



Challenges and Opportunities of Economic Globalization

Chapter

12

Figure 12-1

When you buy fair trade products, you are directly supporting farmers or workers in other countries by ensuring they get a fair wage for their work. What does this say about the power you have as a consumer? How does this example help you to respond to the Main Issue for Part 3: *To what extent does globalization contribute to sustainable prosperity for all people?*



Chapter Focus

As a student living in one of the wealthiest countries in the world, you can help determine the future of economic globalization. For example, you can choose to buy goods that were made in Canada rather than in another country. If you buy goods made in less developed countries, you can try to choose items that were made without exploiting child labour. Or you can buy goods sold in “fair trade” stores. These stores ensure that the goods they sell were produced by farmers and artisans who were paid fairly for those goods, based on local economic conditions.

On the other hand, you might believe that whatever money you have is yours and that you have no obligation to the producers of the goods you buy. You might feel that you have worked hard for your money and can therefore do whatever you want with it. Then again, you might want to save some money to put toward something you consider worthwhile, such as aid to victims of a natural disaster.

These examples demonstrate that there are many different perspectives on economic globalization. And the fact that you, as a citizen of a wealthy country, have a choice regarding how to spend your money demonstrates that economic globalization offers both challenges and opportunities. How you decide to approach these challenges and opportunities will help determine your own future, and the future of many others throughout the world.

Chapter Issue

In this chapter, you will have a chance to focus on the opportunities and challenges that are part of our globalized world. Your exploration of trading blocs, the regulation of international trade, and the impact of economic globalization in Canada will help you respond to the Chapter Issue: *To what extent do the opportunities and challenges of economic globalization affect people’s lives?*

Write an Editorial

One of the most powerful skills you can learn is how to write an editorial. And you can apply this skill in your exploration of the Chapter Issue: ***To what extent do the opportunities and challenges of economic globalization affect people's lives?*** An editorial is an article in a newspaper or magazine that expresses the opinion of its editors or publishers. It can also be a commentary on television or radio that expresses the opinion of the station or network.

To write an editorial, you need to be able to identify an issue and present a solution or a new way of thinking about it. In the conclusion of an editorial, you try to encourage readers to change their way of thinking about the issue or to take action.

Think of an editorial as a persuasive essay: you hold a certain position on an issue and want to convince the reader of this position. You need to use your persuasive writing skills to inspire people, engage them in dialogue, and get them fired up about the issue. Your editorial can serve to bring about change at the local, national, or international level.

In a written editorial, you need to use clear and concise wording and avoid emotional language. You should also follow a specific structure:

- *introduction*—state the issue
- *body*—express an opinion on the issue
- *solution*—offer a solution to the issue
- *conclusion*—restate the opinion on the issue

Step 1 Conduct Research on the Issue

1 Do some research on the issue and find out what is taking place now and what took place in the past.

- Gather as much information as necessary to convince readers of your opinion—facts or evidence, quotations from authorities on the issue, and information about comparable situations to support your arguments.
- Ensure that you learn the facts and refer to them in your arguments. Although you are arguing from a particular point of view, you must have facts to back up your views.

Step 2 Introduction: State the Issue

2 After you have conducted your research and decided where you stand on the issue, begin your editorial with a strong opening statement.

- Start with an objective explanation of the issue.

Figure 12-2

This semiconductor chip designer is an employee of a subsidiary of Texas Instruments in Bangalore, India. He makes more money working for this transnational IT company than he would ever make working for a domestic company. If you were writing an editorial on IT workers in India, what opening statement would you write to grab readers' attention?



Ideas and Opinions

“The fewer the facts, the stronger the opinion.”

— Arnold H. Glasgow,
US psychologist.

What do you think Glasgow meant by this statement?

Extend Geographical and Historical Skills

Conduct print and electronic research to find the “best” map of WTO member countries. The map should indicate each country’s date of membership and its GDP per capita.

- Make sure you include information regarding *who*, *what*, *when*, *where*, *why*, and *how*.
- Use relevant facts and quotations.
- Try to cast new light on the issue or highlight new arguments in order to convince the reader.

Step 3 Body: Express Your Opinion on the Issue

3

Clearly lay out your opinion and present it in persuasive language that shows the reader you are confident about your position.

- Present your opposition’s opinions first. Use facts and quotations to state those opinions objectively.
- Ensure that you provide a well-rounded presentation of opposing opinions. If you leave out key counter-arguments, readers may find your editorial weak and easy to pick apart.
- Next, argue against the opposition’s opinions. Point out the weaknesses of the opposing arguments but refrain from attacking other people.
- To defend your position, provide a number of reasons in ascending order of strength. Use facts and quotations to support your position.

Step 4 Solution: Offer a Solution to the Issue

4

Propose a solution or new way of thinking about the issue.

- Avoid “preaching” to the reader; instead, let the facts speak for themselves.
- Challenge the reader to become more informed on the issue.

Step 5 Conclusion: Restate Your Opinion on the Issue

5

Make a strong closing statement of your opinion in order to leave readers with a lasting impression.

- Provide a powerful summary of your opinion that will echo in readers’ minds, encouraging them to consider your point of view.

Step 6 Practise Your Skill!

6

Apply It. In a December 2005 meeting in Hong Kong, the World Trade Organization decided that more developed countries need to try harder to open up their markets to less developed countries. Following Steps 1 to 5, research the issue and write an editorial about the WTO’s success or failure so far regarding this issue. To support your informed position, remember to include factual information that you find in your research. Use a word-processing program to write your editorial.

International Trading Blocs

Question for Inquiry

- Do trading blocs contribute to sustainable prosperity for all people?

Economic globalization has certainly resulted in increased trade. Many countries continue to seek better trade arrangements by joining large trading blocs, such as MERCOSUR in South America. Countries in the European Union have moved beyond free trade to political union. These arrangements offer countries new opportunities for growth along with the challenge of change.

