

Globalization: Drivers and Effects

Globalization has changed and evolved since the days of traders from one region carrying goods to trade with counterparts in other regions. The ordeal proved extremely lucrative or profitable because the merchant-traders were able to fetch high prices for the goods that the political, economic, and social elites demanded. Attempting to gain more wealth, merchants began to find ways of how trade could be increased and made more efficient over the years, culminating in innovation and progress made in transportation, telecommunication, and information technology.

Interaction and integration of human activities expanded over the years to include noneconomic activities such as culture, changing values, and behaviors. Political beliefs, ideals, and practices were not far behind because self-interest is a natural human DNA, spilling globalization over to the geopolitical realm. The pursuit of self-interest-maximization led to conflicts between groups from different regions of the globe. For example, rising anti-globalization sentiments in the West is largely attributed to production relocation to developing economies, immigration, and other developments that contribute to loss of unemployment. When the West's economy picks up, however, that sentiment will likely change to pro-globalization because there will be less competition for jobs. The average person, regardless of where he/she is from, wants the same thing: a steady job to support his/her family.

Globalization is driven mainly but not exclusively by trade and investment. There are other drivers such as transportation and geopolitics.

These will be discussed later in the chapter. For now, it may be appropriate to revisit the rationale behind international trade and investment: comparative advantage. Globalization and international relations students would have had studied the principles of economics, but may find a revisit beneficial. For those who have not been exposed to economics, it would shed light on why nations promote closer trade and investment relations with other countries.

COMPARATIVE ADVANTAGE: REVISITED

Nations acquire a relative superior efficiency in producing one or more goods because of geographical location differences, endowing countries with resource(s) unique to their climate and terrain. The United States, for example, possesses a relative efficiency in the production of technologically advanced products due to its focus on investment in education, research, and development. Harvard and other top universities have become the world's most prestigious institutions of higher learning, attracting the best and brightest minds from every corner of the globe (to study and do research) because of well-funded state-of-the-art research facilities and world-class faculty.¹ Even better, a large number of bright foreign students chose to stay and apply their knowledge/skill in the United States after they completed research work or studies. Their willingness to stay was (and will continue to be) a big part of the United States being at the forefront or leader of innovation. Jerry Yang, the founder of Yahoo, was born in Taiwan but studied and applied his talent in the United States.² He is just one of the many foreign-born "geniuses" that came and will continue to come to study in the United States. Like Mr. Yang, they will work, teach, and open businesses. For this reason, the US was, is, and will likely continue to be the inventor of advanced technology, sustaining its cultural, technological, economic, and geopolitical leadership. China, with its huge population and skilled labor pool (thanks to the government's industrialization policies), has gained a comparative advantage in manufacturing.³ With its comprehensive infrastructure (ranging from roads, power generation, railways, airports, cargo ships, domestic supply chain, value for education, procurement, and distribution), China would likely dominate the production and distribution of manufactured goods for a long period of time. In this regard, trade between the two countries should be a natural occurrence because the two economies are highly complementary, fitting in with the theory of comparative advantage.

Simplified Version of the Theory of Comparative Advantage

David Ricardo, an eighteenth-century English economist, postulated that a country exporting a good in which it has a relative superior efficiency (lower cost advantage) and importing that in which it incurs a relative inferior efficiency (higher cost disadvantage) would benefit not only itself, but the trading partner as well.⁴ He reasoned that employing the resources to produce the good at which they are most productive brings economies of scale, expanding economic growth. The following simple example illustrates Ricardo's theory of comparative advantage

Suppose a scenario in which a physician decides whether to install the bathroom in his house himself or hire a plumber to do the job. Further assume: i) the physician and plumber respectively earns \$200 and \$50 per hour; ii) the task takes the physician 10 hours (he was a plumber in his first life) and the plumber 20 hours; and iii) the physician hires the plumber to do the task and resume his medical practice. From this illustration, the gains to both should be clear: the doctor saves \$1000 or reducing his opportunity cost by \$1000. Had the doctor forgone 10 hours of medical practice, he would have lost \$2000 in fees. The plumber receives \$1000 that he might not be able to earn had the doctor decided to do the work himself. Since both of their income increased, the doctor and plumber would be able to buy more goods and services, expanding economic growth

Since then, a number of trade theoreticians have expanded Ricardo's theory of comparative advantage, giving policymakers more sophisticated tools to advance the trading process. The Swedish economists Eli Heckscher and Bertil Ohlin built a mathematical model based on the relative abundance or scarcity of a resource in quantifying the benefits and costs of free trade.⁵ They pointed out that if a country has an abundance of labor and scarcity of capital, it should produce labor-intensive goods because the price of labor would be less than that of capital. They also suggested that the government should implement "proactive" policies (i.e., manpower retraining) to minimize the pains of workers who lost their jobs through trade.

Paul Samuelson and Wolfgang Stolper (US economists who developed the Samuelson–Stolper Theorem) expanded the Heckscher–Ohlin two-factor model to include the effects of trade on unskilled labor in high-income countries.⁶ In their model, Samuelson and Stolper calculated that a high-income country should import labor-intensive manufacturing goods and export capital-intensive ones for similar reasons as those of Heckscher and Ohlin.

Both the Heckscher–Ohlin and Samuelson–Stolper models assumed “constant returns to scale” in that the opportunity cost of producing an additional unit would be the same no matter how many extra units are produced. They also assumed that production would be at the capacity output (minimum per unit cost). However, neither assumption is consistent with reality because of the law of diminishing returns or increasing cost, in that (holding other things constant) the additional productivity of inputs would fall from producing an extra unit of good. After all, workers do get tired from working long hours.

The above two models were “refined” by economists such as Paul Krugman, emphasizing the importance of increasing returns to scale and net effects.⁷ They postulated that the law of diminishing returns prohibits complete specialization because the production process goes through different stages of efficiencies—increasing returns at the beginning, constant returns once the minimum efficiency scale (least-cost unit of production) is reached, (and from that point on) decreasing returns. The law of diminishing returns stipulates that holding other things constant, inputs (capital and labor) efficiency will fall in producing an extra unit of output at some point in the production process for reasons indicated earlier.

