The Global Village: The Ties That Bind and Those That Don't

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Marshall McLuhan, the well-known popular philosopher, coined the term "the global village" in the 1960s. Over time, the term has come to mean a cooperative world in which peoples, institutions, cultures, and ideologies are bound together in a unit that transcends national cultures. However, McLuhan's concept of a global village was far more complex and less harmonious. He had very little, if any interest at all in the subject of this article, the application of the global village idea to business. He was primarily concerned with the role of technology and the conflicts inherent in his own sociological and anthropological focus.

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In a 1969 interview McLuhan observed that the "electric media constitute a total and near-instantaneous transformation of culture, values, and attitudes." He went on to say that "global-village conditions being forged by the electric technology stimulate more discontinuity and diversity and division …in fact, the global village makes maximum disagreement and creative dialog inevitable. Uniformity and tranquility are not the hallmarks of the global village; far more likely are conflict and discord."

This article applies McLuhan's concept to today's institutions that tie corporations, nations, and individuals together into the semblance of a global village. The effect of technology and conflict that are so much a part of his approach are also important in this discussion. We address the growing interdependence of businesses worldwide, the increasing degree to which the interests of individuals and groups are intertwined, the implications of multilateral alliances, and the role that global companies play in solidifying the global village concept.

In 1998, *The Financial Times* published a ten part series called "Mastering Global Business." In the introduction to this series, Vijay Govindarajan and Anil Gupta consider the forces that drive globalization and the implications for business. In their view, we already live in a global village. Global economic change is accelerating the interdependence among countries, industries, and companies. They conclude the world of separate nations is fading rapidly. There is growing economic interdependence and globalization among countries as reflected in increasing cross-border flows of goods, services, capital and know-how.

Govindarajan and Gupta point to four factors that drive globalization: (1) an ever-increasing number of countries are embracing free-market ideology; (2) the economic center of gravity is shifting from the developed to the developing countries; (3) technological advances constantly improve communication; (4) the opening of borders to trade, investment, and technology transfers create new market opportunities for companies and enable competitors from abroad to enter their home markets. There is no doubt these factors foster closeness but they often bring conflicting perspectives, ideologies, and goals as well. Whether these conflicts imperil a 21st century concept of global village may still be unanswerable.

Globalization of Business

Since the end of World War II, countries have entered a wide range of economic, political, and trade agreements. Companies in a great variety of industries have taken advantage of these cooperative agreements to become truly global in outlook and operations. Technology has made it possible for people, governments, and institutions to be linked together in ways that would have been unthinkable a decade ago. National boundaries have weakened as travel and media exchanges have become commonplace.

The simple act of placing a telephone call across national borders provides a graphic example of how technology has brought people and places together. Not many years ago, arranging a transatlantic telephone conversation was a difficult, time-consuming and expensive process. A French business executive phoning a New York based colleague had to contact an operator in France. The operator then called a counterpart in the United States and set up an appointment for the conversation. When the executives were both waiting by their phone, the operators made the connection. In present day dollars, the call cost ten times as much as it does today.

Now managers pull out their laptop computer and sends faxes or e-mails anywhere in world. Time differences are largely irrelevant and the trivial cost is rarely a consideration. Managers have a choice of competitive long distance carriers or Internet providers. The caller presses, not dials, the country code, city code, and local number to contact someone on the other side of the world. In most cases, the quality of the transmission is so good callers have the sensation that they are in the same building. If one party is not at home, an answering machine or voice mail takes and stores the message.

Costs of global travel and transportation have also declined making it far more convenient and cheaper to travel from one country to another. In the early 1990s, the United States negotiated an open-sky accord with the Netherlands. In short order, Britain, Germany, Austria, and other European and Asian carriers sought agreements with U.S. carriers. As a result of code-sharing, passengers feel as that they are on one airline as they travel across countries and continents. A business traveler can spend a day in Los Angeles, do business the next day in Sidney and eat breakfast in Tokyo the following day. The only impediment is jet lag.

Containerization has greatly reduced shipping costs. Twenty years ago, when a buyer for a major U.S. department store wanted to buy Indonesian accessories, the goods were packed in

cardboard boxes in a remote Balinese village, trucked to Denpasar, Bali's capital port city, repacked, loaded on a boat for Jakarta in Java, repacked again and shipped to the U.S. By the time the goods reached New York, breakage and pilferage often made the enterprise unprofitable. Now, even small villages pack their goods in containers that are not opened again until they reach warehouses at the final destination. Container ports like Rotterdam, Singapore, and Hong Kong clear on-going goods in a matter of hours instead of weeks.

Today's managers take advances in transportation and communication for granted. They have access to almost unlimited sources of information that help them more easily assess the impact of increasingly open national borders, deregulated markets, and regional trade agreements.