In this section, you will have a chance to explore the close relationship between economic growth and trade. You will consider whether or not the benefits of increased trade have had as great an impact on less developed countries as they have had on more developed countries. This inquiry will allow you to begin to develop an opinion about the Chapter Issue: *To what extent do the opportunities and challenges of economic globalization affect people's lives?*

South American Trading Blocs

In many South American countries, the richest 20 per cent of the population owns more than 60 per cent of the wealth. The poorest 20 per cent of the population owns less than 5 per cent of the wealth. Many South American countries hope that by joining South American trading blocs, they will be able to increase investment in their countries and improve economic stability.

MERCOSUR and CAN

One of the major trade organizations in South America is Mercado Común del Sur (MERCOSUR)—in English, Common Market of the South. This organization includes Argentina, Brazil, Paraguay, and Uruguay. Other South American countries associated with it are Chile, Bolivia, Colombia, Peru, Ecuador, and Venezuela. In May 2006, Venezuela signed an agreement to become a full member of the organization by 2012.

The main objective of this organization is to improve its member countries' economies by opening markets, promoting economic development, and conserving the environment. In order to become a member of MERCOSUR, a country must also be committed to democracy and human rights.

Ideas and Opinions

“ The challenges to Latin American democracy will only be solved by the convergence, each time greater, of economic, cultural, and political ties that will allow us to redesign the new space of sovereignty in the era of globalization. ”

—Luiz Inácio (Lula) da Silva,
president of Brazil,
December 3, 2004.

In what ways might stronger ties among South American countries help South America to remain sovereign in the era of globalization?



Figure 12-3

In many South American neighbourhoods such as this one in Buenos Aires, Argentina, people live in poverty right next to their wealthy neighbours. How do you think the people living in poverty feel when they look at their wealthy neighbours' homes—and vice versa?

Fast Facts

The four member countries of MERCOSUR have a population of almost 240 million: Brazil, 188 million; Argentina, 40 million; Paraguay, 6.5 million; and Uruguay, 3.4 million.

How would regional economic co-operation benefit the people of the region?



Figure 12-4

Colombian special police patrol a district of Bogotá after an attack by rebel forces that killed 13 people. Why do you think that a commitment to democracy and human rights is a requirement of admission into MERCOSUR? How does this requirement help ensure that globalization leads to sustainable prosperity for all people?

The other major trade organization in South America is Comunidad Andina de Naciones (CAN)—in English, Andean Community of Nations. This trading bloc, established in 1969, consists of Bolivia, Colombia, Ecuador, and Peru. The combined population of the member countries is about 90 million.

South American Community of Nations

In 1999, MERCOSUR and CAN began negotiating a merger, with the intention of creating a South American free trade area. This trading bloc will be called Comunidad Sudamericana de Naciones (CSN)—in English, South American Community of Nations. CSN plans to eliminate all tariffs by 2019. As well, the leaders of CSN plan to model the new community after the European Union—in other words, they hope their countries will eventually share a common currency, parliament, and passport.

By joining trading blocs, many South American countries expect that they will be able to increase investment in their economies. However, instability within the trading blocs themselves threatens these arrangements. For example, Venezuela withdrew from CAN in April 2006 to protest Colombia's and Peru's decision to sign free trade deals with the United States. In May 2006, Bolivian president Evo Morales nationalized his country's 53 foreign-owned natural gas installations. (When a country **nationalizes** an industry, the government takes over from private owners.) Some economists believe that Bolivia's takeover threatens to cause energy shortages and price hikes that could seriously damage the economies of Bolivia's biggest customers, Argentina and Brazil.

The European Union

A **common market** is the strongest form of regional integration. Common market agreements include the free trade of goods and services and the free movement of capital and labour within the trading bloc. Trading partners outside the bloc are subject to a common set of trade restrictions. The **European Union (EU)**, an organization of 25 countries, is the largest and most powerful common market, with a population of nearly 457 000 000. While it is not a federation, it does have some of the elements common to a federal union: a flag, anthem, founding date, and currency. In addition, the EU is working to develop common foreign and security policies and to address other issues such as citizens' rights, regional development, and environmental protection.

European Union Government

The European Parliament and the Council of the European Union share the responsibility for passing laws and making policy decisions. Every five years, the people in EU countries elect their Parliament. The Council is made up of ministers from the national governments of all the EU countries. The number of votes allotted to each country generally reflects the size of its population. The responsibility for the EU's common foreign and security policies and for its strategy on some issues of justice and freedom mainly lies with the Council.

Trade within the European Union

Since there are no restrictions on the movement of people, capital, goods, and services across national borders, the common market has facilitated trade among EU countries. Trade among these countries accounts for 33 per cent of all EU trade and is essential to all member countries' economies. More than 50 per cent of each country's trade occurs within the EU; in some countries, this figure is as high as 80 per cent.

The EU is also an important player in world trade. It accounts for 20 per cent of global imports and exports, even though it comprises only 7 per cent of the world's population.