These economists also defended the eighteenth-century “infant industry protection” argument. Like newborn babies requiring parents’ care and mentoring, infant industries must and should be protected and nourished before releasing them to compete with the already established and efficient foreign multinational enterprises. History seems to be on their side, in that trade protectionism was largely responsible for Western and Japanese industrialization. For example, Toyota might not have been able to become the world’s biggest automobile producer had the Japanese government not erected barriers to protect its automobile industry from foreign competition.⁸ Krugman and his “soulmates” seemed to agree with Heckscher and Ohlin in that free or freer trade would enhance economic growth only after a country has acquired efficient industries allowing them to compete effectively in the world market. They also suggested that governments and enterprises put in place adequate remedial programs (i.e., manpower retraining) to address displaced workers and industries.

(A definitive analysis of the aforementioned scholars’ work is beyond the scope of this book. For readers interested in the scholars’ research, please follow the links provided in the citations. Additionally, there is an abundance of literature on the works of these prominent economists on the Internet and in libraries.)

DRIVERS OF GLOBALIZATION

International trade and investment bring economies of scale or reducing costs through appropriate and efficient use of resources or inputs (as demonstrated in the simple comparative advantage illustration). Increases in supply reduce prices, resulting in real income and wealth rises, leading to higher levels of consumption and saving. However, trade and investment are not the only drivers of globalization. Others such as outsourcing, offshoring, transportation, information technology, telecommunication, and geopolitics also drive or accelerate globalization, although they might be derivatives of the trading system.

a. *International Trade*

International trade is the exchange of capital, goods, and services between nations. Its importance to a country's economy, polity, and society has accelerated since European colonization, in that it dramatically enhanced economic growth, expanded empires, and altered social behavior. Natural resources were being sourced from the "new found lands" to produce consumer and industrial goods at home to be sold in the domestic and foreign markets. The process increased wealth, improving people's living standards, which culminated in changes in consumption and social behaviors. For example, real income afforded people to buy discriminately, purchasing more desirable (i.e., automobile) and less inferior goods (i.e., bicycle).

International trade is largely in goods and services because they can be more easily moved across international borders than capital and labor. Goods refer to physical products such as clothing and automobiles. Services involve consulting, banking, and other intangible goods. The only barriers are tariffs (i.e., tax on imports) and nontariff measures (i.e., quota restrictions). Of course, there are nontradable goods (i.e., advanced jet fighters such as the US-F22 or Raptor) services (i.e., haircut). Labor, on the other hand, is less mobile because of immigration laws and other restrictions (i.e., lack of skill). That said, labor is indirectly traded because of the imports it produces. Capital refers to inputs and assets used to produce goods and services. Some (i.e., building) are more difficult if not impossible to transport across international borders because they are physically fixed and cannot be removed.

International trade is perhaps the biggest driver of globalization because of its huge rewards and impact on a country's economy,

polity, and society. The export-led growth model is credited with China's remarkable economic achievement. Export enterprises are largely foreign-owned or foreign-local joint ventures employing hundreds of millions of people, bringing in advanced technology, increasing people-to-people exchanges, and generating revenues for people, companies, and the state.⁹ The accumulation of wealth and exposure to the outside world might be responsible for transforming the country's political architecture, from rigid Leninist-Marxist-Mao Zedong Thought to less ideological "socialism," giving people more freedom of expression, enterprise, and movement.

Trade is also responsible for the rise of other major developing economies such as Brazil and Russia. It was Brazil's selling huge quantities of agricultural products and iron ore that jump-started the country's economic growth. Russia's economy is largely built on the back of its energy exports. Intraregional trade is responsible for Asia being the fastest economic growth area in the world, estimated at over 5% in 2015.¹⁰

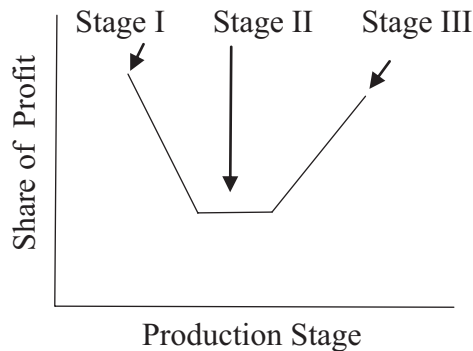
Although external demand is weakening due to uncertain world economic prospects, exports still account for almost 30% of global GDP, suggesting that developing and developed economies need to access markets outside their boundaries to grow.¹¹ Weak external demand, particularly from the West, is largely responsible for China's economic slowdown, which in turn causes the demand for world natural resources and prices to fall. Without increasing exports, China's economy would be stuck at the "new normal" growth rate of around 6.5%. In the absence of increasing demand for natural resources from China, resource-based economies could encounter strong headwinds going forward. In the developed economies, domestic demand has proven to be inadequate in spurring economic growth. Chinese President Xi Jinping is right when he suggests that globalization is the best vehicle in enhancing economic growth, stating at the 2017 World Economic Forum in Davos that "protectionism is like locking oneself in a dark room."

b. *Outsourcing*

Outsourcing is the process of contracting out production of some parts or the entire final product to countries in which labor costs are lower and environmental protection and labor laws less rigid or not vigorously enforced. It is different from foreign investment in that the outsourcing firm is subcontracting production

to other countries. Unlike trade, the outsourcing company owns the product, not buying it from a foreign firm. Outsourcing has many advantages over trade and investment. One advantage is the firm being spared from having to deal with labor- or environmental-related issues. Another is reaching an agreement on price before production avoids unexpected hidden costs and other issues.