Trade Groupings

Multilateral and regional trade agreements have resulted in unprecedented reductions of tariff and non-tariff barriers worldwide. With the creation of the General Agreement on Tariffs and Trade (GATT) after World War II, countries began to reduce tariffs mutually in series of negotiation rounds. The GATT, which was created as an interim arrangement in 1947, was the only multilateral organization to fight protectionism. Although its framers had initially hoped for a much more ambitious trade agreement, GATT's goals of reciprocal tariff reduction and dispute resolution were effective. As tariff barriers were reduced through negotiating rounds, countries industrialized and worldwide trade increased; between 1950 and 1994, world trade grew 13-fold.

By the 1980s, trade negotiators faced new challenges that arose, in part, from the growing ability of industrializing countries to contribute to the world's mix of goods and services. Purchasers in industrialized countries sought overseas suppliers to produce quality goods at lower prices than could suppliers at home. Improved communication technology made it easy for buyers to place orders and monitor the production process from thousands of miles away. Banks worldwide furnished letters of credit that lowered the financial risk both for suppliers and purchasers.

As Europe and Japan recovered from the devastation of World War II, their own wage rates rose and they sought lower labor costs by moving production offshore. Beginning in the late 1970s, Japanese, European, and U.S. firms found low cost, high quality suppliers in emerging Asian countries such as Taiwan, South Korea, Singapore, and Hong Kong. With their comparatively low wage rates, these countries were so successful at manufacturing,

they quickly earned the sobriquet "the Four Tigers." Their production capability progressed from simple textiles, footwear, and electronics to far more sophisticated goods and, increasingly, services. As their own wage rates rose and expertise grew, they invested in countries like Malaysia, Thailand, and Indonesia to capture lower labor costs.

By the mid-1980s, China was emerging as the colossus of the region. Its almost unlimited production potential was staggering. China's vast pent-up consumption potential was equally attractive. Investors from all over the world were eager to furnish goods and services to China's 1.25 billion people.

In 1986, GATT negotiators embarked on an ambitious attempt to create a multilateral trading institution to deal with the new trade environment. Until that time, GATT had done little to address four major trade issues:

(1) *Services.* By the mid-1980s, the service sector represented a huge and growing proportion of world trade entirely outside the GATT framework of rules. Although a core of developing countries argued that the GATT should not deal with services trade, negotiators finally agreed that trade in services would be included on a separate but parallel track to the negotiations on goods. For the first time, principles and rules for trade in services were developed and the WTO began to develop a definitional and statistical framework within which to examine this sector.

(2) *Trade-Related Investment Measures (TRIMS).* TRIMS covered a wide variety of requirements and limited foreign investment. For example, governments required foreign investors to comply with local content rules, to export a percentage of their output, or to use local suppliers, all of which distorted free trade. As a first step in dealing with TRIMS, negotiators agreed to examine GATT articles relating to TRIMS and to define areas for potential negotiation to prevent restrictive and distorting measures.

(3) *Intellectual Property*. The GATT had little effect on intellectual property protection (patents, trademarks, copyright, and trade secrets) before the Uruguay Round. Although there were other multilateral working organizations such as the World Intellectual Property Organization (WIPO), GATT negotiators agreed to clarify existing GATT rules on the issue then develop new multilateral rules to make sure that intellectual property rights did not create barriers to trade or compromise other complementary initiatives.

(4) *Multifiber Agreements*. In 1973, a number of industrialized and developing countries signed an agreement that ostensibly allowed time for structural changes in the pattern of world production of textiles. As developing countries became more proficient in producing textiles, industrialized countries protected their own industries by establishing bilateral quotas with producers in contravention of GATT. Negotiators agreed that the Multifiber Agreements would be phased out over ten years and that trade in textiles would come under the WTO multilateral system.

In January 1995, after an agonizingly long, complex, and contentious Uruguay Round under GATT auspices, the World Trade Organization (WTO) began operations. GATT was subsumed into the new organization and more than 120 member countries agreed that the WTO represented a reaffirmation of the rule of law in trade and economic relations. Trading countries, rich and poor were brought together to cooperate on trade issues. Unlike GATT, the WTO had the power to apply sanctions and punish countries that violated mutually-agreed upon trade rules. The WTO's goal of becoming a truly worldwide trade organization appears to be on track although the dispute settlement process has become one of the organization's most important activities.

At the same time that countries endorsed WTO goals, they also formed and expanded regional trade agreements. The WTO principle of non-discrimination meant these regional groups could not create new *preferential* trading blocs but their activities were generally seen as supplementary and a positive addition to WTO efforts. In a special report in 1998, the WTO agreed to carry forward an agenda to ensure a positive relationship between regional agreements and the WTO.