Fast Facts

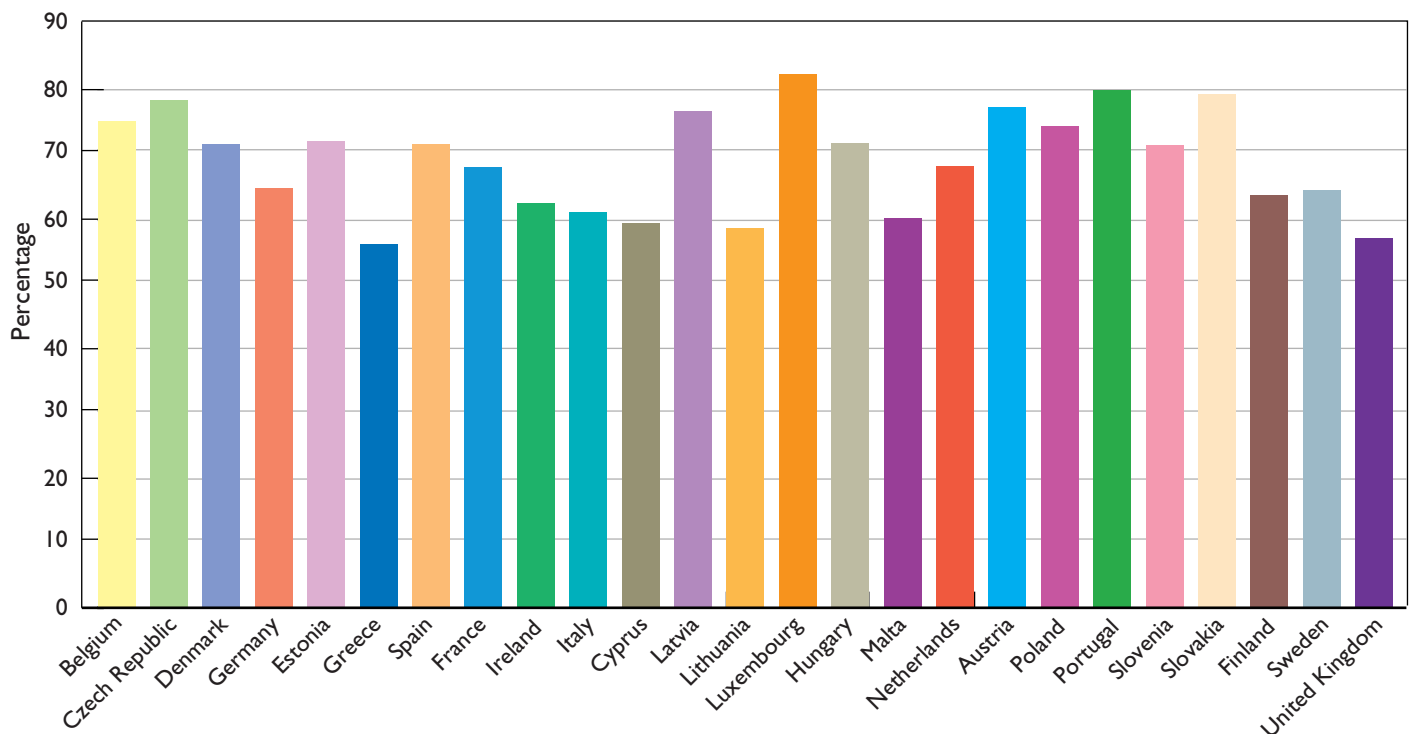
The historical roots of the European Union lie in the Second World War. The idea of European integration was conceived to prevent the killing and destruction of that war from ever happening again. It was first proposed by the French foreign minister Robert Schuman in a speech on May 9, 1950. This date is now celebrated annually as Europe Day.

Why might the integration of Europe reduce the likelihood of hostility between EU countries?

Figure 12-5

In what ways might the information in this graph encourage other regions to form trading blocs? ▼

Trade with Other EU Countries, As a Percentage of Each Country's Total Trade, 2003



Source: Europa: Gateway to the European Union, "The EU: A Major Trading Power," http://europa.eu/abc/keyfigures/index_en.htm. © European Communities, 1995–2006.

INVESTIGATION

READING STRATEGY

What words or phrases in this article tell you that an idea is a fact or an opinion?

Iron Curtain is the term used to describe the political, military, and ideological barrier established between the Soviet bloc and Western Europe from 1945 to 1990.

Ideas and Opinions

“Because Europe was not united, we have had war.”

—Robert Schuman, French foreign minister in the 1950s and a founder of what is now the European Union; quoted by Gideon Rachman, “A Divided Union,” *The Economist*, September 23, 2004.

Schuman was convinced that the origins of conflict in Europe lay in the continent’s system of competing nation-states. He felt that a new union in Europe would banish conflict for good. How do you think he would answer this question: *Do trading blocs contribute to sustainable prosperity for all people?*

EU Expansion: Prosperity for All?

Something to Think About: Can trading blocs actually improve the prosperity of all people in member countries?

An Example: By the end of the Second World War in 1945, Europe was almost bankrupt. However, by the beginning of the 21st century, Europe had enjoyed almost 60 years of peace and was now more prosperous than ever before. Yet, how equally did that prosperity extend across the continent?

Article About the EU: *In February, the European Commission advertised for 1000 temporary workers to stuff envelopes and lick stamps during the EU enlargement process. ... [T]wenty-five thousand CVs gushed into Brussels—more than 21 000 of which were from Poland, Hungary, the Czech Republic, and the EU’s other prospective new members.*

For many west of the former Iron Curtain, incidents like this sound an economic warning bell. This week, those countries’ leaders are gathering in Athens to sign the enlargement process irrevocably into being. Could they ... also be signing away Europe’s cosy prosperity? ...

First, there are worries that Europe’s labour markets will be put under strain. The unemployed or underpaid millions of Eastern Europe, it is felt, are already pouring west; throwing the labour market open will only accelerate that exodus, swamping the West while draining the East of precious talent. At the same time, workers in the West, especially Germany and Austria, fear that ever more of their jobs will be exported to Hungary and Poland, where labour costs are about one-fifth of the EU average. ...

Second, Westerners fret that EU enlargement could dent the union’s economic prestige. East Europeans certainly are poor: ... the 10 leading candidates will raise the EU’s population by one-quarter, but its total economic output will increase only by 4 per cent. All the candidates have ... central banks, stock markets, bond markets and the like—but few in the West feel they have the wisdom or experience to inspire the trust of the financial community. ...

Third and most pressing, no one is sure what enlargement will do to the EU’s already unwieldy administration. Poorer regions in the West fret that Brussels’ subsidies will be diverted to plainly needier recipients in the East; farmers fear that Europe’s vast agricultural budget will be guzzled away by the numberless and inefficient smallholders [small farms] of Central Europe. ...

In fact, none of these three bundles of worries are as knotty as they seem. ... [T]he much-feared ... invasion is unlikely: wage differentials on either side of the divide are already equalizing. ... In any case, the European economy is in sore need of freer movement of labour. ... Nor should the West fear the loss of its prestige too much. ... Almost all the countries fulfill [the EU's] criteria for adoption of the single currency. ... And while Western Europe's economy is growing at just over 1 per cent a year, the East is expanding at four times the rate. ... [M]ost East European currencies have appreciated against the euro in recent years, and the region's credit is reckoned as good as much in the West. ...