As indicated in the diagram below, outsourcing can be extremely profitable for multinational firms. Apple, the US-based smart phone, computer, and iPad conglomerate is earning huge profits by outsourcing production to foreign-owned manufacturers. The company earns the biggest shares of profits in Stages I and III .



Stage I represents the design and development stage. Its share of total profit is estimated at over 40%. Stage II is manufacturing or assembling, earning between 15 and 20% of the total profit. Three is distribution, accounting for 35 and 40% of profit. The total production cost of an iPad is US\$174 of which less than US\$11 is earned by Chinese workers. Design and development are carried out by Apple's engineering or technical staff and facilities in the United States. Engineering and parts production are subcontracted to Japan, South Korea, Singapore, Taiwan, and Malaysia. Assembly of the iPad is contracted out to Foxconn, a Taiwan-based manufacturing conglomerate with factories in China. The iPad sells for over US\$400, depending on the model, capacity, and screen size.¹²

c. *Offshoring*

Offshoring is the process of producing of semi-finished parts at a facility located in lower wage countries. The "rough" components

are then shipped back to the company's home factory for finishing. This process is a common practice for US manufacturing companies. General Motors, for example, produces the unfinished camshaft in other countries, such as Brazil, whose wage rates and labor standards are lower than those in the United States.¹³ The semi-finished product is then shipped back to a GM-owned factory in the US for finishing. The process is extremely profitable considering the huge wage differences between the countries and the large quantity of camshafts required.

d. *International Investment*

International investment is the process of acquiring a production facility or financial asset from abroad. It comes in two forms, portfolio and direct investment. The first involves investors buying and selling of foreign currency-dominated financial assets such as sovereign and private company bonds (Canadian Treasury Bills, General Motors bonds). Foreign portfolio investment (FPI) is lending money to a sovereign state or large private enterprise for a guaranteed rate of return. Foreign governments issue securities to raise capital to spend on fiscal programs and building infrastructures as a way of sustaining social stability and enhancing competitiveness. The United States has sold over US\$1.2 trillion worth of its Treasury Bills to China; most of the sales proceeds were spent on infrastructure projects, social programs, and even making weapons.¹⁴ Private enterprises also sold bonds to build company assets. The Canadian Pacific Railway Limited, for example, sold bonds to the amount of CAD\$900 million to improve efficiency and competitiveness.¹⁵ Bond buying is usually for safe investment as well as speculative purposes. For example, investors normally buy a Treasury Bill (TB) when its yield increases because yields and price are inversely related. To that end, the buyer would gain higher returns on investment and pay a lower price for the TB. Bonds, particularly government bonds, are a riskless investment because their values and payments are guaranteed by sovereign states with the authority to print money and raise taxes.

The second form is asset or foreign direct investment (FDI), buying or building of facilities to produce goods in another country. FDI is influenced by the principle of comparative advantage, in that firms invest abroad because of lower production costs. A country's high tariff rates might also be an incentive for foreign firms to invest in it.

One of the national policy of economic development strategies of Sir John A. Macdonald, Canada's first prime minister, was to impose a 33% tariff policy to block US manufactured goods, which was responsible for the surge in American foreign investment in the latter part of the 1800s.¹⁶ Rather than pay the tariff, US firms invested in the newly formed country, accessing the Canadian and British Empire markets through the "back door." Canada benefited in that Canadian industrialization might not have advanced so rapidly had US firms not invested in the country at its infant stage.

Today, Chinese enterprises are following their Western and Japanese counterparts, increasing overseas investment. For example, its 2015 outbound investment overtook that of inbound, respectively, estimated at US\$125 billion and US\$110 billion.¹⁷ Avoiding import restriction measures, climbing the value chain, pursuing "brand name" status, and speeding up innovation are the drivers of Chinese enterprises investing abroad. Huawei buying brand name firms like General Electric's appliance production operations is to gain experience in and manufacturing of world-class products to compete in the increasingly competitive world market.¹⁸ The upward trend in Chinese investment abroad is expected to surge in the coming years. The government, for example, announced the "Made in China" strategy, a policy designed to upgrade the manufacturing sector through innovation and producing value-added goods for the domestic and foreign markets.¹⁹ Mergers and acquisitions (M&A) are a part and partial to that strategy because China is still behind the developed economies in science, technology, and management methods.

e. *Transportation*

Transportation is the process of moving goods and people from one place to another, thus essential for globalization. To increase the volume of goods and the number of people that can be moved and efficiency, humankind constantly innovates the process, turning it from an aid to a driver of globalization. The invention of the wheel allowed wagons to carry more goods over longer distances at higher speed. Bigger ships were built to transport large volumes of products from one country to another across the oceans. The system of offloading cargos from ships directly onto railway cars (roll-on-roll off) to be transported across vast landmasses saved time and money. High-speed passenger and freight trains can carry

thousands of people and millions of tons of goods from China to Germany in less than 24 days, compared with taking over a month by sea. If the cliché “time is money” is true, it is not surprising that transportation has become a driver for globalization. China seems to think the cliché is true, explaining the reason why it has built almost 20,000 km of railway tracks as of 2015.²⁰ It in fact completed building a railway track between Xi’an and Hamburg in that year, taking 15 instead of 35 days to ship goods from China to Germany.²¹

There are different modes or ways in which goods and people can be moved: roads, water, rail, air, and pipelines, collectively referred to as the transportation infrastructure. Roads were the first mode of transportation, using human and animal power, to be followed by cars and trucks from the nineteenth century on. The invention of the steam engine in the eighteenth century made railway transportation possible, carrying large quantities of goods across massive landmasses. Ship building and navigation paved the way for ocean transportation. The twentieth century brought air and space transportation.

Each mode of transportation requires its own unique infrastructure or fixed facilities. Airplanes require the construction of airports, cars need roads, ships need docks, and so on. The building of infrastructures spurs economic growth, in that it triggers construction, attracts investment, incubates tertiary industries, and builds new cities. Infrastructure is capable of creating huge multiplier effects as shown in the both the United States and China.