Regional Trade Agreements

The interrelationship between regional and multilateral agreements was a critical feature of the trading environment. WTO Director-General Renato Ruggiero noted in his January 1998 report, while regional agreements had very attractive aspects, there were also risks in adding to the complexity of the trade environment. Ruggiero acknowledged that regional agreements could create different standards for cross-border access, for investment, and for labor entry. He added that regional agreement activities might take the attention, time, and effort that would be better spent developing and extending WTO initiatives. There are a large number of regional agreements worldwide but very few have

been very effective. The following agreements are the most promising:

- European Union (EU): Throughout the 1980s and 1990s, the European Union (EU), drew its countries together into an association that went far beyond the European Economic Community (EEC), the customs union agreement forged by the 1957 Treaty of Rome. Starting with original six members (France, Germany, Italy, The Netherlands, Belgium, and Luxembourg), the number of countries had grown to 15 and evolved into a common market by 1996. As the new millennium approached, Eastern European nations were poised to enter the EU and dramatically expand the number of participants. In 1998, 11 participants (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain) met the criteria for a common currency, the Euro. European Commission President Jacques Santer said "We are at the end of a historic process. It has been a long path, a path full of successes and failures."[1] It appeared that many of the barriers that divided Europe were really being eliminated. No one could predict what difficulties might arise as the Euro replaced national currencies and the ten East European countries and Cyprus joined the EU.

- North American Free Trade Area (NAFTA) reduced trade barriers among the United States, Canada, and Mexico. The reduction in trade barriers brought an increased trilateral commitment to deal with trade-related issues well beyond reduction of tariffs, import licenses, and other traditional trade barriers. The three nations discussed common goals such as conditions of labor, wage rates, and immigration. They also dealt with developing common environmental standards, and infrastructure links.

- Mercosur In 1991 Paraguay, Uruguay, Argentina, and Brazil created Mercosur, a new free trade area in Latin America. In 1994, Mercosur agreed to enter a second stage by creating a customs union with a common external tariff to imports from third countries. By 2001, participants hoped to have a growing and relatively open market of 240 million people. In 1997, Latin American put in one of its strongest economic performances in many years. International bankers agreed that the events that led to the Asian economic crisis were unlikely to derail Latin American trade growth although there would be repercussions.

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[1] "Italy In, Greece Out as EU Voted Candidates for Euro," March 25, 1998 [Internet: http://interactive.wsj.com/edition…/articles/…]

- APEC This organization a long-term regional integration project among countries in Asia and the Pacific Rim aimed at creating free and open trade and investment in the region by 2010 for industrialized countries and 2020 for developing country members.

Signers to the Asian Free Trade Area (AFTA) hoped to complete their agreement by 2005. AFTA was designed to cover a wide range of goods and to cover trade in intellectual property and services.

International Monetary System

Multilateral and regional trade agreements were augmented by the activities of the International Monetary System's two institutions: the International Monetary Fund and the World Bank. By 1998, the IMF had grown from 30 nations in 1946 to 182 members and had become the world's most important monetary institution and, de facto, the global village bank. Just as the framers of GATT and the WTO tried to bring countries into a trade accord, IMF and World Bank officials used a variety of mechanisms to create a system to help countries with balance of payments problems and specific projects that they could not themselves afford.

In 1998, Michel Camdessus, the IMF's Managing Director said that throughout its history, the IMF had urged countries to pursue sound economic policies that promoted growth through low inflation, sound money, and fiscal policies, and sustainable current account positions. He pointed to the dramatic expansion of IMF activities over its 50-year history. In effect, the IMF had become the world's "credit union" in which a country subscribed to the IMF and then could withdraw funds when needed to finance a balance of payments deficit.

The IMF provided a forum in which countries could discuss monetary issues without resorting to the destructive devaluation policies of the pre-World War II era. At the same time, the bank took on the role of village disciplinarian, nudging and prodding often recalcitrant villagers to adopt its policies and perspectives on how to deal with problems.

Asian Monetary Crisis

The Asian monetary crisis beginning in July 1997, demonstrated the strengths and weaknesses of International Monetary Fund policies. Financial markets, already extremely internationalized, reacted to speculation and panic that companies

would not be able to pay their foreign debt. As the Thai, Malaysian, Korean, and Indonesian currencies plummeted, the IMF pressured governments to adopt policies it felt would redress a variety of problems including under-capitalized banks, loose credit policies, and political corruption. All but Indonesia readily accepted IMF discipline in order to receive IMF and additional funds from commercial and national banks. Indonesian recalcitrance in complying and its subsequent domestic difficulties point out that conflict is still very much a part of global interactions.