[J]ust why is EU enlargement seen as such a one-way street? In some ways, Brussels has more to gain from expanding the union than the new members have from joining. The 10 candidate countries already enjoy the trade privileges, and quite a bit of the subsidy, that they would get as EU members. ... At the same time, new members will have to tighten their belts to fit in with EU strictures. Imposing [EU] rules on budget deficits [an excess of expenses over income] will crimp government spending at a time when many in the East are still reliant on the state for their livelihood. Eastern Europe's relatively free-and-easy economies will have to become more bundled in red tape, especially regarding environmental regulations. ... [T]he EU's sluggish growth and ... high unemployment are scarcely something to aspire toward. Forget working in Brussels; the clever CVs will be heading in the other direction.

—Source: James Arnold, “Should Old Europe Fear the New?,” *BBC News Online*, April 16, 2003, <http://news.bbc.co.uk/2/hi/business/2946149.stm>.

- 1 Create a two-column organizer in your notebook, with the heading “Should the EU Be Expanded?” In the left column, list the concerns some people have about the expansion of the EU. In the right column, provide a counter-argument for each of the concerns you listed. (Note: Counter-arguments for all of the concerns are not explicitly stated in the article. You may need to work with a partner to think creatively about counter-arguments.)
- 2 Use the information in your organizer to write a one- or two-paragraph statement that argues whether or not trading blocs such as the EU improve the prosperity of all member countries.
- 3 Why does the author conclude with the comment, “Forget working in Brussels; the clever CVs will be heading in the other direction”?

Fast Facts

The euro is the name of the single European currency that went into circulation on January 1, 2002. The symbol of the euro is €. The euro has replaced national currencies in 12 EU countries. Having a single currency provides a stable environment for European business and also makes it easier to travel and to compare prices.

Can you think of any disadvantages of replacing traditional currencies with the euro?



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Figure 12-6

The flag of the European Union is the symbol of Europe's unity and identity. The circle of gold stars symbolizes solidarity and harmony between the peoples of the EU. The number of gold stars in the circle—12—is not related to the number of EU countries. There are 12 stars because the number 12 traditionally symbolizes perfection, completeness, and unity. In what ways is this flag an effective symbol for the EU?

Explore the Issues

- 1 Practise Your Skills.** One less developed country that is fighting to take greater control over its economy is Bolivia. As you found out in this section, President Evo Morales has nationalized Bolivia's gas and oil resources. (They were privatized in the 1990s.) To millions of Bolivians, Morales is a hero. However, the American administration was highly critical of Morales.
 - a) Using Internet sources, conduct research on recent events in Bolivia.
 - b) Based on your findings, write an editorial that answers the question: *Is economic globalization an opportunity or a challenge for Bolivia?* **SKILLS**
- 2 Be a Global Citizen.** Millions of people in South America are affected by poverty. Supporters of economic globalization argue that the expansion of global trade can play a major role in alleviating poverty.
 - a) Using Internet and library sources, conduct research on the issue of poverty in three or four South American countries. Highlight any information you find about the impact of economic globalization in these countries.
 - b) Next, take action to help alleviate poverty in this region of the world by doing one of the following:
 - Create a poster display in your school's foyer to draw attention to the issue.
 - Create a PowerPoint presentation for use in an elementary school.
 - Organize a dance-a-thon or another event to raise money for a charitable organization that is active in South America.
- 3 Analyze Information.** In your notebook, record the advantages and disadvantages experienced by countries that join large trading blocs. Review your notes, and then write a concluding statement to respond to the question: *Do trading blocs contribute to sustainable prosperity for all people?*

Ideas and Opinions

“Equity [fair and just distribution of income] is complementary to the pursuit of long-term prosperity. Greater equity ... tends to favour sustained overall development, and it delivers increased opportunities to the poorest groups in a society.”

—François Bourguignon,
senior vice-president and
chief economist, World Bank,
World Development Report 2006.

What might be the benefits of greater economic equity for the wealthy? Explain whether or not you believe that the wealthy have a moral or ethical obligation to make sure economic wealth is distributed more equitably.

Regulating International Trade

Question for Inquiry

- How can international trade be regulated to ensure that its benefits can be equally shared by all people?

For more developed countries, the basic goal of international trade is free access for their goods and services. In other words, they are looking for more markets for their services and manufactured goods. For less developed countries, the goal is also to open new markets—but mostly for non-manufactured goods such as grain and other agricultural food products. The less developed countries do not have the kinds of economies that mass-produce manufactured goods, so they need to sell what they grow.

In the first section of this chapter, you saw that many countries are choosing to join trading blocs to ensure that they have a larger share of trade. In this section, you will have a chance to analyze the roles of the World Bank and the International Monetary Fund in regulating

international trade. You will also consider the issue of fair access to world markets for both less developed and more developed countries—an ongoing challenge of economic globalization and international trade. This exploration will allow you to further develop your response to the Chapter Issue: *To what extent do the opportunities and challenges of economic globalization affect people's lives?*



Figure 12-7

The term **anti-globalization** is used to describe the perspective of those against global trade agreements and their consequences for people in less developed countries, the environment, and peace. World Bank and IMF meetings have been targets of anti-globalization protests. This photograph shows graffiti in Lausanne, Switzerland, protesting the World Economic Forum, an annual meeting of national leaders and business executives from around the world. What do you think “la croissance est une folie” (growth is madness) means from an anti-globalization perspective?

Ideas and Opinions

“...Under economic globalization, poor countries have liberalized and rich countries have continued to protect. The result has been a flow of cheap, often subsidized, goods to developing countries, which has cost millions of their farmers and industrial workers their jobs.