The Chinese cliché, “to create wealth, the country must first build roads and other infrastructures” makes economic sense, prompting developing economies such as India, Russia, and Brazil to invest heavily in infrastructures.²² One reason why India lags behind China in attracting foreign investment is its inadequate infrastructure system of uncertain power availability and not enough roads and railways to transport goods from manufacturing facilities to seaports or markets.

f. *Telecommunication*

Telecommunication is defined as the “transmission of signs, signals, messages, writings, images, sounds and intelligence by wire, radio, optical or other electromagnetic systems.”²³ Its innovation drives globalization because of quick and efficient transmission of

messages and information. Texting, for example, can relay a message of development from one person to another in seconds. This quick and efficient way of sending messages has sped up globalization because decisions on trade, investment, refugee problems, and other issues can be made immediately after the information is received.

Telecommunication technology has made remarkable advancements, particularly in the past two centuries starting with the discovery of the telegraph to today's Internet. Although sending messages were cumbersome and required the installation of posts and wires, telegraph messages were quickly sent and received. Today, the Internet allows people, companies, and governments to send questions and replies to answers on matters relating to trade, investment, and other globalization issues in a matter of seconds.

g. *Information Technology*

Information technology refers to the use of computers and the Internet to bank, retrieve, send, process, and disseminate information, a process closely related to telecommunication technology. This process is readily available to billions of people around the world who own an iPhone or iPad. They can literally access and send information on anything and anywhere in the world with a touch on their electronic gadget. For example, stock market values respond immediately after an announcement on the decline of the price of oil, leading to a frenzy of buying and selling of the commodity or the stock of oil-producing enterprises.

h. *Geopolitics*

As mentioned earlier, globalization has a geopolitical dimension because it changes a nation state's political architecture. After WW II, the United Nations was established to prevent future wars and improve relations between nations. To do so, member countries ceded some of their sovereignty to the supranational institution. For example, declaring war against a country requires a UN Security Council (UNSC) resolution as was the case in the Korean War (1950–1953), although the way it gained “unanimous” support was debatable.²⁴ UNSC resolutions require the unanimous approval of all permanent members holding a veto power. The United States pushed the Korean War resolution through when the Soviet Union representative was absent at the moment. However, needing the unanimous support of all 5 permanent members (United States, Russia, China, United Kingdom, and France) and at least 9

of the 15 nonpermanent ones to pass resolutions, can be broken. The United States, for example, attacked Iraq even though three of the five permanent members, Russia, China, and France, vetoed it.²⁵

The rise of China and other major developing economies has spilled over to the geopolitical realm in that it is viewed by the West, particularly the United States, as a challenge to its global dominance. China's ability and willingness to invest hundreds of billions of dollars in Africa, Latin America, and Eurasia has replaced the West and the US in particular as the main sphere of influence in these regions, prompting a revisit on relations with these developing regions. After years of not paying attention to the continent, the EU set up a China–Africa style forum to explore economic cooperation between the two continents as way to check or counter China's geoeconomic influence.²⁶ Losing influence to China is probably the reason why the former US Secretary of State and 2016 presidential candidate denounced the Asian country as a “neocolonialist,” out to exploit Africa's resources in the first term of the Obama presidency.²⁷ It is also during that period that the United States established a new military theater, Africa Command, to insert its economic and geopolitical influence on the continent.

Geopolitics thus drives globalization in that political and military influence could and has changed between nations. Indian pressure, for example, caused Sri Lanka's new government to re-examine Chinese investment in the country in 2015.²⁸ However, India does not have the financial resources that China has, prompting Sri Lanka re-visiting the latter's (China) investment projects. The United States is said to have pressured Australia to persuade China to accept the ruling of the 2016 Permanent Court of Arbitration on the South China Sea territorial dispute. In succumbing to US pressure, however, the Australian economy could be put in a state of persistent slow growth because China is its biggest trade partner, buying over 30% of Australian products.²⁹ The country probably has found that finding an alternative market able and willing to buy that volume could be difficult.

EFFECTS OF GLOBALIZATION

The effects of globalization, both benefits and costs, will likely be debated for years to come. Below is a sample list of the benefits and costs presented by the supporters and detractors of globalization. The reader

is cautioned to examine the empirical evidence and logic behind the opposing sides' claims before deciding on who is right or wrong.

Socioeconomic woes are the causes of rising protectionism in the West and the success of Brexit in the United Kingdom. The question is whether globalization is responsible for the problems that are plaguing the West. The answer has profound ramifications because if globalization is not the source of the West's economic, geopolitical, and social problems, ending globalization would be like pulling the wrong tooth. In this regard, the toothache would only worsen.

1. *Benefits of Globalization*

a. *Increase in GDP*

In the 1960s, the countries that embraced globalization are said to have recorded an annual average economic growth rate of 4.7%, favorably compared with those that did not participate in the process at 1.4%.³⁰ The economies of the “four Asian tigers,” South Korea, Taiwan, Hong Kong, and Singapore, owed their “developed” economy status by integrating into the global economy, growing at an average annual rate of over 7% from 1962 to the late 1990s, because exports accounted for over 150% of their GDP.³¹ History repeated itself in the 1990s, in that the developing economies that were integrated into the global economy enjoyed an annual economic growth rate of more than 5%.³² The common denominator was that the mentioned economies were (and still are) export-driven. China is arguably one of if not the most successful globalized nations in recent history, owing its averaging an annual growth rate of almost 10% from 1980 to 2013 largely to exports (30% of GDP) and (domestic and foreign) investments (over 40% of GDP).³³ It was the world's biggest trading nation, biggest trade partner with over 100 countries, and the second largest recipient of direct foreign investment after the United States in 2015.³⁴

