **social clauses** – NGO seek to link trade w/ human / labor rights
 - > State / local gov't – exercising authority
 - > quasi gov't / pension funds – applying econ sanctions
 - > US Trade Representative – vary weak, under-funded office
 - **b) Imports that threaten the environment** – but prohibition of this is already allowed
 - **c) trans- border pollution** -
 - **d) multi-lateral enviro agreements** (MEAs) - apply trade sanctions tho agreements have nothing to do with trade
 - > e.g., Int'l Whaling Convention, Montreal Convention on Chlorofluorocarbons
 - **e) unilateral domestic import restrictions** ~ efforts to apply domestic enviro laws to other countries
 - ◆ interagency trade bodies (EPA, NOAA) can affect trade issues
 - **f) conflicting responsibilities under treaties** – allow socialists to pick and choose
 - **g) abuse of economic sanctions for foreign policy** –
 - ◆ sanctions <> effective + impose large costs on populations w/ no influence + cost US jobs through reduced exports
- Agreements
 - **NAFTA** –
 - **Generalized System of Preferences** – extends duty free treatment to imports from developing countries
 - ◆ provision allows the US to suspend duty free imports from countries suppressing worker rights
 - **Multilateral Agreement on Investment (MAI)** – torpedoed by emotion of NGOs

- **WTO, Citizens Guide** (bunch of communists)

- Terminology
 - **single undertaking** – round of trade talks where various issues are bargained off + accepted / rejected in whole
 - **early harvest** – specific issues are harvested early w/ signed agreement
- WTO
 - transforms General Agreement on Tariffs and Trade into an enforceable global commercial code
 - rules =
 - ◆ system of corporate managed trade
 - ◆ limit extent to which non-trade rules can limit trade
 - supported by people claiming TINA (there is no alternative)
 - enforces
 - ◆ **GATT** -
 - ◆ **TRIPS** - Trade Related Intellectual Property Measures
 - > enforceable rules on patents, C/R, TM
 - > requires countries to adopt US style IP laws
 - ◆ **GATS** - General Agreement on Trade in Services
 - > covers – nearly all econ activity except mfrd goods, raw materials, farm products
 - > may be extended to – health & education
 - > requires – countries to de-regulate covered industries
 - ◆ **SPS** – Sanitary and Phytosanitary Standards
 - > constrains gov't policies on food safety and animal / plant health
 - > undermines **precautionary principle** (BoP shifted to country to show harm before it can ban something)
 - ◆ **AoA** – Agreement on Agriculture
 - > undercuts poor countries' reliance on subsistence farming
 - > assumes countries will buy food on world market
 - > problems –

- **Trade Disputes – At Daggers Drawn –**
- **NGOs -**