“Free trade cannot be fair to the poor. With no barriers to trade, the poor swim in the same economic stream as the transnational corporations that account for two-thirds of world trade. ... The trading system should give poor countries the right to develop as they wish, including liberalizing as and when they wish. That is how Britain developed.”

— John Madeley, London School of Economics and Political Science,
“Free Trade Is Wrecking Lives Throughout the Developed World,”
Letter to the Editor, *The New Statesman*, March 7, 2005.

What are John Madeley's main arguments against free trade?

The Role of the World Bank

As you found out in Chapter 10, the World Bank provides financial assistance to less developed countries to reduce poverty and improve living standards. Financial assistance can take the form of interest-free loans, low-interest loans, or grants. Usually, the funds are directed toward improving a country's education or health systems or its infrastructure. Supporters of the World Bank argue that without these funds, citizens of less developed countries would experience much greater hardship.

The World Bank is actually made up of two institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD helps low- and middle-income countries, while the IDA focuses on the world's poorest countries. The World Bank claims to have accomplished many things, as you can see at right.

The World Bank says it has achieved the following over the past 20 years:

- The proportion of people living in poverty in less developed countries fell by half—from 40 per cent to 21 per cent.
- Life expectancy in less developed countries has increased by 20 years.
- The number of children dying before the age of five has been reduced by 50 per cent.
- Adult illiteracy has been halved to 25 per cent.

Fast Facts

The World Bank states that the HIPC Debt Initiative enabled Tanzania to abolish primary school fees in 2002, leading to a 66 per cent increase in attendance; allowed Mozambique to offer all children free immunization; and helped Uganda provide 2.2 million people with access to clean water.

What might be some implications of abolishing all debts owed by the least developed countries?

The World Bank has been criticized, however, for operating on the assumption that the free market system can bring prosperity to all countries. According to this perspective, free market reforms are not always suitable for countries that are experiencing conflicts, such as ethnic wars or border conflicts, or for countries that are dictatorships and do not have stable, democratic political systems. A further criticism is that the Bank is under the political influence of more developed countries such as the United States. From this perspective, the World Bank might favour increased foreign investment and international trade, which could end up supporting corrupt governments. For example, China has a poor human rights record but has become a major trading partner of the United States and other more developed countries.

Improving the World Bank

The World Bank recently examined the work that it does—and the impact of that work. The investigation was conducted by World Bank's Independent Evaluation Group (IEG), and the findings were published in a 2006 report entitled “Assessing World Bank Support for

Trade, 1987–2004.” The report concluded that the \$38 billion the World Bank had spent financing trade programs since 1986 had helped to open markets but had not been as effective in increasing exports and growth and reducing poverty.

According to Ajay Chhibber, director of the IEG, less developed countries need some protection from the adverse effects of trade liberalization (see page 261 for an explanation of this term). Since free market reforms in less developed countries sometimes result in inflation or higher interest rates, these reforms need to be accompanied by investment in the economy and institution-building measures.

Benefits for workers and investment in health care and education are examples of institution-building measures.

Debt Relief for Less Developed Countries

Another way that the World Bank can help to ensure that the benefits of international trade are shared more equitably is to aid less developed countries that are heavily in debt. Known more commonly as Heavily Indebted Poor Countries (HIPC), they owe debts to more developed countries and have little or no hope of repaying them. As long as they have unpaid debts, it is almost impossible for them to borrow any more money to fund development projects.



Figure 12-8

These protesters believe that loans provided to less developed countries by the World Bank do more to hurt than help these countries. Why might a loan from the World Bank not be in the best interests of a less developed country?

To alleviate this problem, the World Bank and the International Monetary Fund established the HIPC Debt Initiative in 1996. Under this program, which is administered by the World Bank, HIPCs must agree to a number of reforms in order to be eligible for debt relief. These reforms often include cutting government spending, selling public assets to the private sector, and following the principles of free market capitalism. Debt relief is granted to an HIPC after it shows that it has implemented and followed these reforms for three years.

In 2000, Canada announced that it would halt debt repayments from 11 of the poorest countries in Africa and Latin America. By late 2004, Canada had contributed \$312 million to the HIPC Debt Initiative and other World Bank programs. What might this suggest about our country's understanding of economic globalization?

The Role of the International Monetary Fund

The International Monetary Fund (IMF) is the other large agency responsible for regulating the economies of the world's countries. In Chapter 10, you explored the IMF's role in monitoring exchange rates and providing short-term financial assistance.

Similar to the World Bank, there are different perspectives on the policies of the IMF. Supporters argue that this organization of 184 countries works to “foster global monetary co-operation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.” It tries to achieve these goals in three ways:

- *surveillance*: The IMF assesses each country's economic situation annually and discusses it with the country's authorities. The IMF's findings are published twice a year in *World Economic Outlook* and *Global Financial Stability Report*.
- *technical assistance and training*: The IMF provides this service, generally offered free of charge, in the areas of banking and financial system supervision and regulation.
- *financial assistance*: Like the World Bank, the IMF offers funds and loans to member countries to address debt problems and to help reduce poverty.

Some critics of the IMF claim that it deliberately supports capitalist military dictatorships friendly to American and European corporations. They say that the IMF often advocates **austerity programs** for countries in financial trouble. This means reducing government debt by increasing taxes and cutting social programs. Critics also claim that the IMF does not actively promote democracy, human rights, and labour rights. They argue that corrupt military

READING STRATEGY

In your notebook, create a two-column organizer with these headings: “Arguments for the IMF” and “Arguments against the IMF.” As you read the following material, make point-form notes in each column.

Ideas and Opinions

“The influence of the fund comes entirely from its ability to persuade its members that they should follow its advice. ... We are not the government of the world. We are a public institution to produce public goods.”

—Rodrigo de Rato, IMF Managing Director, quoted in “IMF a 60-Year-Old in Throes of an Identity Crisis,” *The Globe and Mail*, October 4, 2005.

Based on this quotation, what role do you think Rodrigo de Rato believes the IMF should play in regulating international trade?

dictatorships are given loans to support their regimes. Finally, critics maintain that the IMF, like the World Bank, is controlled by the United States and other more developed countries whose main focus is to protect their corporations and interests rather than those of less developed countries.