Export-led economic growth is given credit for increased income and wealth in East Asia, allowing consumers in the relatively rich Asian countries to enjoy a standard of living compatible to if not higher than that of the West and Japan. In 2015, real per capita GDP (PPP) in Singapore exceeded US\$86,000, favorably compared with that of the US at US\$57,000 and higher than Japan's US\$38,000.³⁵ Hong Kong and South Korea registered a

real per capita GDP of US\$58,000 and US\$37,000, respectively.³⁶ Status-conscious Asian consumers might be the biggest buyers of Louis Vuitton bags, Sony television sets, and Apple computers. Chinese consumers are following those of the Asian Tigers' footsteps, buying expensive Rolls Royce or Mercedes Benz cars, and other luxury Western and Japanese goods. As indicated earlier, China's huge and growing middle class, estimated at over 400 million in 2015, exploding to over 600 million by 2020, was the biggest source of tourists with over 120 million in 2015.³⁷ The Asian countries' (excluding Japan) strong consumption power has prompted the IMF to project an average economic growth rate of over 5% in the region, favorably compared with that of the EU, US, and Japan at less than 2%.³⁸

b. *Enhancing Global Economic and Geopolitical Relationships*

Increasing economic interdependency between the major powers in the post-WW II order is said to be an important factor in preventing them from taking up arms against each other. The increasingly intertwined economies owed no small part to the US and Chinese multinational enterprises that played a pivotal role in establishing the Economic and Strategic Review Dialogue (ESRD). The forum is co-chaired by each side's top diplomatic and foreign affairs officials, meeting twice a year to address conflicts and promote trust and good relations. The regular meetings have been instrumental in keeping the Sino-US relationship "stable," preventing economic (currency manipulation charges) and geopolitical (South China Sea freedom of navigation) issues from escalating to a shooting or trade war.

c. *Acceleration of Technological Advancement*

The most effective way to increase competition and profits is by bringing advanced technology and management methods to the recipient countries. American companies' capital and technology are said to be responsible for Canada's rapid industrialization in the nineteenth and twentieth centuries. That might also be true in the case of the "four Asian tigers," South Korea, Hong Kong, Taiwan, and Singapore in that imported US and British technologies were instrumental in spurring fast economic growth and narrowing the technological gap with the two countries. Equally important to note is returning engineers, technologists,

and scientists who had studied and worked in the United States played an important role in accelerating the tigers' technological advancement. As indicated earlier, the Chinese government requiring foreign enterprises wanting to invest or form joint ventures in China to bring advanced technology and management techniques is one of the major reasons for its remarkable economic growth and fast closing of the technological gap between the two countries.

d. *Enhancement of Mutual Understanding and Promoting Geoeconomic Relations*

Globalization has accelerated transportation technology, making traveling affordable to increasingly huge numbers of people in all countries to visit, work, and study abroad. People with firsthand observation of each other's landscape, environment, culture, language, music, polity, society, and the arts have a better understanding of the countries they visit. The increasing number of Chinese nationals visiting, studying, and working in the United States and other Western countries is in part responsible for the Chinese government's continual economic and political reforms. The Americans, Canadians, and Europeans who have traveled to China view the communist country more positively than those who have never set foot in China. According to a 2015 Pew International Opinion Poll, 55% of America's younger generation has a positive view of China because they have had traveled to the country or are more aware of global economic and geopolitical affairs.³⁹ Of the Americans who are older and never set foot on the country, less than 30% of this population view China positively.⁴⁰ Similar findings are also found in China. The majority of Chinese who had traveled to, studied, and worked in the United States have a positive view of the country but over 50% of those who did not, view the United States negatively.⁴¹

As opinion polls on other countries revealed similar conclusions, there is hope for sustainable economic development and geopolitical stability. The young will be tomorrow's leaders. Their understanding of other people's culture, economy, polity, and society can only help in cementing international geoeconomic relations, lessening the prospects of big powers falling into the Thucydides Trap.

History will tell that whenever a rising power is viewed by the existing power as a threat to the latter's hegemony, war between the two will likely take place. This insight was first brought to the world's attention by the Greek historian, Thucydides.⁴² He concluded that the Peloponnesian War fought between Athens and Sparta over 2400 years ago was sparked by Athens' (the rising power) demand for a bigger role in the Peloponnese peninsula but Sparta (the established power) was determined to defend the status quo.⁴³ Historians such as John Mearsheimear, a prominent scholar with the University of Chicago, saw a parallel scenario between China and the United States.⁴⁴ They argue that China is demanding a larger role in shaping global affairs and the United States is equally forceful in defending the status quo. These historians claim that a China-US war is unavoidable because 12 out of 15 wars since the 1600s were caused by either a rising power challenging an established one, or vice versa.⁴⁵

However, Mearsheimer and his supporters could be wrong in assuming the China-US case to be similar to those of the past. Past powers did not possess nuclear arms, precluding total destruction or at least killing over half of each other's population. Nor were past powers' economies as intertwined as those of the United States and China. Indeed, even the Cold War between the United States and the former Soviet Union did not lead to war for fear of mutual assured destruction (MAD). Another important difference is that China has not shown any indication that it is attempting to unseat the United States as the global hegemony. As Moak and Lee indicated in their book, *China's Economic Rise and Its Global Impact*, China would gladly let the United States be the "world's big brother."⁴⁶ Indeed, there is no reason for China and the United States to go to war with each other.

e. *Other Benefits*

Other benefits of globalization are said to be: a wider selection of affordable consumer goods and services, more opportunities to study and work in foreign countries, and others. Had Dell or other US computer firms not outsourced production to China, many Canadians or Americans may not have been able to buy a laptop or an iPad. As indicated earlier, it is the lower priced Chinese-made goods that increased real wages in the West and in other parts of the world. Foreign students coming from China, India, and

elsewhere have subsidized American, Australian, Canadian, British, and other Western European post-secondary educational institutions for local students (having to pay three times more).⁴⁷ The total number of foreign students in the Anglo-American countries—the US, UK, Australia, Canada and New Zealand—topping over 1 million—is also a sizable demander for these countries’ goods and services.