The Asian crisis also points to the problems inherent in the global village concept. Companies operating worldwide are affected by national events. Early in 1998, the Asian economic miracle came to an abrupt standstill. The ripples of the crisis spread rapidly. In the United States, an Alabama pulp mill had to shut down. Seven hundred of the 900 workers were temporarily suspended. Shrinking demand for softwood pulp in Asian paper factories dried up demand in dollar-priced imports. New Zealand dairies, European petrochemical plants, Australian beef producers, and Alaskan fisheries all suffered as Asia demand slowed. It is too soon to tell how badly the Asian crisis will affect business world-wide but there is no doubt that the effects will hit the small farmer in Australia, the chemical worker in Europe, and the auto worker in Japan as well as the chicken breeder in Indonesia and the Korean textile worker.

Role of Multinationals

Despite evidence that multinationals, or as some prefer, global companies are vulnerable to worldwide and regional political, economic, and financial problems, they are often accused of escaping national controls and operating outside national legal systems. These companies are very large and often are seen as extremely powerful. They sell and buy goods and services across borders and develop internal networks of subsidiaries, joint ventures, and strategic alliances. They have a considerable portion of their workforce outside the home country and can achieve remarkable economies of scale and scope.

As Raymond Vernon observed nearly 30 years ago "…they [multinationals] sit uncomfortably in the structure of long-established political and social institutions. They sprawl across national boundaries, linking the assets and activities of different national jurisdictions with an intimacy that seems to threaten the concept of the nation as an integral unit.

Fortune's 1997 Global 500 index shows that world's largest multinationals primarily are still based in the United States, the European Union, and Japan. However, the dominance of the economic triad is slowly eroding as new entrants extend their operations globally. There is increasing activity from multinationals based in Taiwan, South Korea, Singapore, China and Brazil. As multinationals from the developing world join their industrialized country counterparts, management perspectives and operating strategies will change to reflect the viewpoint of new participants in the global arena.

Managers who adopt a global outlook reinforce the global village concept. Gupta and Govindarajan call this outlook "a global mindset." They say it rests on a foundation of openness. Managers operate on the premise that cultures and values can be different without being better or worse. They see diversity and heterogeneity as a source of opportunity and strength. A global mindset enhances the company's ability to develop a global strategy and build a global presence.

Percy Barnevik, the first chief executive of the Swiss giant construction company, ABB (Asea Brown Boveri), observed that "Global managers have exceptionally open minds. They respect how different countries do things and they have the imagination to appreciate why they do them that way. But they are also incisive; they push the limits of culture."

Culture and the Global Village

We have examined some of the forces and institutions that draw countries together into a global village. Common cultural elements are also a critical element in developing the metaphor. One has only to listen to people registering in a luxury hotel anywhere in the world. Regardless of the country's native language, the process is often conducted in English. The ubiquitous CNN brings the businessperson and the tourist the latest news at regular intervals all day and night. McDonald's Golden Arches span the globe, offering hamburgers to customers from Moscow to Vanuatu. Hard Rock Cafe and Planet Hollywood can be found in major cities worldwide. Coca-Cola Company soft drinks are sold in more than 195 countries around the world. Male business attire is based on the western model in most countries. It is not uncommon to find a teenager in a remote island in the South Pacific wearing a Harvard t-shirt even though it is nearly certain the teenager had no idea where Harvard is located or what the logo means.

These icons of culture, although highly visible, are perhaps the most unreliable elements in assessing whether global villagers really share a common culture. In fact, national culture is an amazingly powerful factor in multinational and even global management. Regardless of the number of environments in which individuals and institutions operate, cultural factors have a profound impact.

Culture, after all, encompasses much more than industrialized world restaurant chains, food, television programs, and clothing norms. It includes the knowledge, beliefs, morals, customs, and attitudes toward social organization. Despite the superficial overlay of a common culture founded on Bay Watch, the Oscar Awards, and fast food, cultures remain remarkable resistant to fundamental change.

Geert Hofstede's ground-breaking study of differences in national culture among 40 nations showed differences and similarities that went back as far as the Roman Empire. Hofstede examined data collected from over 100,000 IBM employees in 66 countries. Nearly all these managers were nationals of the country in which they worked. He concluded "technological modernization is an important force toward change which leads to partly similar developments in different societies. However it does not wipe out differences among societies and may even enlarge them…."

Summary

McLuhan observes that a global village is a contentious sociological and anthropological phenomenon brought about by technology and communication. Govindarajan and Gupta conclude that the world's corporations operate in a global village marked by increasing economic change and technological advances. This article has examined some of the forces that bind and separate companies, provide opportunity and constrain it, create common cultural bonds, yet separate us into individual cultures and subcultures.

The concept of a global village can be interpreted in a number of ways and can apply to nearly every aspect of our daily lives. We can be confident that technological advances make us more accessible and possibly more understandable to each other. Global companies help integrate the economies, financial structures, cultures, and mutual dependencies of nations. Multilateral trade and financial institutions support and strengthen regional and national alliances. Can we confidently assert that the world is a global village? McLuhan's global village, while marked

by strife, was "a liberating and exhilarating world in which the human tribe can become truly one family." Are we there yet?

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