Supporters of the IMF say that it is simply a funding agency with little power to change anything, let alone sovereign countries. They point out that the IMF's stated objective is to advise and promote financial stability, not to make social changes in the world. They also claim that economic stability is an important prerequisite for countries trying to build a strong democracy.

Overall, the IMF's success record is limited. It was created to help stabilize the global economy but, since 1980, more than 100 countries have experienced a banking collapse—far more than at any previous time in history.

Explore the Issues

1 Draw Conclusions. Bono, the lead singer of U2, is a political activist who helped create the anti-poverty website Debt, Aids, Trade, Africa (DATA). Check the *Perspectives on Globalization* website for a link to DATA. According to the website, the cost of cancelling the debts of the 52 most indebted countries is about one cent a day for every person in the more developed world.

- Working with a partner, create a list of items that you could buy for about 31 cents each. (This represents approximately one cent per day each month.)
- Beside each item, note whether or not you could do without it.
- Should people in the more developed world give up this amount of money to wipe out the debt of less developed countries? Write a summary statement of your position. **SKILLS**

2 Be a Global Citizen. In December 2005, the World Trade Organization announced that more developed countries would have to do more to assist less developed countries. Its recommendations included the following:

- More developed countries must open their doors to more agricultural products from less developed countries.

- More developed countries must reduce or eliminate agricultural subsidies for their farmers by 2013.
- More developed countries must give special trade advantages to less developed countries with a GDP per capita of less than US\$750 (\$877 CAD). This includes allowing less developed countries to trade almost all their goods duty-free and not imposing quotas (limits on quantity of goods).
- a) Write a letter to the Canadian government asking what steps it has taken to meet these recommendations. If you believe that these recommendations are important, explain why and request a written response to your letter. **SKILLS**
- b) When you receive a response, bring it to class to share with your teacher and classmates.

3 Analyze Information. Review the information in this section and then write a position statement to respond to the question: *Does improved regulation of international trade contribute to sustainable prosperity for all people?*

The Impact of Economic Globalization in Canada

Question for Inquiry

- What opportunities and challenges has economic globalization brought to Canada?

Like all countries, Canada has been greatly affected by economic globalization. Our federal government has entered into a number of trade agreements with other countries, our industries have felt the impact of competition from other countries, and our economy is influenced by economic cycles in other parts of the world.

In this section, you will have a chance to consider trade liberalization in Canada and explore the opportunities and challenges that have resulted for Canadians. Your understanding of these matters will be important in helping you reach some conclusions about the Chapter Issue: *To what extent do the opportunities and challenges of economic globalization affect people's lives?*

Trade Liberalization

One of the major developments that has resulted from economic globalization is trade liberalization. **Trade liberalization** describes the process of reducing barriers to trade. This can include privatizing **Crown corporations** (government-owned companies), encouraging foreign investment, and outsourcing jobs. But is trade liberalization a good thing? In particular, is it a good thing for Canada? And what impact will it have on your life?



Figure 12-9

Esso is part of Canada's 120-year-old Imperial Oil Company, which made a historic oil find at Leduc, Alberta in 1947. Imperial Oil is now a major producer of oil from the Fort McMurray oil sands project. Its headquarters are in Calgary. Imperial is part of the worldwide, US-based corporation ExxonMobil. What benefits does this example of economic globalization provide for teenage workers in Canada?

Ideas and Opinions

“Free international trade produces both the benefits of increased productivity and the adjustment problems that all other forms of increased productivity produce—namely, job losses in the less competitive firms and industries. The typewriter industry was devastated by the rise of the computer, as the horse and buggy industry was devastated by the rise of the automobile. Histories of the Industrial Revolution lament the plight of the hand-loom weavers when power looms were introduced.”

—Thomas Sowell, economist, Hoover Institution, Stanford University, California, “Economics: Low Taxes Do What?,” *Hoover Digest*, Spring 2004, <http://www.hooverdigest.org/042/sowell.html>.

How do you think Thomas Sowell would respond to people who blame trade liberalization for job losses in Canada?

In Canada, the following industries have been privatized or deregulated:

- retail liquor industry in Alberta
- Petro-Canada gas stations
- Air Canada
- Ontario Hydro
- some health care services
- CN Rail
- Nova Scotia Power
- the courier and parcel delivery division of Canada Post
- utilities, highway maintenance, and registry and inspection services in Alberta.

Deregulation and Privatization

In Canada, one impact of trade liberalization has been the deregulation of Crown corporations and the privatization of these industries. **Deregulation** involves opening an industry to more competition by removing government regulations. This can be done in different ways. One method of deregulation is **privatization**—the sale of government-owned industries and services to private businesses.

Foreign Investment in Canada

Another result of trade liberalization in Canada is foreign investment. Historically, the Canadian government has been concerned about the impact of foreign investment on the country’s economic independence and identity. This concern is called **economic nationalism**.

In the 1960s and 1970s, public concern grew regarding the level of foreign ownership and investment in oil and gas, mining, and manufacturing. As a result, the federal Liberal government created the Foreign Investment Review Agency (FIRA) in 1973. FIRA’s purpose was to screen foreign takeovers and the establishment of new businesses or subsidiaries by non-Canadians. It was hoped that this would stop Americans from gaining further control over the Canadian economy.

According to one position, it did stem the tide of foreign takeovers. According to another position, it did little except rubber-stamp most foreign investments and takeovers. After the federal election in 1984, the Progressive Conservative government ended FIRA.

Today, Canada actively seeks foreign investment in the country. It does so by placing no restrictions on the repatriation of profit by foreign investors. This means that profits made in Canada can be freely taken out of the country by foreign investors.