An Assessment of the Benefits Claims

Although the logic and evidence behind the benefit claims appear reasonable and probably true, some of them would have occurred without globalization. For example, rapid economic growth in the United States between the 1950s and 1960s was largely attributed to the government’s massive road construction program.⁴⁸ It was responsible for stimulating manufacturing, particularly the automobile manufacturing sector. The US dot.com revolution in the 1990s was the result of US information technology advancement.

The Chinese economy actually enjoyed high rates of economic growth before Deng Xiaoping opened its doors to the world, albeit from a low base. Between 1953 and 1980, the Chinese economy grew at an average annual rate of over 6%.⁴⁹ However, embracing globalization has accelerated the country’s economic growth rate.

Losses or Costs of Globalization

However, critics of globalization are not as praiseworthy: relocating production overseas, worsening environmental degradation, widening the rich–poor gap, exporting of “good-paying” Western manufacturing jobs, losing the middle class in the West, and a host of other adverse effects.

1. Environmental Degradation

According to the critics, globalization’s biggest damage is environmental degradation. They claim that China’s monumental pollution problem was the result of both foreign and domestic owned factories dumping toxic chemicals or wastes into the environment, causing climate change and being responsible for inflicting over 400,000 deaths and costing almost 6% of GDP annually.⁵⁰ The

environmental damages are said to be the result of the Chinese government's decision to create employment, attract foreign investment, and promote exports before improving the environment.

China was not the only country placing economic growth over environmental protection. The United States, Japan, and Canada, for example, refused to rectify the Kyoto Protocol on Climate Change for fear that agreeing to its targets on greenhouse gas (GHG) emissions would impede production and employment.⁵¹ The toxic wastes freely traveled around the world through the atmosphere and oceans, causing climate change, which created El Nino (warming of ocean waters) or El Nina (cooling of ocean waters). Both of these phenomena brought unprecedented climate change, depleting fish populations and causing forest fires and other unprecedented natural disasters around the world. California is still immersed in a 5-year drought.

2. *Widening of Rich-Poor Gap*

Globalization is blamed for widening of the rich-poor gap. Increasing wage costs, and high-standard industrial and labor policies in the developed economies made manufacturing increasingly uncompetitive at home, causing firms to relocate their production to low wage countries. At the same time investors in the West, the owners (stockholders) of publicly listed enterprises, are demanding higher return to capital, forcing enterprise executives to relocate or outsource production overseas.

By investing in and outsourcing production to other countries, the West and Japan are said to be exporting high-paying manufactured jobs to low-wage countries, while most of the "replacement jobs" in the developed economies are largely created in the lower paying services sectors. According to the US Department of Labor, almost 85% of new jobs created are "Mac" ones.⁵² On the flip side, those with wealth to invest in stock markets enjoy a surge in their income, increasing the Genie Coefficient from less than 0.40 to over 0.48 in the United States, China, and elsewhere over a 15-year period.⁵³

In China, income inequality is regional as well as personal, the result of its government action to develop the coastal east first (primarily to attract foreign investment) and allow private enterprise. Developing the coastal regions before those of the hinterland culminated in regional income disparity by a factor of 5–1

in favor of the former.⁵⁴ Allowing free enterprise unleashed some people's entrepreneurial spirit and hard work ethics. They got rich. However, those who clung on to the "iron rice bowl" (a stance referred to workers who cannot be fired or laid off for any reason) felt off the crack and remained poor. The result was an increase in China's Genie coefficient from 0.33 to 0.47 within a decade.⁵⁵

3. *Hollowing Out Manufacturing in the Developed World*

As indicated earlier, it was the high costs of production (attributed to high wages, land costs, high labor standard, and environmental protection legislations) that prompted Western and Japanese labor-intensive industries to relocate abroad. For example, Canada's Bombardier asked the government for a CDN\$1 billion bailout and at the same time relocate production overseas to remain competitive.⁵⁶ Further, consumers are literally drowning "in a sea of debt" after the 2008 financial crisis, disenabling them to pay for the higher prices that domestic producers will charge. It is estimated that a pair of Nike shoes produced in the West would cost US\$675, compared to less than US\$100 for a pair that is made in Indonesia.⁵⁷

An Assessment of the Cost of Globalization

The view that globalization is the culprit behind the ills of the world is not universally shared. Climate change is said to have begun in the eighteenth century when Europe, particularly the UK, started the Industrial Revolution.⁵⁸ Industrialization was followed by the United States and Japan in the nineteenth century. Factories burned coal to generate power. The toxic chemicals produced by coal were said to be trapped in the ground, slowly releasing greenhouse gases (GHG) into the atmosphere. Another cause of climate change, which has nothing to do with globalization, is that coal, oil, and wood are the main sources of fuel for cooking, heating, and manufacturing in developing economies. Finally, the "car culture" is blamed for spilling GHG into the atmosphere. Rising incomes in the developing economies, particularly China, prompt many to buy cars. Beijing is jokingly referred to as the largest parking lot in the world, thousands of cars sit idling with the motors on. Supporters of globalization also question the allegation that it caused income disparity. In a market economy, whether or not it is tied to trade, some take chances and work hard, whereas others do not. It is therefore natural that those who

gamble and work hard become wealthier. As regards developing countries stealing jobs from developed ones, automation might be the bigger offender.

