

Introduction

Lower barriers to the flow of goods, labor, and capital is bringing about a globalization in finance and business generally. This chapter considers the causes of the process.

- » The rationale for globalization.

“Tariff: A scale of taxes on imports, designed to protect the domestic producer against the greed of his consumer.”

*Ambrose Bierce*¹

In 1994 billionaire businessman the late Sir James Goldsmith published a book called *The Trap* in which he argued that what is wrong with the trend towards the greater internationalization of trade is that industries in developing countries are paying lower wages than their competitors in the West.²

People have been making this celebrated error, known as the “pauper labor” fallacy, for nearly two hundred years. What is curious is that Goldsmith, a highly successful entrepreneur by any standards, should be arguing against free trade in such terms.

As we will see throughout this book, the globalization process is all about reducing barriers to the free movement of capital, goods, and labor between all the countries of the world. Most governments are, with some reservations, broadly in favor of the process, as are most economists, because they believe that lowering these barriers will boost world growth – by co-operating, everyone will get richer. In this view, richer countries need to be constantly moving into industries where they have an advantage, such as high technology, allowing less developed nations to develop and export. Low wages in a Third World country, they say, are a function of low productivity in that country’s industry. If that industry becomes highly productive, wage rates will rise. Singapore and Japan, for example, today enjoy comparable wages and living standards to the West because of their success in building productive industries over the last 40 years.

Economic growth is not a zero-sum game. If Country A is rich, this does not mean that Country B has to be poor. The more productive the world is, the richer it gets as a whole – and working to distribute wealth to all people is part of the process of increasing productivity.

A way to make everyone richer? Why would any business person be against the idea? Perhaps this is not as odd as it seems. Businesses are primarily interested in their own profits. A company may be able to make excellent profits in a country where everyone else is doing badly; working for the general good is irrelevant to the central business goal. Also, it takes decades, at least, for a country to become prosperous,

while businesses have to focus on making profits in a much shorter period.

This book is about how macroeconomic events are affecting businesses everywhere. Most of the time, companies must focus on microeconomic issues – events in their markets, their industries, their supply chain, and so on. When the underlying structure of the world economy changes, as it is today, companies have to take notice; the opportunities are immense, but so are the dangers.

The availability of cheaper capital in the global markets, a reduction in labor bargaining power, the rise of imports, the increase in cross-border mergers and acquisitions, the opening up of huge markets such as China and India, changes in public attitudes, demographic change, and the e-revolution are just some of the factors in globalization. They are not going to go away, and companies that ignore them or fail to understand the underlying reasons why they are occurring, are being acquired or going out of business.

In Europe, for instance, Siemens has reduced its operating divisions from 15 to 5, as has Thyssen Krupp (from 23 to 8), Fiat's Agnelli family has sold 20% of the firm to General Motors, Daimler-Chrysler has purchased US company Chrysler and UK company Vodafone made the first hostile takeover ever to take place in Germany when it acquired Mannesmann.

Everywhere you look in the world, globalization is having an effect. It is probably having a financial impact on your company already. If not, it soon will.

NOTES

- 1 Bierce, A. (2000) *The Unabridged Devil's Dictionary*. University of Georgia Press.
- 2 Goldsmith, J. (1994) *The Trap*. Macmillan, London.