The Privatization of Water

The International Consortium of Investigative Journalists (ICIJ) is a group of more than 80 journalists from about 40 countries. The group was organized about five years ago as a project of the Center for Public Integrity. ICIJ operates under the assumption that everything today is global—and in order to get the true picture of any issue, investigative journalism must be carried out globally. In 2002, ICIJ explored the issue of water privatization. As you read its findings, consider whether the privatization of water is an opportunity or challenge of globalization—or both.

In 1990, or 12 years ago, there were private operations in the drinking water field in 12 countries. They are now in 56 countries. If you throw in wastewater services and sanitation, as well as drinking water, they're in more than 100 countries now. That's a tremendous expansion in just 12 years. If there was a McDonald's sign over this industry, it would read "300 million served." That's the number of people who get their water from private utilities.

The companies have been quite successful in promoting themselves as the providers of water that is cheaper and more efficient. That's how they sold themselves around the world. What this means is that, in places like Africa, Asia, Latin America, you were formerly paying your water bill to a public utility that was controlled by elected politicians. When it goes private, you're paying it to a private company. There's less transparency, less accountability, and part of the profits each time you flush the toilet or open the tap are going off to places, most likely Britain and France.

[This expansion is] also happening in North America. Actually, North America is a prime target, the crown jewel for the water industry. Right now, in Canada and the United States, only 5 per cent of the water market is private; most is public. But we have seen major contracts in places like Atlanta, Indianapolis, Puerto Rico and, here in Canada, in Moncton, Halifax, and Hamilton.

When we started this research, we had 10 [water] companies on our list and now there's six, so there's been tremendous concentration just within the year. Really there are three giants—Vivendi and Suez, both from France, and Thames, which is based in England but owned by a German conglomerate, RWE. We're talking big here. These three companies combined employ twice as many people as the entire Canadian government. Their annual sales, for example: one company in Bolivia, its annual sales are twice the size of the gross national product of the entire country.

—Excerpted from “Water for Profit,” CBC News InDepth, February 4, 2003, <http://www.cbc.ca/news/features/water/qanda.html>.



Figure 12-10

Bottled water has become extremely popular and, as a result, plastic water bottles have become a major source of garbage. Do you drink bottled water? If so, why do you drink it rather than tap water? If not, what are your reasons for drinking tap water?

- 1 The report by the ICIJ states that North America is a prime target for the private water industry because only about 5 per cent of the water market is private. How do private water companies convince consumers and governments that private water operators do a better job of delivering water than public operators?
- 2 When water services are privatized and profits go to a private company rather than the government, what does the government have to do to make up for that lost revenue (income)?

Ideas and Opinions

“ The federal government’s ‘Invest in Canada’ website cites the following reasons why Canada is a great place for foreign companies to invest:

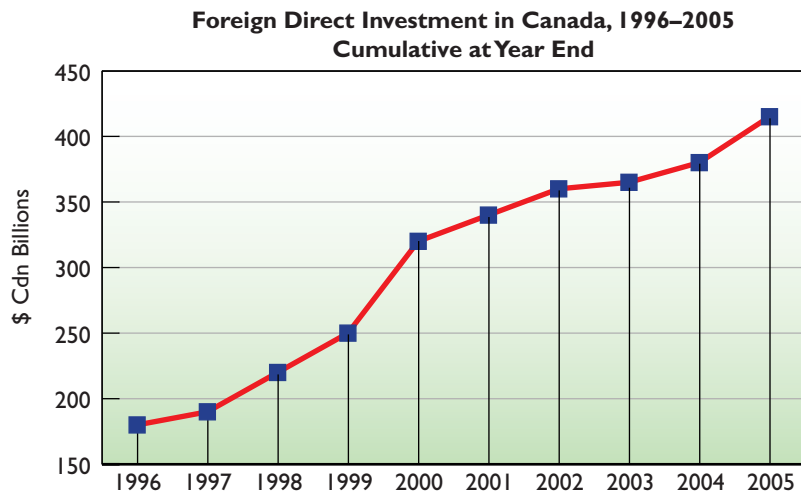
- smart workforce
- leading economy
- strong fiscal policy
- NAFTA advantage
- cost-effectiveness/competitiveness
- sophisticated infrastructure
- a great place to live
- incentives and taxes

—<http://www.investincanada.gc.ca>.

If the profits of foreign investors leave the country, what are the advantages of foreign investment to Canadians?

Figure 12-11

Foreign investment in Canada climbed from \$182 billion in 1996 to over \$415 billion in 2005. What impact does foreign investment have in your community and in your province?



Source: Statistics Canada, “International Investment Position, May 2006,” http://www.2ontario.com/welcome/bcin_500.asp.



Figure 12-12

These maple leaf pins are made in China. Why would the Canadian government have the pins manufactured in China rather than at home?

Outsourcing

One of the major concerns about trade liberalization—and economic globalization in general—is the issue of outsourcing and the impact it has on “our” jobs. **Outsourcing** occurs when one company hires another company to fulfill certain tasks in production. Like unions in other more developed countries, unions in Canada claim that, because of economic globalization, outsourcing is resulting in significant job losses in our country. But supporters of economic globalization disagree. They argue that just as many jobs are created in Canada as a result of trade liberalization as are lost to outsourcing.

Outsourcing has become a controversial issue in Canada and other more developed countries. When a local plant or industry closes down because the company that owns it has decided to move its operations overseas, Canadians find themselves out of work. If they are unable to find other employment, they may have to collect employment



The Knowledge Economy in Canada

The **knowledge economy** refers to the use of knowledge to produce economic benefits. The term became popular in New Zealand in the 1990s to refer to the way that various high-technology businesses—especially computer software, telecommunications, and virtual services—and educational and research institutions can contribute to a country's economy.

In 2005, the accounting firm of PricewaterhouseCoopers (PwC) issued a report claiming that the globalization of knowledge work threatens more than two million jobs in Canada. As you read about some of the findings of this report, consider their possible impact on your community.

Canada needs to identify the occupations where we can compete and win—and support these jobs with technology investments and business innovations. At the same time, we need to be open to the movement of other knowledge jobs to lower-cost geographies.