BREXIT

The term, Brexit, derived from British and exit, is a movement to take the UK out of the European Union. Disengaging from Europe is not new, the movement in fact began when the UK joined the European Economic Community (EEC), the EU's predecessor, in 1975.⁵⁹ Although over two-thirds (67%) voted to join the EEC, opposition to integration with Europe remained strong.⁶⁰ In the aftermath of joining the EEC, a number of advocacy groups (comprising of a variety of interest, lobby, and campaign organizations) and political parties sharing a common desire to remain "British" were formed. Groups such as "Leave.EU" (founded in 2015), "Grassroots Out" (established in January, 2016), and "Get Britain Out" (formed in 2007) campaigned to take the UK out of the EU. Their common message was to make Britain independent of external influences. Indeed, some analysts suggest that these groups did not consider themselves Europeans. Political parties also called an exit from the EU. The Labor Party campaigned on a leave EEC platform in the 1983 election, but was defeated by the pro-EEC Conservative Party under Margaret Thatcher. The United Kingdom Independence Party (UKIP) and the Referendum Party (RP) were, respectively, formed in 1993 and 1994 to demand for holding a referendum on leaving or staying in the EU. Some in the Conservative Party and Labor Party were major players in the pro-Brexit campaign.

Brexit succeeded in a 2016 referendum (51.9% of Britons voting to leave the EU) because of the UK's economic woes and the EU's immigration and rights of abode policies.⁶¹ Unemployment and poverty were rising in the UK, prompting many to oppose the current immigration policy and the EU stance of allowing residents of the EU the right of abode in the country. The EU opponents claimed that migrants from Eastern Europe, the Middle East, South Asia, and Africa were not only taxing the UK's social programs, but also increasing crime.

The leave EU side was mainly from England and the northeastern part of Northern Ireland, while Scotland and the non-northeastern part of Northern Ireland voted overwhelmingly to stay in the EU.⁶² Within England, in London and other cities, the majority of the people voted

to remain in, while those living in rural or small cities elected to leave the EU. The regional voting differences could pose a problem for UK unity.

The Scottish Parliament appeared to view leaving the EU was not in Scotland's economic interests, fearing that Brexit could discourage foreign investment in the UK. To that end, Scotland's First Minister Nicola Sturgeon did not rule out a second referendum on whether to leave or remain in the UK. She also took steps to promote Scotland in the EU with "Scotland is open to business" slogan.⁶³ If Scotland were to vote for leaving the UK, the country could fall apart, causing further economic and political chaos in the country.

Brexit could also have implications for the EU. Immediately after its victory, nationalist political parties in the Netherlands, Germany, France, and Italy campaigned to hold a similar referendum on the EU in their countries.⁶⁴ Although the majority of people in the four EU countries were supporting to stay, anti-immigration parties were gaining support. Indeed, an anti-immigration party was voted to power in German Chancellor Angela Merkel's home state, an indication of rejecting her pro-immigration policy.⁶⁵ Unless the EU's economy recovers, anti-globalization forces will only grow stronger in Germany and other countries, putting the existence of the EU in jeopardy.

In view of Prime Minister Theresa May's overtone to China, the United States, and other countries on economic relations, Brexit does not mean trade and investment isolationism albeit preferring bilateral relations. May renewed Cameron's "golden era" relationship with China in that her government welcomed Chinese investment in the Hinckley Point nuclear power and other infrastructure projects. She also envisaged a free trade agreement with the United States.

THE TRUMP EFFECT

In the United States, the forces against globalization and its promoters (i.e., political and business elites) are similarly on the rise. After the 2008 financial crisis (to be discussed in Chap. 7), the country is in a relative decline economically and geopolitically. Growing at an average annual rate of less than 2% since 2008, the United States is struggling to regain its economic eminence.⁶⁶ Falling economic fortunes have an impact on the country's geopolitical influence on the world, in that rising economies like China are forging their own foreign and trade policies.

Americans who were displaced by globalization blamed the business and political establishments that promoted and supported it. They accused the establishments for “selling out” the country and people to countries such as China and Mexico for personal gains. Donald Trump and his “Make America Great Again” campaign slogan resonated with this group of Americans, enabling him to beat out 16 well-qualified and established politicians to become the Republican nominee for the presidency. His calling Mexicans “drug dealers” and “rapists” and building a wall along the US–Mexican border on Mexico’s dime have been cheered and supported by many. His relentless China-bashing rhetoric of labeling the country a currency manipulator and threat of imposing a 45% tariff on Chinese-made goods are popular among the US public. Trump’s vow to tear up the TPP, renegotiate NAFTA, and stop immigration also played a role in him getting the nomination as the Republican candidate for and won the US presidency. It did not matter that Trump was wrong on his claims that Mexicans are criminals and China is “raping” America, but his message is what his supporters wanted to hear. Whether Trump can “Make America Great Again” is unclear, but his message offered the working and lower middle classes a glimpse of hope, whereas the political establishment in both mainstream political parties had lost credibility with them, particularly among white people with only a high-school education or less.

Trump won the 2016 presidential election, although he lost the popular vote to Hillary Clinton by almost 3 million votes. His strategy of playing to the emotions of the displaced and focusing on the around 10 swing states was what probably landed him the presidency. Voters in so-called rust belt states such as Ohio, Michigan, Florida, and Pennsylvania gave him a slight victory over Clinton. Under the US presidential election system, the winner takes all the states’ Electoral College votes, the combined number of Congressional and Senate seats.

Trump’s first two weeks as President of the United States has sent ambiguous and troubling messages on domestic and foreign policies. Using “executive order” privileges, Trump ordered the building of a US\$12–15 billion wall along the US–Mexican border, prompting the Mexican president to cancel a meeting with him. A day later, Trump and Nieto talked over the telephone, agreeing to keep the issue private and hinting that the result would be mutually acceptable.⁶⁷ Trump’s China-bashing stance also seems to have taken a U-turn, sending a letter and following up with a phone call to the Chinese President Xi Jinping

to build a great relationship between the two countries and honor the one-China policy, whereas he was threatening a 45% tariff on Chinese imports, denying Chinese troops to enter the islands they built, and revisiting the one-China policy only days ago.⁶⁸ He then signed an executive order barring refugees and immigrants from seven Middle East and Africans nations into the United States (the ban was overturned in a lower court in Washington State and later by the 9th Circuit Court of Appeal in San Francisco). Another executive order was issued to path the way for repealing Obamacare. Other executive orders included the termination of the TPP and renegotiation of the NAFTA. Mr. Trump was a busy man and followed through on his campaign rhetoric.