The report projects that, in addition to 2.4 million knowledge workers, 3.3 million manufacturing production employees are affected by global competition and job mobility—meaning that, overall, 37 per cent of Canada's workforce will be buffeted by the global economy in the coming decade.

“Globalization is besieging high-value knowledge-based occupations—from HR [human resources] to purchasing to investment management and more,” says Robert Scott, leader of the PwC Canada IT Effectiveness Practice. “To protect and improve our standard of living, Canadian business and government leaders must embrace the global division of knowledge work while ensuring that our Canadian businesses and workforce have the strategies and capabilities they need to compete on the global stage.”

Respondents to the PwC study are divided as to whether the globalization of knowledge work is an opportunity or a threat to their companies and to Canada as a whole. Findings differ substantially depending on whether or not the respondent was in the ICT [information and communication technologies] industry. The PwC study found that 39 per cent of ICT respondents think the impact of the globalization of knowledge work on the Canadian labour force will be bad in the short- and the long-term—though 29 per cent expect the complete opposite, seeing both short- and long-term benefits. Non-ICT respondents are a bit more optimistic: 57 per cent think offshoring will hurt Canadian workers in the short term, but benefit them over the long run. However, 29 per cent agree with the ICT people who think that short- and long-term, offshoring is bad for Canadian workers.

—“**Globalization of Knowledge Work Threatens 2.4 Million Canadian Jobs,**” PricewaterhouseCoopers press release, November 14, 2005, <http://www.pwc.com/ca/afinebalance>



READING STRATEGY

As you read this press release, identify the main point and the supporting points. This information will help you to answer the feature questions.

- 1 In the PwC study, why might non-ICT respondents have been more optimistic about the long-term benefits of offshore outsourcing for Canadian workers?
- 2 Robert Scott is quoted as advising Canada to “compete on the global stage.” What actions could Canada take to compete globally in the knowledge economy?

Ideas and Opinions

“Offshore outsourcing won’t automatically lead to 2.4 million job losses. However, cost pressures and demand for skilled resources may mean Canada will continue to lag behind other countries in terms of productivity. Those Canadian firms which are moving work offshore prefer to use their own employees in remote locations rather than a third party, a concept referred to as ‘captive outsourcing.’”

—David Ticoll and Robert Scott,
A Fine Balance: The Buying and Selling of Canada (Toronto: PricewaterhouseCoopers, 2005).

How does this quotation demonstrate the idea that offshore outsourcing is both an opportunity and a challenge for Canada?

insurance or social assistance. They will also likely experience a drop in their standard of living for at least a short period of time.

Outsourcing has become very common in the communications and high-tech fields. For example, call centres can be established at low cost in less developed countries through the use of toll-free telephone numbers and high-speed computers. Outsourcing has also affected many manufacturing jobs, such as those in the automotive industry.

Supporters of freer trade point out that every country has a **comparative advantage**. This term refers to a country’s ability to produce a product or service with comparatively fewer resources than another country. In the computer software field, workers in India have skills and training comparable to those of North American workers, but their wages are much lower. As a result, many jobs in this field are outsourced to India. On the other hand, companies such as Siemens and Toyota employ thousands of North Americans because, at present, our highly trained workforce does not have comparable, lower-cost counterparts in other countries.

A 2006 study by the Organization for Economic Co-operation and Development (OECD) determined that one in five jobs could be affected by the continued growth of offshore outsourcing. It identified information technology, accounting, consulting, financial services, and research and development as the industries most vulnerable to outsourcing. But the study also found that job losses in information technology are more the result of the automation of tasks than of outsourcing to countries such as India. The study concluded that, in the long term, the benefits of offshore outsourcing and the globalization of services will outweigh any short-term job losses.

Explore the Issues

- 1 Conduct Research.** One common theme of economic globalization is reducing the role of government in the economy through privatization and deregulation.
 - a) Conduct research on a Canadian industry or an area of the Canadian economy that has been privatized or deregulated. Refer to the bulleted list on page 262 for ideas.
 - b) Write a report outlining the challenges and new opportunities that have resulted from the privatization or deregulation of your chosen industry.
- 2 Record, Organize, and Synthesize.** Review the information in this section and then create an organizer with the heading “Opportunities and Challenges of Economic Globalization for Canada.” After completing your organizer, write a summary statement that addresses whether or not economic globalization has generated greater benefits or costs for Canada.

Reflect and Analyze

In this chapter, you considered the opportunities and challenges of economic globalization by exploring trading blocs, the regulation of international trade, and the impact of economic globalization in Canada. As a result of this inquiry, you can now respond to the Chapter Issue: *To what extent do the opportunities and challenges of economic globalization affect people's lives?* Reflect on what you have learned about the opportunities and challenges of economic globalization around the world and here in Canada. Then discuss this issue in a group.

Respond to Ideas

- 1 Supporters of economic globalization argue that the expansion of globalization presents more opportunities than challenges. Respond to this idea from a national (Canadian) perspective and an international (global) perspective. Your response should take the form of a newspaper editorial. **SKILLS**

Recognize Relationships between Content and Issues

- 2 Imagine that you are a citizen of a less developed country. Write a journal article that describes why you believe economic globalization presents either opportunities or challenges—or both—to your country. Write your journal article “in role” and provide a few concrete examples for greater authenticity.

Focus on Research and Inquiry

- 3 Almost all economists agree that freer trade improves a country's economy, regardless of whether the country is more developed or less developed. What economists do not agree on, however, is whether or not economic globalization should be regulated to ensure that the benefits of trade liberalization are more evenly distributed globally.
 - a) Conduct further research to develop your own response to this issue. To help you conduct your research, refer to the Inquiry Model on the inside front cover of this text or to your own inquiry model, if you have developed one.
 - b) Present your research and analysis in a well-informed editorial. **SKILLS**
 - c) **Reflect on the Process.** Consider your work during the *creation* phase of your research. Did you have any trouble organizing your information? Did you think about your audience when you wrote your editorial? Did you adhere to the format for writing an editorial? What, if anything, might you do differently the next time you create such a product?