Trump has picked and nominated a “mixed bag” of neoconservatives, businesspersons, pro-and anti-globalization supporters, and China hawks for senior positions in his administration, adding more anxiety around the world, particularly the Asia-Pacific region. His appointment of Peter Navarro, a fierce anti-China critic, as chair of the newly established National Trade Council (NTC) has raised eyebrows in the Asia Pacific, including the United States. It is Navarro who blamed China for closing down 25,000 US factories, leading to the loss of 57 million jobs.⁶⁹ However, Trump has also picked the governor of Iowa, Terry Branstad, a personal acquaintance of Chinese President Xi Jinping and promoter of US–China trade relations, as the US Ambassador to China.⁷⁰ Trump antagonized China by taking a telephone call from Taiwan’s leader Tsai Ing-wen that no other president has done since the two countries normalized diplomatic relations in 1979.⁷¹

The next 4 years will be problematic for both the United States and the world if Trump continues to sign executive orders or push policies to please his support base rather than for the interests of the nation. Imposing a 45% tariff on Chinese-made products would not enhance economic growth in the United States because China will retaliate, US consumers will pay higher prices, and the cost of production will increase. Banning refugees or immigrants from the seven Muslim countries may not reduce terrorism because resentment against Americans would only grow. Threatening corporations with high tariffs if they do not produce in the United States would not necessarily bring back jobs in the long run because they will retool and increase the pace of automation in order to be competitive. In the end, “Make America Great Again” could be more effectively attained by embracing globalization and working together with other nations.

RIISING POPULISM AND PROTECTIONISM IN EUROPE

Like in the United States, trade protectionism and anti-immigration sentiments are on the rise in Europe. The European countries are encountering high rates of unemployment and crimes, prompting frequent protests against immigrants from non-European countries. German and other EU members are opposing the Trans-Atlantic Trade and Investment Partnership (TTIP), an agreement its critics claim would benefit only the United States.

Persistent high unemployment coupled with increasing numbers of “terrorist” attacks on the continent has sparked a rise in populist politics. Perhaps with the exception of Austria, far-right or right-of-center political parties, promising to take their countries out of the EU and stop non-European immigration, did gain ground in the 2017 general elections in France and the Netherlands albeit that they lost to pro-globalization parties. Like in the United States and United Kingdom, EU countries wanting to disconnect from globalization may prove to be easier said than done.

THE UNEXPECTED CONSEQUENCES OF GLOBALIZATION: CHINA’S ECONOMIC RISE AND ITS GLOBAL IMPACT

Perhaps the biggest surprise of post-WW II globalization was the rise of developing economies, particularly China. In the aftermath of the Cultural Revolution, Deng Xiaoping, the then Chinese leader was determined to reform China’s economy from central planning to market-drive.⁷² A major reform policy was forging closer relations with former enemies (i.e., United States and Japan), sending students overseas to study modern management methods and advanced technology, establishing special economic zones (SEZs) to attract foreign investment, and making export one of the engines (the other being investment) of economic growth. As indicated earlier, his reform policies succeeded beyond expectation, transforming the Chinese economy into the world’s biggest (PPP) and an increasingly innovative one in less than 30 years. The Chinese economy was estimated at nearly US\$20 trillion compared with that of the United States at US\$18 trillion in 2016.⁷³ Within this period, China was able to come from a technically backward economy to one of the most innovative, becoming the leader in high-speed railway, space, bridge, and information technology.

China's rise has impacted the world hugely, causing a shift in the global geoeconomic power. As indicated earlier, there are no issues, from climate change to global security, that can be addressed without its participation. Financial system reform would not succeed without including China in the conversation, given that it is the biggest holder of foreign reserves at around US\$3 trillion and America's biggest creditor, buying over US\$1.2 trillion in Treasury Bills.⁷⁴ As a veto holding permanent member of the United Nations Security Council (UNSC), China is in a powerful position to influence international decisions. For example, it blocked the UN resolution of allowing India into the exclusive nuclear club in 2016.⁷⁵ Its relatively high annual economic growth rates might have cushioned the world economy from falling into a recession. In fact, most countries are looking to China, not the United States, to pull their economies out of slow growth or stagnation. (How China is able to grow so big so quickly will be discussed in Chap. 8.)

However, there are dissenting voices on China's economic sustainability. Gordon Chang and other American pundits wrote that its economic rise is not sustainable and will collapse. His 2001 book, *The Coming Collapse of China*, predicted that the day of reckoning for its economy was 2011.⁷⁶ When 2011 arrived and China was growing at 10% annually, Chang said that he was only 1 year late. The *New York Times*, *Financial Times*, and *Economist* have also been telling the world that the Chinese economy will be drowned in a sea of debts and will collapse over the last 30 years.⁷⁷

Critics warned that China's rise not only threatened the country's neighbors, but also posed a "national security threat" to the United States. Peter Navarro, University of California, Irving economics professor, and others propagated that China was threatening its neighbors in the South and East China Seas.⁷⁸ Moak and Lee, however, stated that there was no credible evidence to suggest that China was threatening its neighbors. China has neither deployed its navy to stop freedom of navigation nor established military bases around the world, except in Djibouti (which it said is for supporting antipiracy activities). Its territorial claims in the South China Sea and East China Sea are inherited from past governments in that the "Nine Dash Line," based on historical records, was drawn by the Nationalist government in 1947.⁷⁹ China said it built the islands and installed military hardware within that line to prevent outside forces from occupying the territories. Moreover, the Cairo Declaration (1945) and the Potsdam Proclamation (1947) demanded

that Japan return all the territories it annexed from China before WW II.⁸⁰ The United States was a signatory to and the major author of the two documents.

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Developed Nations and the Economic Impact of
Globalization

Moak, K.

2017, XII, 259 p., Hardcover

ISBN: 978-3-319-57902-3